

**Mr GEOFFREY ALLAN HARPER** WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** (Mr Hall) - I invite you to make a statement to the committee on where you see things with regard to our term of reference - that is the sale of TOTE - and then members will ask you some questions.

**Mr HARPER** - I am Chairman of the Tasmanian Racing Club. I have also acted for and owned a company which made a bid to buy TOTE Tasmania some two years' ago. I am also a part of the consortium, which includes the Tasmanian Racing Club, which is putting forward that it would like to make an offer to buy TOTE Tasmania, if it is for sale. There is a number of issues which I am across but I believe I can give a fairly broadbased and informed opinion as to why I think that TOTE Tasmania, under the current circumstances, should not be sold.

**CHAIR** - As long as we do not get into figures concerning commercial confidentiality.

**Mr HARPER** - I will quote figures which have been gleaned out of TOTE annual reports and one out of a Merrill Lynch annual report which probably does not carry much weight since they have just had a \$10 billion bailout and \$15 billion loss in three months. If these are the people that have been quoted around the place there is probably not a lot of credibility floating around. The consultation with respect to dividing TOTE in the industry was an absolute sham. We arrived with Global Value Management at Bellerive. I talked to the minister's representative at the time who said, 'The legislation has already been drafted. This is just window-dressing'. I left about three-quarters of the way through. It was an absolute waste of time. If this is what it is about it -

**Mr HARRISS** - When was that, Geoff?

**Mr HARPER** - On 26 September, with Global Value Management. I sat next to the representative of the minister at the table and said, 'Do you have the legislation prepared?' He was very reticent about saying it. I persevered with the point and he said, 'The draft legislation has been prepared'.

**Mr GUTWEIN** - That was for the restructuring of the industry?

**Mr HARPER** - That is for the restructured industry and the separation of TOTE Tasmania from the racing industry. In real terms was there consultation? In my opinion, no. The confusing issues for all in the racing industry are, what are the terms and conditions of the sale? Does the TOTE merely manage the industry on behalf of the Government? I would like to put forward in the papers which I will leave today the statutory declaration from the Honourable Michael Hodgman which makes the point that Totalisator started it all in about 1890 and has historically been there over a number of years. The Government was approached to manage the totalisator industry on behalf of the Government. They were never given ownership of it, never indeed contributed any capital to start off the industry. There is an argument to ask, who owns TOTE Tasmania?

**CHAIR** - Are you saying you would like to table that statutory declaration?

**Mr HARPER** - Yes, I would. Thank you. The confusing issue for the industry is, what are the terms of sale? Second, what level of licence fee does the Government propose to charge, if any? The minister's statement to this committee in the first instance is known to the Tasmanian Racing Club. What is currently for sale? The current date to provide this is totally insufficient to allow any decision on what is for sale, the revenue to be charged and what is required. Their contact point was Mr David Willingly, a partner at Deloitte Corporate Finance and I requested information on the sale. I rang him, e-mailed and got an immediate response. The close of expressions of interest was for the 16 January. When I contacted him since then, apart from the fact that he does not return his e-mails or his phone calls now, I was told that there would be no information available until the end of March; the Government did not know whether it was selling.

**Mr BOOTH** - Can I just clarify that. Are you saying that you received information by 16 January and that was the close of expressions of interest?

**Mr HARPER** - In the Merrill Lynch papers here there is a description of Tattersalls and Tabcorp wishing to buy TOTE and it says expressions of interest close on 19 January 2009.

**Mr BOOTH** - Was the announcement to sell was made publicly on 6 January?

**Mr HARPER** - Yes, on 6 January. Through the racing club, having contacted Deloitte to ask what was for sale I was told they would not know what was for sale until the end of March, as the Government had not decided.

**Mr BOOTH** - That is extraordinary.

**Mr HARPER** - It is unbelievable.

**Mr BOOTH** - So you had two weeks and you had to read an ad in the paper and technically that would have been the only means to find out. It was only because you sought out Deloitte that you knew when they were closing, or was there an ad in the paper?

**Mr HARPER** - This popped up on a Merrill Lynch web site and that is when we were told the expressions of interest were closing. According to this, 'the Government of Tasmania has announced their intention to sell TT in a competitive bidding process by 30 June 2009 and expressions of interest are due on Friday 16 January.'

**Mr BOOTH** - What date was that? Is there a publication date?

**Mr HARPER** - It's dated 22 January 2009.

**Mr GUTWEIN** - Just for clarification, what document is that?

**Mr HARPER** - It is a Merrill Lynch proposal which relates to TOTE Tassie being for sale and it goes through the likely buyers for TOTE Tasmania and what their current interests would be judging by the current level of capital purchases within the industry, for example Tabcorp is involved in the redevelopment of the casino in Brisbane, so they might not have the capital to bid for it.

I want to make the point that clearly it said, there are two logical options to sell TOTE Tasmania. I would say that the Tasmanian Racing Club and the entities it is dealing with would be the third, but it really boils down to there being really only one entity in the market place that would be interested, Tattersalls. That is the conclusion that they come back with.

**CHAIR** - Would you be able to table that document, Geoff?

**Mr HARPER** - I am certainly happy to leave a copy and table that document, yes. I do not need to quote from that so I will leave that with you now.

In the divesting by TOTE of the racing assets and its assets within the balance sheet which would be the leases on the Tasmanian Racing Club and others, it has now put itself in the situation of being a trading company. It does not particularly own any assets apart from intellectual property, leasing and some property which it has no asset holding on. It may hold other small parcels but then you go to the balance sheet and there is nothing significant there. Anyone buying it is buying a trading company based on the licences which it currently has. I think it is important to understand that.

What has not been accounted for is if it is sold to an interstate company, what would they be looking for? If you sell TOTE on its 2006 turnover figures and you are only selling it based on turnover with no asset input, it is worth somewhere between \$800 000 and \$1.3 million. We have a certified valuation from a licensed valuer. As I said, we looked to buy the company at that stage. If you are buying TOTE licences only, without any capital infrastructure that goes with it, that is about the price.

**Mr BOOTH** - What date is that?

**Mr HARPER** - That is the 2006 valuation and it was valued on 22 December 2006 by Horton International accountants. Unfortunately because of the information within that I am not prepared to divulge it but I am happy to discuss any access to figures.

**Mr BOOTH** - What prompted you to get a valuation in 2006? Was it to put in a bid to buy it or was there some process happening there?

**Mr HARPER** - We had excellent relationships with Racing Victoria at the time and it was about the Betfair time as well. Racing Victoria had come back and said that if TOTE Tasmania was for sale they recognised that Tabcorp in Victoria's licence was coming up in 2011. What they did not have was a vehicle to run a TAB wagering business out of. The integration of Racing Victoria and Racing Tasmania and having the TOTE licence that they could utilise to begin with would be advantageous to the Victorian industry and the

Tasmanian industry. With that they linked to us a certain number of guarantees, which have been made public previously, that it would be advantageous to go down that path as far as prize money, capital investment and continuity were concerned.

They have certainly continued on since then with apprentice training and others while giving those things FOC back to the Tasmanian racing industry as well. The potential of having only a retail company to asset strip the services on the ground and just leave Tasmania bare of any TAB is an absolute realism.

The lower the tax regime the more the economic value of TOTE Tasmania is, but then industry becomes reliant on State budget allocation. The value and determination of the economic net worth of TOTE is dependent upon the customer mix. These are not old figures but they are fairly close to the mark. Twenty people provide approximately 40 per cent of TOTE turnover and 60 per cent of that is electronic in nature and will ultimately stay with current TAB pool destination.

When you look at the balance of dividends paid throughout Australia, the market is so sophisticated and so computerised that people are able to transfer money around on each race they want to bet on to get the best results on punting throughout Australia. You may find a horse in, say, Queensland paying \$6 on the TOTE and it is paying \$3 in Victoria. You will find by the end of the jump of the race it is still paying \$3 in Victoria but it is paying \$4, \$3.50. These people know how much money to put on and what is required to get it down and still make a commensurate return on where it is.

You are talking about a very sophisticated market. If we are looking at potential purchasers of TOTE you have to be able to punt into a new pool. As an example, if Tattersalls were interested in buying it they still have to be able to punt in the Victorian pool but the Victorian pool is not going to let them punt into that and not let them have that outlet.

You have to be in a position to ensure that the current levels of turnover, the percentages of money coming out of Tasmania, are allocated evenly across the distribution pools. You will not get that by getting any other purchaser apart from Tabcorp.

The problem with Tabcorp is sitting back there knowing that if it does nothing in 2011 it is going to get all that money anyway. Forty per cent of the local turnover, which is bulk punters, has to go into that pool because it is the only way they get a dividend. You have 60 per cent of punters sitting out there who contribute very little to the bottom line and yet if the professional punter moves out and punts in Victoria, 60 per cent of the punters are going to be carrying 100 per cent of the overheads.

There is real concern there for the genuine buyers in the marketplace for TOTE. When you sit back and listen to the history of what has been said, there are clearly only two players in the Australian marketplace capable of fitting TOTE into their pool. One is Tabcorp and the other is UNiTAB.

Why would Tabcorp do anything? And they have tried it before and the information is provided, they tried to move Tasmania out of their pool, which automatically gives them 40 per cent of TOTE's major turnover having to be punted into their pool because they are the only ones that hold enough money to do anything with, So Tabcorp can sit back and do nothing - they will get 40 per cent of Tasmania's business in 2011 and they will get that on the bulk users' benefit. When you are servicing 20 to 30 people and providing 40 per cent of the turnover it has to be a great business acumen. If Tabcorp happen to want to buy here they would, in my opinion, buy, take the 40 per cent and cut the other 60 per cent loose. The other 60 per cent is either going to make phone calls to them to get into their business or they are going to drop off the punting market. That is the problem I see with the current marketplace situation at the moment.

The contracts with Tasmania come up, I believe, in about the year 2011, whether the contract for TOTE is to remain with Tabcorp comes up at that stage. That is, incidentally, about the time that the Sky contracts and the product supply agreements with the Tasmanian racing industry come into negotiation again. So there is some real sort of note there to be had whether or not these things are going to be fulfilled.

Tabcorp have already made it known - they said they did not want Tasmania in the pool and fortunately for Tasmania we have a contract which allows us to stay - I think it is to 2011, which has certainly been a real advantage. Otherwise we would finish up like other TABs of South Australia, Northern Territory and Western Australia, having to move off into a smaller market.

Tasmania is the victim by TOTE of its own success. Tasmania has done particularly well in getting professional punters here and working the system legally really well and I think they are to be commended for that. Where does the Tasmanian racing industry go in its value? If you sell TOTE off you have to lose intrinsically half its value or half its net worth. If the figures being quoted around, figures that are quoted in that report - maybe \$115 million, maybe it is worth \$120 million - if you have to pay a royalty back to the Tasmanian racing industry commensurate with its current needs it is probably about \$1 million - \$1.5 million.

But in relation to the payments required by the racing industry, you are looking to sell a \$300 million to \$400 million investment to get the returns that TOTE is currently getting out of that. When you look through the numbers of what TOTE's efficiency is - and these are numbers which were provided by our accountants on the basis of a valuation we have had done - TOTE Tasmania's collection of revenue is 10 times less efficient than the Victorian industry's.

I have raised the issue previously at the meeting in Campbell Town about the need for TOTE to go through the self-examination process with external people to make sure that we are getting the best value for dollar. That has never been looked at and never been followed through but you can't get away from the numbers that are in the paperwork. The numbers say that TOTE is inefficient and should be looked at and whether it is a new management structure - I think some of the people on the management team are outstanding but there are inherent systems in place which may not be in the best interests of racing.

The idea of offering a 20-year deed back to industry on funding, when you look at that in depth the first four years' funding is guaranteed, the next four years you are in the mix with health and all the other industries within the State. But again, if TOTE is paying industry in excess of \$20 million a year in output, for a 10 per cent return on asset you are talking \$200 million, so TOTE has to be valued at \$350 million to \$400 million and if they get \$350 million to \$400 million there is some sort of relativity to say - and I would be one saying it - sell.

But to look at amounts less than \$250 million it is just laughable, it really is in the light of return on investment. Commercially it would not be a good proposition to sell TOTE unless you are in the \$300 million to \$450 million range. With only one potential bidder in the marketplace that is all you have to go on because if TOTE Tasmania goes the way it is currently going and is sold to, let us say, UNiTAB, then the turnover or the money that UNiTAB is getting to punt back into Victorian Tabcorp is not going to exist so they are not going to have the same sized pools around for local punters to invest in to get similar returns, so automatically those punters have to get out of the UNiTAB pool and get into the Victorian pool and that is where the strength and the weight of the money is. That is where we really sit with it.

In my opinion, there is not a lot to be offered by the sale. Also too, and I think this is really important, the minister made a statement to the committee that he believes he can negotiate a satisfactory outcome on capital and prize money with the new Tasmanian Racing Board. This is the board that he recommended to Cabinet; he signed the appointment papers for it. Isn't that the ultimate conflict of interest? He is asking a board that he has appointed himself to tick off a 20-year funding deal for the racing industry, which in real terms is only four years because after four years you go back to renegotiating what is the current budget structure within Tasmania.

I think if you do the numbers on TOTE it clearly demonstrates that the worst position we could be in is to sell to TOTE for less than \$350 million-\$400 million. If you sell it for that there is some relativity of saying it is a good purchase, but to do anything else, the income that is currently being derived from TOTE does not warrant selling it for less, and I believe when you only have one player in the marketplace capable of wanting to buy it, that is it. Paul said it would be nice to get an overseas person in to buy it, but to me there is no reality there. There is no Asian company, no British company, there is no-one out there - or North American companies as well - that would be interested in buying it. The marketplace, according to the documentation which I tendered, clearly says that that is an Australian-based marketplace with either Tattersalls or Tabcorp.

**Mr BOOTH** - Setting aside its value, in terms of the best interests of the racing industry in Tasmania for all codes, do you think it is in the best interests of the industry to sell TOTE and therefore fall victim to your own current funding arguments and accept whatever deal they try to stitch up for 20 years, or is it in the best interests in the industry to keep TOTE as a funding stream going sideways back into the industry?

**Mr HARPER** - I think there is only clearly one answer to that. It would be absolute lunacy to sell TOTE Tasmania when you have a negotiation coming up with a major corporation such as Tabcorp in the year 2011. Tabcorp have already indicated that they want Tasmania out of the pool. That would be absolutely catastrophic for the Tasmanian racing industry. The Tasmanian Government, through TOTE, is the only body that can negotiate with Tabcorp on a level playing field. I would not want any other entity in Australia, whether it be UNiTAB in New South Wales or whatever, trying to negotiate Tasmanian racing staying in a large pool such as Tabcorp, which is the only pool to be in. It has the best racing, the best quality of money flying in and out of there, and the best-managed dollar - a dollar spent is a dollar rewarded. It is by far the best way to go.

There is no reason to want to go anywhere but the Tasmanian Government and TOTE Tasmania, in my opinion, are the only ones who can guarantee that we will stay in. I would rather be sitting in front of the High Court with the Tasmania Government and TOTE Tasmania in front of a united racing industry arguing that we should be back in the pool and that it is a State rights issue of discrimination against a smaller State, than selling the place off, because if you sell it off you walk away from it.

**Mr BEST** - Mr Harper, you mentioned that you had some discussions about your interest in purchasing TOTE.

**Mr HARPER** - Yes, that is right.

**Mr BEST** - When would that have been? When did you first become interested, so to speak?

**Mr HARPER** - In 2006. We then approached Michael Aird and we also approached the Premier, Paul Lennon, at the time about our interest in it and were told categorically that TOTE was not for sale.

**Mr BEST** - Can I just ask or is it commercial-in-confidence - I do not want to put you in a bad position and we can go in camera if you like - what has been your interest in purchasing TOTE? It is okay if you do not want to answer.

**Mr HARPER** - No, no, I am more than happy to say. I have been involved in the racing industry for 40 years. I have done very well in my own business interests and I have had so much enjoyment out of racing that I believe there is a lot more that business and the business community can give back. The contacts I have made through racing have been excellent, both in my business and others. The interest in buying TOTE Tasmania was purely on behalf of the industry, because at the end of the day, you have a locked-in supply of money at 4 per cent and you have the ability to take out the Tabcorps and the UNiTABs of the world, who are 10 per cent returners to their shareholders; they have a large 'other expenses'. Tasmanian racing, managed under an efficient TOTE structure, should be able to return 10 per cent to 15 per cent more money to the racing industry and possibly 5 per cent to 10 per cent into government revenue than any industry owned by UNiTAB, Tabcorp or any private enterprise.

**Mr BEST** - Yes. We did hear from some witnesses about other key matters that they thought would be important in the overall context of some sort of a funding agreement, if one were to exist. We heard also that the formula being used in Country Racing Victoria has been a funding formula. I am just interested in your views about that. Do you see that as a good funding model to base something upon? Would you like to make other comments about what could be constituted as good funding models that we could consider?

**Mr HARPER** - I do not think Tasmania has the maturity and I do not know why they have not because the question has been asked several times. Tasmania has a unique business model and that business around Saturday and Sunday racing and other feature race days tying into a national and an international grid.

We have never done a business plan which is for the betterment of the racing industry. We know that certain races have better prize money and TAB turnover is better on some race meetings than others, it is better at different times. There is an array of things that should be put in place. It will never be done if TOTE Tasmania sits out there - this is not a criticism of TOTE - and the new racing board sits here. The new racing board is trying to program races that can be contrary to the best interests of the TAB. The TAB structure with the racing industry under it was the best, most efficient corporate entity that Tasmania has had in my 25 years managing racing. That is not to say it was perfect -

**Mr BEST** - No.

**Mr HARPER** - There is a lot of improvements on both sides, the racing industry and others.

**Mr BEST** - What do you think the best structure would be? You could say that one, or do you have a better one in mind?

**Mr HARPER** - The best structure I believe we could go to is one where TOTE took control of the racing industry again but there was greater representation and maturity on the racing board that represented racing Tasmania interests, not the sectionalised clubs or anything like that. The corporate law in Australia has now changed so much and I am sure we have all served on certain boards where people say, 'Directors on the other board I sit on have told me to vote for this'. That has been illegal in Australia for the last 10 or 15 years, and yet it still goes on in every lower board you sit on. TOTE Tasmania's board should be able to rise above that level and introduce a system of punting and turnover, feature races and governance within the Tasmanian racing industry which would be an absolute role model and advantage.

Why would it be? First, because it would be efficient. People at the club level give their time free of charge so there is a saving there. Second, TOTE Tasmania would not be paying 10 to 15 per cent, other taxes to shareholders and living or dying on the stock exchange. At the end of the day, TOTE was established to provide the racing industry with funding; it was not to provide the Government with the whim of being able to sell it when they felt like it. It was a revenue stream. What is the problem here? The revenue stream has become too good and people are looking at us and saying we are short of money for here, we are short of

money for there. We are not attuned to paying out a direct share of taxes on where we are going, but we have a business where - these figures might not be accurate - about \$20 million a year roughly gets paid out in the way of stake money and prize money, and \$10 million or \$15 million is being taken out in capital investment within the industry.

Based on the current TOTE turnover, and that turnover has improved exponentially from where it was, this is a great business giving a great return both to the State and to the racing industry. If someone comes up and says, 'We are able to get a return on that and sell it off so we are going to finish up with a yield of 15 to 20 per cent so therefore it makes sense out of - let's say - selling it for \$100 million, we can pay the racing industry \$20 million a year and another \$15 million in capital investment'. What you are saying is the first year, as I read these papers, we are looking to pay \$35 million out of the \$100 million the Government collects and four years down the track the racing industry is going to be negotiating with the new racing board and the racing board with the Government saying, 'We need more funds'. They are saying they have decided to build the new hospital on a greenfields site and they need the funds for that. It is going to be a drip-fed industry.

At the end of the day, if you want Tasmania to prosper there have to be businesses that do well and employ people. I think if you look at the racing industry it is the best employer of the unemployable people within Tasmania and it is a real grassroots movement which interlinks society, from corporates right down to stable hands and others. I think a successful racing industry, as they have anywhere else, is a real underpinning of society and where it is going.

**Mr BOOTH** - Do you see the sale of TOTE being detrimental to the long-term interests of the racing industry?

**Mr HARPER** - If the sale of TOTE achieves the \$400 million to \$500 million being mooted, I would seriously say it is probably not a bad deal.

**Mr BOOTH** - But how would you see that supporting the industry in the future?

**Mr HARPER** - If TOTE were to be sold, and there is an argument about who actually owns TOTE anyway, for \$500 million I would want to be sitting down with government saying, 'We do not have a deed for 20 years, we actually have a contract or a contractual deed for 20 years which details the funding and the progression of funding out of the \$500 million grant which we have given back to government'. TOTE can generate around \$35 million to \$40 million on the \$450 million turnover, which was the last turnover I saw, so they have to be generating somewhere about \$35 million to \$40 million.

I want to go back because you raise a good point there. I asked the honourable Michael Hodgman to ask the question in Parliament two years ago along the line of how much the State Government raised out the TAB in the 1990s by way of revenue to go to consolidated revenue. In the years, I think 1992-98, the State Government collected \$92 million in funding out of TOTE and out of the racing industry that went directly to consolidated revenue.

The point I ask and raised before is, there needs to be an inquiry into the running of TOTE and the cost in how it is managed to ensure that what we are selling is actually what we believe is in the balance sheet. As I said earlier if the ratio was 10 times less efficient than Tabcorp, and there is certainly a scale of economy there, then we are possibly selling something whose economic value we really don't know.

**Mr BOOTH** - It could be worth a lot more than it appears at the moment.

**Mr HARPER** - Absolutely. To round it up, if \$30 million is coming out of TOTE to go to the racing industry, a \$300 million investment at 10 per cent is a great return in the market place at the moment. To buy an investment that returns \$30 million, what is it really worth? To sell it for anything less than \$450 million to \$500 million is just throwing money away.

**Mr BOOTH** - Moving on from that, the question is, what in 20 years' time? If you have a deal, and we have talked about the vagaries of different political machinations as to funding streams even in the last 20 years, but even if you have a watertight contract, what then?

**Mr HARPER** - From what I understand of the ministers statement to the committee, it is not that. He has clearly stated that the funding will be locked in place for four or six years and at the end of the fourth year we are going to sit down and renegotiate or negotiate what the level of funding would be. From the industry's position in the first six years you know where you are. At the end of the fourth year you will be told in the seventh year what you will get. That puts you back into the level of where the State Government is and what its budgetary requirements are.

**Mr GUTWEIN** - We will need to get that clarified and we have Mr Aird coming in. I must admit my understanding was that rolling five-year contracts would be negotiated on an annual basis so that you would have surety moving forward on a five-year basis. I would need to look at that but that was my understanding of it to be fair to him. That would meant that in your second year you were actually negotiating out to your sixth year and then third year and so on.

**Mr HARPER** - The seventh - continually.

**Mr GUTWEIN** - But by doing it that way you roll across election periods.

**Mr HARPER** - To me it does not matter if it rolls over election periods or not, it is only as good as the contract that is actually put in place and quite frankly I think we have no confidence. If you look back at the abalone industry and see how the deeds changed from what the original deed was, it is alright to talk about short-term contracts, but when you are talking about things in the long term society changes, everything changes so much, you would not want to be locked into something like that.

**CHAIR** - Geoff, unfortunately we have gone over time. Thank you very much for your valuable input today.

**THE WITNESS WITHDREW.**