

LEGISLATIVE COUNCIL

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE B

Friday 3 December 2010

MEMBERS

Mr Dean
Mr Finch
Mr Gaffney
Ms Rattray (Chair)
Mrs Taylor
Mr Wing

IN ATTENDANCE

Hon. Michael Aird, Minister for Racing

Ministerial Office

Ms Sarah Hazell, Adviser
Mr David Bailey, Head of Office

TOTE Tasmania

Mr Craig Coleman, Chief Executive Officer
Mr Michael Kent, Chair

The committee met at 9 a.m.

CHAIR (Ms Rattray) - Ladies and gentlemen, I would like to welcome you all to the table this morning, especially the Treasurer, Mr Kent, Mr Coleman and your adviser, Mr Bailey. We

look forward to scrutinising TOTE this morning. This being your last time as the Treasurer, we want to extend our warmest wishes on behalf of the committee.

Mr AIRD - Thank you very much.

Mr FINCH - Treasurer, it is the first time we have had a chance to talk with you in a GBE situation since the legislation was introduced about the sale of TOTE, or setting things up for the sale of TOTE.

Mr AIRD - Is TOTE for sale?

Mr FINCH - I will come to that. I remember going on the journey with you when you were leading us along that way, to give you support. I am wondering where you got the confidence to proceed down that path and look to sell TOTE, which came to nothing?

Mr AIRD - It was the prevailing market conditions. We had had indications from other potential buyers that they were interested in buying it. It appeared TOTE at that stage was, I think, an asset worthwhile divesting. The reality is that TOTE is not on the market. We have been through the whole exercise - you might want to look back into why we put it on the market but as far as I am concerned, and TOTE is concerned, we are looking forward. If you analyse the ideal condition in terms of the sale, the potential was there and we failed to realise the full potential for a range of circumstances, including behaviour in other jurisdictions which affected the market. At one stage there was an article put in the *Financial Review* that said we were going to have an IPO. Once you do that, you have halved the value. Why would you pay full value if you think there is going to be a chance of buying an asset for 51 per cent of the value? Those types of things happened and they affect the market. There was behaviour, and I am not going to go through it blow for blow, but I do not think the Victorians were doing us any favours. There was the delay from putting it on the market to the time that we actually finalised it and parliamentary procedures, which I am not complaining about, but the reality is that the time delay allowed others to get into a position where they could start affecting the sale or, more to the point, try to get an asset which would be at a lower value than the market indicated at the time we put it on the market.

Mr FINCH - It was interesting that in answer to a question in our House when you were questioned about whether TOTE was for sale you did say, 'Not on my watch'.

Mr AIRD - Yes. Where is your sense of humour, Kerry?

Mr FINCH - The watch is ticking very quickly.

Mr AIRD - Of course, it was a joke - I had 10 days to go so don't lose your sense of humour.

Mr WING - But you had 12 days to change your mind last year.

Mr AIRD - It would take more than 10 days to sell it, I can tell you.

Mr FINCH - Yes, so had the circumstances changed that TOTE -

Mr AIRD - The legislation that allowed the sale is going to be repealed. Legislation will be in place next year to repeal the sale. If any future government wanted to put TOTE on the market they would have to go through a process again of transparency legislation to achieve the sale.

Mr FINCH - Owning and running a betting agency has been commented on again from our stakeholders. Is it something that the Government should be doing - running a betting agency?

Mr AIRD - I have said in the past that I do not think it is part of core government activity but the fact is that we have got TOTE and my view is that we need to get it into a position of strength. It is a very competitive market. The wagering industry is highly volatile, highly competitive and what we need to do is strengthen TOTE to a position from which it can withstand competitive pressure and be resilient as a wagering organisation. That means being very alert to the market and continually developing the client base to ensure that we get enough turnover and enough revenue from the various sectors of the business.

Mr FINCH - In the circumstance we now find ourselves in.

Mr AIRD - I accept the fact that we could not sell it and the next stage is to make TOTE a resilient wagering organisation owned by the State.

Mr FINCH - Can it be achieved?

Mr AIRD - Can TOTE be a resilient organisation?

Mr FINCH - Yes.

Mr AIRD - Yes, it can, and it will be resilient because we are determined to make sure that we build it into a solid organisation. I can ask Craig Coleman to elaborate later, if you like, about the efforts we are trying to make in terms of having allies and partners with the business to ensure that it has some strength and we can provide a wagering organisation of some substance which ultimately can provide support to our finances.

Mr FINCH - What do you think are the immediate hurdles as far as TOTE is concerned in the way forward?

Mr AIRD - As I said earlier, wagering is particularly volatile and particularly competitive and there are a lot of players in the market now that were not there even five years ago. We have to ensure that the products we are offering suit the market. People's wagering habits are changing, the racing industry is not the only focus in terms of wagering now, you have sports betting which is a growing part of the market. We need to be able to, I think, offer fixed odds betting, we need a range of wagering opportunities so we can hold our share of the market and continue to grow. That relies more and more on developing markets internationally, because that is where the growth is. I can ask the chair, or Craig, to elaborate on the efforts we have made to improve our position in Asia, and in France and other parts of the world. We need to have partnerships and a growth path for our wagering industry. The retail avenues of TOTE are there, but the major growth is going to be in other sectors of TOTE's operation.

Mr FINCH - Treasurer, I would like to know a little bit more about the international push. The stakeholders who have presented to us have spoken a lot about the opportunities suggested

for the international market - opportunities in Asia, and now you are talking about France, England and European opportunities, and at this stage we have not developed those.

Mr AIRD - That is not quite right. You can ask Craig but we have been working in China and Vietnam, and other parts of Asia. Craig, you might want to go through those.

Mr COLEMAN - Those who have worked in the Asian market will know it is a process of consolidation of the relationship in the first instance, and then the business follows. I would rather not, in a public forum, give specific details of contracts we have signed until they are announced because they are subject to NDAs, but I am happy to provide complete detail of those contracts, in camera. There are contracts we have signed in Vietnam, where we will be trading, and I will give specific details in camera about those arrangements. We have some other arrangements which we are in the final stages of negotiating in China.

We now represent a large portion of the British Tote Pools, where we are now coming into Britain. We are about to come into England and Ireland. We now represent a large portion of the biggest international pools, the Sportek pools, the Soccer Pool pools, in the UK. We have significant business in the pools in Sweden - the V75 product.

There are a number of international arrangements which are coming to pass and which are returning good profits to TOTE. They are helping to bolster our business and providing, as the minister quite rightly pointed out, several paths forward. The way to build robustness in the business is not to be reliant on one particular activity, but to have opportunities across a number of activities.

That is the object of our endeavours - to make sure we are diversified in the space of wagering and gambling, both in parimutuel and fixed odds betting, so we can take the business forward. Indeed, in the last year, as you would have read in our annual report, we had a hit because we did not have control of our own fixed odds betting destiny. We were part of an arrangement with the TAB Sportsbet pool, which impacted our business in that financial year. We have now regrouped and we are building our own fixed odds betting strategy so that never happens to us again.

They are the sorts of things the company is doing to build a robust future for the shareholder, and the good citizens of Tasmania.

Mr FINCH - Chair, I would like to flesh out that Vietnam contract - get the detail of it to see where TOTE -

CHAIR - We will need to do that in camera.

Mr FINCH - You said about establishing ourselves there to, I suppose, explore the market. Are you talking, Mr Coleman, about putting a presence in those areas? Who represents us, who does that negotiation? Are people who come from Tasmania doing it, or are people in Vietnam doing it on our behalf?

[9.15 a.m.]

Mr COLEMAN - We have a variety of arrangements. We have some consultants who specialise in the Vietnamese market, whom we employ, operating out of Victoria and out of Vietnam, and they have been assisting us. We have some people from Austrade on the ground in

Vietnam who assist us and we have some people who are in business in Vietnam - Australian companies operating there now and assisting us with this process. And we have formed some strong relationships within the Government to assist us in this process. So there are number of avenues we are using and I should say, it is more than just exploring an opportunity - we have signed contracts.

Mr FINCH - And specifically China?

Mr COLEMAN - In China, we were in negotiations in relation to some contracts, but they are all subject to a very careful process - ensuring the sensitivities of the Government there are considered. We are building a reputation as an ethical organisation - principally because we are State owned, operating in Tasmania in a highly regulated market - and it is paying dividends. We need to only get a very small percentage of those markets to make a significant difference to our profitability and activities. The official estimates, for instance, on the Chinese gambling market - unregulated - is \$US1 trillion. So you can imagine, 1 per cent of that is a very nice amount of money to get if you can.

Mr FINCH - With that China operation - the Chinese investigations and opportunities - are you using different contacts from the ones that you use in Vietnam?

Mr COLEMAN - Yes. In China we have an association with the Peking University, and Michael Kent has been invited to, and is a member of, an international board of only three individuals advising the Chinese Government on lottery studies. Lottery studies in the Chinese context means all forms of gambling - it is an all-encompassing term. The Chairman of TOTE Tasmania is one of only three international individuals on that board. That is a key part of our operations there. We have an individual who works and lives in China on a retainer who is doing some work for us there and we have a couple of people visiting China who have close associations with the Government.

So it is about the relationship in China. There are a number of core activities there, again, which I would like to answer when we move in camera.

CHAIR - Treasurer, I think we will leave the in camera until the end of the session because there may be some other questions of a sensitive nature.

Mrs TAYLOR - I have a couple of questions. I suppose my basic question concerns the split between TOTE and Tasracing - setting up the two corporations. The split is still a good idea and I ask it not so much from TOTE's point of view, although partly that, but as much from Tasracing's point of view. We have heard in last few days of difficulties, or possible difficulties, for Tasracing - risks arising from insufficient income, or the possibility of insufficient income. They have been talking about the need to get into the international sphere. One of the comments that has been made is -

Mr AIRD - Who is arguing to get into the international sphere?

Mrs TAYLOR - That Tasracing should get into the international sphere, whether it is on Sky 1 or -

Mr AIRD - Selling the product internationally?

Mrs TAYLOR - Selling the product internationally. They look to be doing that - trying to get into those markets - and a comment has been made that you are already in those markets; at least you already have good contacts in those markets.

Mr AIRD - Yes.

Mrs TAYLOR - So are you working together and would you be working together better, I suppose, if the split was not there? Is there any sense - now that we are not going to sell TOTE - at looking at undoing the split?

Mr AIRD - Let me be very clear here. There are two businesses - a wagering business and a racing business. Previously, the wagering business was not just concentrating on wagering, but also on racing. The split was absolutely essential because we are the only State to guarantee \$26 million for 20 years indexed to the racing industry, not dependent on the income stream of TOTE, or anyone else. It is backed by the Consolidated Fund. It is the only racing sector in Australia that has that reliability of income. If you have the racing industry geared to the volatility of the wagering industry, you get some ups but you can get some downs as well. It has happened in Western Australia - I don't know if you are aware of that - they had to cut the stake money. Philosophically, it is very important to separate the two. The racing industry - and I may be corrected on this in terms of details - in Tasmania contributes between 1 and 2 per cent to TOTE turnover. I want people to run racing professionally and that is why we established the Racing Board. They are there dedicated to running racing. I wanted TOTE to be a wagering organisation dealing with wagering and that is the reason for the separation. The ACT is following a similar model. If you read the commentary from wagering organisations now, they say they cannot continue to be a cash cow for the racing industry - and it is in the financial press quite often that they cannot sustain it.

I will continue to say that it is absolutely fundamental and essential that we identify two separate businesses and that is why we separated them. You talk to people in New South Wales about what we have done in supporting our racing industry by allocating \$26 million indexed for 20 years and they get very excited by that model. They would love it. I am not here to do the Tasracing Estimates -

Mrs TAYLOR - Can we go on to the other part of the question about the international involvement?

Mr AIRD - Of course TOTE will cooperate with Tasracing, and I think they already have.

Mr COLEMAN - They have.

Mr AIRD - There are examples of where it has been working well.

Mr KENT - We have made appointments on their behalf into the UK and France from our previous discussions and that is being passed on and the introductions have been taken up. My understanding is that a couple of the executives are going there shortly. All the meetings have been arranged, in the main, by TOTE.

Mrs TAYLOR - Leading on from that, we have heard over the last couple of days that \$27 million is not sufficient for them to run the industry viably. I understand what you are saying about splitting it, but for the industry to survive and be viable it then has to have either income

from the Government sufficient to operate or it has to have some other means of income, and obviously that is why they are trying to get into the Asian market in particular, but now also into the European market. You gave them a \$5 million extra handout this year?

Mr AIRD - Yes, a one-off.

Mrs TAYLOR - Obviously you are aware of the fact that they were not -

Mr AIRD - We are going into their territory, but I don't mind.

CHAIR - But it is TOTE's money that you gave away.

Mr AIRD - That is true.

CHAIR - So we are in the right area.

Mrs TAYLOR - My next question is, what is the implication for TOTE?

Mr AIRD - You can't do that every year, that is the implication for TOTE. If the Racing Board wants further allocations from budgets or whatever then they have to go through the same exercise as any other stakeholder or business in seeking support from the Consolidated Fund, the same way as you would seek extra support for the health system or the education system. It is no different from that. In terms of race fields, there was an anticipated stream of income but that didn't come forward, therefore we provided a \$5 million bridge, if you like, to get Tasracing through the system. It is an emerging organisation and do not forget also we have provided a supported loan facility of \$40 million to the racing industry. This is very important in terms of any other international Asian market. That should allow for the infrastructure to be developed in Devonport and it is already in Launceston. We have already supported the introduction of lights, which has proved to be a boon for Launceston racing because night racing is going to be fundamental to the future.

CHAIR - I think we are getting into Tasracing now.

Mr AIRD - What I am trying to explain here is that it seems to me that there is an argument mounted that we have denied the racing industry allocations and I am making an argument that \$27 million indexed for 20 years is support for a racing industry but, quite frankly, the argument seems to be mounted that TOTE ought to be reconnected with the racing industry. I am saying that that would only provide greater volatility to the racing industry because one industry is then dependent upon another. What we have done is that if TOTE provides dividends to the State in terms of supporting our revenue base that is great, then it is redistributed in terms of the allocation to the racing industry. I think that it is a fair and reasonable model. Historically, there was that connection but if the suggestion is that if you have a greater connection with TOTE would that then lead to a greater volatility in the racing industry, I would suggest that it would, and if you did not have the deed.

Mrs TAYLOR - I was not making the suggestion that you should, I was asking the question and you have answered the question, thank you, which is really good.

Mr AIRD - I think my answer is pretty emphatic.

Mr WING - Just before leaving that, the \$5 million that was allocated, on what basis was that determined and was there a business plan?

Mr AIRD - It was based on the anticipated revenues in terms of the business model and the \$5 million was identified as a potential revenue stream that was going to occur through race fields and because of the legal ramifications of the legal dispute in Victoria and New South Wales then it was seen to be fair to provide a bridge until there was a resolution of those cases. To my mind, that was a reasonable thing to do in the initial stages of Tasracing but, as Treasurer, if Tasracing sought extra assistance from the Consolidated Fund they can argue that the same way as any other agency or any other business can argue.

CHAIR - Why did they not argue it there?

Mr AIRD - They have argued it.

CHAIR - And so you sent them to TOTE.

Mr AIRD - No, I did not. I did not send them to TOTE. The TOTE allocation was made as a pro tem measure to provide a bridge.

Mr WING - How was the amount determined?

Mr AIRD - As I recall it was based on the fact that the anticipated revenue was around about \$5 million from race fields.

CHAIR - Can we move on to the licence fee of \$6.3 million that was paid to the State this year? Where will it be paid to next year if there is only a one-off payment of \$5.1 million to Tasracing? Will they get the \$6.3 million next year, the licence fee? Somehow they have to keep going so will TOTE instead of giving the \$6.3 million that they did to the State for their licence fee will they give it to Tasracing?

Mr AIRD - No.

[9.30 a.m.]

Mr COLEMAN - This is probably a question you should raise in the Tasracing Board's scrutiny but this year as from 1 November they have advised all wagering operators across the country that they will be levying race field fees. I am not privy to their budget numbers, but I assume it will be \$5 million or thereabouts in revenue in a full year. So there is another line of revenue that will come forward for the Tasracing Board over and above the \$27 million.

Mr KENT - To Tasracing.

CHAIR - So the State can expect the \$6.3 million for their licence fee, ongoing.

Mr AIRD - Yes.

CHAIR - Does that increase?

Mr AIRD - It is Hobart CPI.

CHAIR - It is lucky it is Hobart, I expect. There probably is not any CPI anywhere else.

Mr DEAN - If I can move into the area in relation to the agreement with Tabcorp, which expires in the year 2012, what is the position between TOTE and Tabcorp? Where are we? What is likely to happen in relation to that matter?

Mr COLEMAN - The deputy is understanding who will hold the Victorian wagering licence and the discussions I have had with Tabcorp, quite rightly, are that until we understand whether we are going to be the operator in Victoria, we are not in a position to negotiate for ongoing pooling.

The challenge is that that has all been thrown up in the air again following last Saturday's election result where the incoming Government has since announced, and it was recorded in the *Financial Review* yesterday, a review of the entire wagering licensing operation in Victoria. So that places further uncertainty about who will be the eventual licence holder.

The difficulty in answering your question is until we have someone to negotiate with, we do not know what the outcome will be. The discussions we have had with Tabcorp, for their part, have been appropriate and commercial.

Mr DEAN - Is that a good relationship?

Mr COLEMAN - Yes, we have a good commercial relationship with Tabcorp, understanding that we are both competing and competing strongly against each other. But in terms of the pooling arrangement, we are a customer of Tabcorp and we pay them an appropriate fee. As to whether it continues, it really depends on who the licence holder is going to be. If it is Tattersalls, they have a different business model, and they are the other contender for the licence in Victoria. So we are running clear on what that will be.

For Tabcorp's part, that company is being demerged and so the wagering business will be separated from the casino business next year and that may well have an impact on their position. So until those matters are resolved, and certainly the licence is known, we are not in a position to be clear on whether we will go post-2012 in respect to Tabcorp.

Mr DEAN - So at this stage you are not quite sure when those things will be known.

Mr COLEMAN - Yes, we would love to know, as with Tabcorp, but unfortunately we are in the hands of the process.

Mr DEAN - That is critical in moving forward - that relationship and the positions.

Mr COLEMAN - Yes, it is, but the Treasurer earlier in his presentation talked about creating a robust future for TOTE Tasmania and we are not just relying on the fact that it may or may not be available in Victoria. There is a whole range of business models that we are investigating which will see the company prosper beyond 2012.

Mr DEAN - Going away from Tabcorp to Betfair, what impact has Betfair had on TOTE?

Mr COLEMAN - TOTE and Betfair have had a good working relationship in fact.

Mr DEAN - But I should imagine there has been impact on the betting with TOTE and wagering through TOTE with Betfair?

Mr COLEMAN - In answer to your question, yes, there has been an impact, but a positive one. We have actually grown our business. If you go onto the Betfair website, Betfair is now an agent for TOTE, and so they are selling our business to their entire international client base - some three million clients are Betfair and access TOTE Tasmania's product. If you want to place a bet on the SuperTAB pool from anywhere in the world, you can do so through Betfair. It has been a very profitable relationship with us. I would describe Betfair as 'co-opetition' rather than competition, and it has been a very productive one.

Mr AIRD - Also their ability to lay is important for your business.

Mr COLEMAN - Correct.

Mr DEAN - So I understand in this case, if a wager is taken through Betfair on behalf of TOTE you get a percentage of -

Mr COLEMAN - We get the bet and we pay them an agent's commission. In the same way that we do with other agents.

Mr DEAN - Right, and that is comparable with all the other agents?

Mr COLEMAN - It is difficult to say if it is comparable with all the other agents; there are different models which apply if you are a casino, if you are a retail agent, if you are a hotel and again, if you are Betfair.

Mr DEAN - What is the rate?

Mr COLEMAN - Can I answer that in camera? It is subject to confidentiality.

CHAIR - I believe that Mr Finch has a question in relation to Tabcorp.

Mr FINCH - Through you, Treasurer - Mr Coleman was talking about the aspect of SuperTAB concluding in 2012, and I get a sense that we are looking for new opportunities. Is Centrebet part of -

Mr COLEMAN - No. Centrebet at this time is our fixed odds betting provider, and it certainly would not be in our consideration for our strategies for the parimutuel wagering business post-2012.

Mr FINCH - Looking into the future, is TOTE wanting to be part of a licence? Would TOTE be able to get that licence, or is that out of our -

Mr COLEMAN - SuperTAB licence?

Mr FINCH - Yes.

Mr COLEMAN - The Victorian Government through the process short-listed three potential operators for consideration for the licence: two local Tatts and Tabcorp and one international,

Ladbrokes. Ladbrokes have since withdrawn so there are only two contenders for the Victorian licence as it stands, Tatts and Tabcorp, and that will be a matter of consideration for the Victorian Government as to how they go forward with that because it is subject to review at this point. The old process, or the process as it has been underway to this point, will be fully reviewed; it may be endorsed or it may be abandoned. It will be the subject of that review. If it is endorsed the pool will be controlled either by Tabcorp or Tatts. Or it could be a third party if Tabcorp is sold.

Mr FINCH - Which would suit Tasmania more?

Mr COLEMAN - Well, we have an existing relationship with Tabcorp, it is commercial and appropriate and if we could continue in that relationship we would be content.

Mr GAFFNEY - Minister, in 2009-10 the move from self-regulation to the Gaming Control Act 1993, I was wondering what impacts or challenges that move has created and how that is being managed. And can you see some interesting times in the future because of that?

Mr AIRD - I will pass it on to Mr Coleman in a minute, but basically it was prudent that TOTE be brought under the Gaming Control Act. There was no resistance from TOTE to come under the act. I felt that the regulatory model in place was not robust enough and that TOTE, the same as any other wagering organisation, ought to have as an operator a strong regulatory environment that actually enhanced the business in terms of reputation and branding. Therefore, it was my suggestion that they come under the Gaming Control Act and there was no resistance from TOTE for that to occur. Having said that, there have been ups and down in terms of TOTE working their way through their obligations under that act. I am sure that they are coming through, but there have been moments in terms of TOTE putting extra resources into ensuring that they comply with the act.

Mr COLEMAN - It is fair to say rather than acquiescing we are actually embracing the fact that we ought to be controlled under the Gaming Control Act. As the Treasurer quite rightly points out, it is very good for our business to be independently regulated because it improves our reputation, which is particularly important in other markets.

It is fair to say that in the first year of operation after coming under the Gaming Control Act, which was rather a quick process - the legislation was promulgated and we were under the act within two months - there was a strong learning curve. There are a number of technology issues that we have inside the TOTE for reporting purposes which we need to develop and grow, a number of processes which were required to meet our reporting obligations under the act. They are all being developed. But it is fair to say that for our part we enjoy a productive and appropriate relationship - it is certainly not difficult - with the Tasmanian Gaming Commission and with the branch that assists the commission. It is as you would expect it would be and I would describe it as appropriate and harmonious.

Mr GAFFNEY - Did that change mean that you had to have a significant investment in IT capacity?

Mr COLEMAN - Yes, it will require a significant change to our information technology model but it is fair to say that that was required anyway for business purposes. The system we have was first implemented in the late 1970s and it is written in code which is now not widely supported. We are in the process of investigating systems which we will implement which will

not only ensure that we are compliant in relation to our obligations under the act, but will ensure that we have a good technology base for our business growth.

Mr GAFFNEY - We have recently read where investing in IT systems is quite an expensive undertaking. How will that impact and what is the business plan for that over a number of years to work that in?

Mr COLEMAN - The model we are looking at is certainly affordable within our capital availability and we think that it will not stretch the business in the foreseeable future. We have made allocation for it.

Mr GAFFNEY - The minister did mention there have been ups and down and moments. Can you give me one example of an up and a down and a moment?

Laughter.

Mr COLEMAN - In terms of the ups, I suppose now it is that the branch and the commission and TOTE each have a common understanding of what our aspirations are. In fairness to the commission, TOTE is a very different beast in terms of its operations from Betfair or Federal's casino. Their customer base is different, their product offer is different and the operating methodology is different. We have a wide distributed network for a range of products that they had not seen before.

Similarly, TOTE had good systems and processes around its operational capacity, and it did not need to produce the sorts of information and processes that were required for independent oversight. If you are on the inside you know what is going on but you need to be able to pull those things out for the commission.

One of the downs is really coming to terms with an understanding and dealing with the cost and those things. You have to accept that that is part of the environment and if we are going to invest in the future, investing in a reputation and coming under the Gaming Control Act is part of that process.

Moments: really coming to terms and understanding our differences. I know there have been some different perspectives and there have been some discussions around that but I think that they have been dealt with. We meet with the commission once a quarter, and the last discussion I had with the head of the branch was a very positive one; they were very pleased with the progress we had made.

[9.45 a.m.]

Mr GAFFNEY - I have one accounting question because it is not my strong point. On page 33 of your report in 2009 the figure for expenses not deductible for tax is \$477 900, and in 2010 there was \$12 000 in expenses not deductible for tax. What would be the reason for the difference in that figure?

Mr COLEMAN - Can we take that on notice?

Mr GAFFNEY - Yes.

Mr COLEMAN - We can provide a split of what those items are.

CHAIR - Would you consider it to be 'a moment' when you read the annual report that there had been a decline in wagering income of \$5.8 million?

Mr AIRD - That wasn't attributable to any regulatory position, but it is a moment in that it represented the national market. There were similar organisations that took a similar reduction. It represented what was going on generally in the wagering business across Australia.

CHAIR - I thought it would have to be a moment, Treasurer.

Mr WING - I think it is fair to say that in discussions we have had with stakeholders there is quite a degree of satisfaction with the way in which TOTE is being administered. One suggestion was made that it would be likely to help boost business and to help those who use TOTE if there could be more visits by TOTE representatives to venues and systems provided perhaps at the times of cups where people who are not accustomed to betting perhaps go to a hotel bar and might find it difficult placing a bet. I don't know whether that is considered to be feasible.

Mr COLEMAN - I would agree that the presence of our personnel in the outlets is very important to not only try to educate but to keep a connection with philosophies and processes and views of the organisation generally and have a consistency across the business. In anticipation that there might be a question around the number of visits and contacts we made, we have prepared a list by venue of all the visits, phone calls and correspondence and I am happy to table that.

Mr WING - Are those visits made during the time when people are betting, perhaps at busy times? Is any assistance provided for those who may not be familiar with the routine of placing a bet?

Mr COLEMAN - The visits and contacts are made at various times, so sometimes when they are trading, sometimes on busy days. This year on Melbourne Cup day, which is our busiest trading day of the year, we had a number of people in the network visiting and I think about 12 people in the outlets assisting the operators process the customers. We stripped head office of its people and sent them out to the network to assist operators. The point is well made, they are the sorts of things we need to be doing and in the best way we can at this time we are attempting to do that.

Mr WING - On a different point, \$10 million was borrowed to cover telephone betting. What risks are foreseen there? It was suggested that the risks are all on the downside with that particular transaction.

Mr COLEMAN - If I can correct the assertion, it was \$10 million to offset the funds we hold in accounts for customers who use the telephone or the Internet. The balance that is held in those accounts has to be offset by cash, and so at the time the assets were handed across to the Tasracing Board. We still have the capacity to carry the cost of offsetting that without retaining the cash assets to see that through. The assets were handed across and we borrowed the \$10 million to offset the requirement to set aside cash. That is another one of our requirements under the Gaming Control Act. That cash is fully offset by funds held in accounts.

Mr DEAN - On the retail outlets, there is obviously a common contract with all of the retail outlets, is that how it operates or is the contract in relation to the amount of business that is turned over in a retail outlet?

Mr COLEMAN - It depends on the outlet type. If it is a hotel it is one set of contracts and if it is a stand-alone TOTE it is another set of contracts and within those contracts there are scales of remuneration, so it is the same common contract.

Mr DEAN - If I can move quickly to the Melbourne Cup again, which you said is your busiest wagering day, and we know that there was a glitch this year on Melbourne Cup day where the computers went down right at the wrong time. Knowing that Melbourne Cup day is your biggest day, what happened with the system on that occasion and do you have things in place now to put a bigger position on that not going down again next year or the year after?

Mr COLEMAN - That is a valid question. The problem which caused the system to fail was the fact that the system was so full of bets and the pool to which those bets were being placed was the highest that it had ever been. It was a trifecta pool and there was a mystery bet placed five minutes before the off of the race. The trifecta bet favours the more qualified horses in the race when it is producing a mystery bet. It is not just a random generator, it is designed to pick the favourites and to give the punter the best opportunity to win. You can imagine in such a large pool with so many combinations available to it, it caused the system to go into overdrive - that was the problem that caused that.

Mr DEAN - Was it just one wager?

Mr COLEMAN - One bet in such a large pool, and a mystery bet, which is an unusual bet on a trifecta. Not many people come and place mystery trifecta bets.

Mr DEAN - It does not mean much to me because I do not know what a mystery bet is.

Mr COLEMAN - A mystery bet is a bet where you do not select the runners.

Mr DEAN - The computer does that?

Mr AIRD - You just put your money over the counter.

Mr DEAN - It's a bit like Tattslotto.

Mr COLEMAN - Prior to next year's Melbourne Cup we will have a new core wagering engine which will have the capacity to handle that and not be confused when one mystery bet is placed into the large pool.

Mr DEAN - Do you have any estimate of the revenue lost as a result of this to TOTE?

Mr AIRD - I got a very stern text message from the Premier.

Mr DEAN - I should imagine you would have and that is why I am asking.

CHAIR - That is the reason why you are leaving Parliament.

Laughter.

Mr COLEMAN - It is difficult to say exactly but we would estimate that betting turnover might have been affected by \$1.5 million as a consequence of that and you could say roughly 10 per cent of that would have been revenues because of the deductions and costs so about \$150 000 would have been the impact of that transaction. I know it is a hollow defence but it was a glitch which happened five minutes before the event and by comparison to the event the National Australia Bank had just last week and the one with Virgin -

Laughter.

Mr DEAN - I was caught in the Virgin one.

Mr COLEMAN - I think our glitch was rather less significant.

CHAIR - Bring back the bookmakers.

Mrs TAYLOR - Following on from Mr Wing's questions about the balance sheet and the borrowings for telephone betting and so forth - and I realise that that was covered but it looked as though profitability was in your balance sheet only just - can I ask you how that has been going since year's end?

Mr COLEMAN - Just to put in context where the profitability is in the last financial year, the number that is reported includes, or is deducted from, that number prior to that number being reported, \$5.18 million, which we pay to the Tasmanian racing industry and which was the subject of some questions earlier on. So if you add that \$5.18 million, which was an extraordinary payment, a one-off payment, the true profit of TOTE Tasmania was \$5.18 million more than is reported in our financial results.

Mrs TAYLOR - That is why I asked the Treasurer the question originally, how does that \$5 million gift, if you like, affect TOTE's profitability and you have just answered that question.

Mr COLEMAN - Yes. In terms of the operations of the business, the fundamentals of parimutuel wagering business today are very different from just two years ago. Two years ago race-field fees were not a key component of the operating landscape that we have and now there are tens of millions - or there will be significant millions - of dollars for our business going forward. So that impact was partially noted there and we have to contend with that going forward but that is an important payment because it is going to the racing industry across the country and to support the product which we use for our business.

In terms of our current trading position, it is difficult to say what that will be. One swallow does not make a summer, as they say; there are a number of customers coming on board and we are confident that we can maintain profitability during this financial year.

Mrs TAYLOR - I am not sure that answers my question, Treasurer, as to how we are travelling at this point in this financial year.

Mr COLEMAN - It is difficult for me to be precise because our business is not linear, the trading gets lumpy and as we trade through the months -

Mrs TAYLOR - Is there an up lump or a down lump at the moment?

Mr AIRD - It goes along with the moment, probably.

Laughter.

Mr COLEMAN - The reason I am reluctant to answer the question in detail is, I am waiting for the results for November and November, you would appreciate, is our biggest trading month and I do not know what the outcome is. It is looking very positive but I do not know what the outcome is for November and that would be a reflection in one way or the other of where our trading performance would be today.

Mr AIRD - I think it is fair to say though that the wagering businesses, whether it is TOTE or other, are like other parts of disposable income. It is a challenging time, if you look at the broader economic circumstance. So I would say, the general reflection of the business is 'challenging'. I would also say that we have to be aware of other product offerings which can provide immediate growth paths in terms of revenue and that is why TOTE has to be a very adaptive and flexible business because it is just changing so quickly and it is highly competitive.

Mrs TAYLOR - So is your investment in Sports Alive proving to be a good investment?

Mr COLEMAN - In the financial report last year you would have seen that we lost \$7 million in profitability on the result of a change in the fixed-odds betting arrangement. We were forced at a very short period of time to move from TAB sports betting to a better sport product. We are determined that never again will we be held to ransom at the whim of a decision made by an external party and that is why we wanted to make an investment in a company like Sports Alive. It is also consistent with the models adopted by other TABs around the country and you have seen Tabcorp establish its own fixed-odds betting business called Luxbet, as has Unitab established its own separate business.

The three State-owned TABs all joined into the arrangement with Centrebet. I do not see that as a long-term sustainable relationship because we are entirely dependent upon another company and that other company, at this point in time, is on the market. So that could well be TAB Sportsbet revisited.

So we are looking to get our own capacity and ensure our own future so that we are not going to be caught as a consequence of the change in policy in another business again.

[10.00 a.m.]

Mr AIRD - I think your question was valid. Another way of phrasing it would be to say, 'What if we didn't do that?' This is one of the challenging environments. If you don't have that product offering, how are you going to be competitive on fixed odds betting? It is one of the challenges still facing TOTE, and we are considering how we can set that business up to make sure we control our own destiny, as much as we can, in terms of fixed odds betting.

CHAIR - Thank you, Treasurer. You might be able to do some consulting in May of next year.

Laughter.

Mr AIRD - I think I will be in Europe.

Mr FINCH - Treasurer, we were talking about the trading performance of TOTE. I am curious about how contingent successful trading is on the quality of our local product. We have varying opinions. Some think the product is good, some think the timing is right - Sunday and Thursday night - and others disagree, since Elwick is not lined up with the Launceston product. How does TOTE view our State product at the moment?

Mr COLEMAN - We offer the product our customers want to buy, and traditionally it has been metropolitan racing from Melbourne, Sydney and Brisbane - that is the bulk of the product our customers want to buy. In terms of product on offer in Tasmania, it is fair to say that the quality has improved, from a wagering perspective. It is not necessarily about whether it is the best horses racing, but whether it is consistent and fair, and customers will bet if it is. We think the Thursday night product offer is a very good move and it will be good for our business, because thoroughbred product, sold of an evening, is something our customers are demanding. That will be a growing product for us and for other TABs around the country. It is a statement of fact that customers want to bet on thoroughbred product and not on harness and greyhounds.

Mr KENT - One of the points you made is the timing - the nights - Sundays, Thursdays, whatever - a lot of that is dictated by Sky TV. They tell you when they will put Tasmanian races on, as opposed to your telling them. There are rural areas of Victoria which can hold a better race day than we can in Tasmania. You don't have that in your own hands - you do what you are told, otherwise you're not on the screen.

Mr COLEMAN - That is a matter for the Racing Board, of course.

Mr KENT - They have to negotiate the best deal they can.

Mr FINCH - Is there solid communication between TOTE and Tasracing on the subject of allocation of times, when the race meetings are on?

Mr AIRD - Basically it is to do with those who are controlling the TV channels - Tasracing and Sky. The product offering from Tasmania doesn't necessary directly relate to TOTE, in terms of turnover - it is 1 to 2 per cent - but the challenge to the racing industry is to get on TV screens, to fill in gaps in the other product offerings. That is why night racing is important in Launceston and lights are nearly inevitable for race meetings in Hobart. If we want to get into other markets with our racing product, we might be racing at very odd hours to fit in with potential viewer time zones. The challenge for the racing industry is to understand that if they are going to have a long-term future, they will have to change their ways. If you analyse it historically - Saturday racing to Sunday, and now from Sunday to Thursday night in Launceston - can we build a racing product in Hobart to fit in with the Launceston offerings on a different night?

CHAIR - New Zealand race on Saturday mornings?

Mr AIRD - You do not know, the success of Tasracing might be at six o'clock in the morning.

Mr FINCH - Our development of the international markets - is it about having our product up and ready to go for the Vietnamese to bet on?

Mr COLEMAN - Not for the Vietnamese, because that market is not developed for thoroughbred horse racing in the same way, but certainly in the UK there is a dearth of product in the morning, and night racing from Australia fits very nicely into that slot. If they can provide consistent racing - that is, regularly on a Thursday evening - there will be a market for it to be sold in the 7 000 or 8 000 betting shops across the UK.

Mr GAFFNEY - It was brought to our attention by one of the people we invited in, that there was a POLi fraud - and I had better spell that for the press -

Mr AIRD - Not Polley.

Laughter.

Mr GAFFNEY - There was a bet online where an individual in Victoria took out \$40 000, through fraud. What have you done, within the systems, to ensure perpetrators like that are caught?

Mr COLEMAN - The opportunity within the system for that to occur has been closed, and it was not only Tasmania that was caught, there were a number of other wagering operators caught. They were able to trace the individual. The individual was charged and has since been convicted and sentenced and is serving time in prison, which is rather unfortunate. The opportunity which allowed that to happen is within the POLi system, which is a bank-based payment system independent of the TOTE. That has been fixed and we have put in place certain checks to ensure that cannot occur with our business again.

Mr DEAN - I wanted to ask about a retail outlet that was also defrauded during the year.

Mr COLEMAN - In terms of fraud, there are a couple of examples where people might have allowed credit betting, which we have dealt with, but I am not quite sure of the specifics of the fraud that you are referring to.

Mr DEAN - The information was provided to us through stakeholder meetings, that a retail outlet was affected by a fraud.

Mr COLEMAN - An IT-related fraud?

Mr DEAN - It was through that system, as I understand it, from the information we were provided with. I might be wrong there.

Mr COLEMAN - There was only one event, which related to the POLi fraud.

Mr FINCH - It was a young bloke in Victoria.

Mr COLEMAN - Correct.

Mr DEAN - During the stakeholder meetings, a question was raised about manual betting compared with electronic betting. Evidence was given to us that there are probably not enough opportunities in the outlets for manual betting, and that is impacting on wagering. We were told that manual betting is far quicker than electronic betting. What do you do regarding the sale of your product in retail outlets, in relation to that matter?

Mr COLEMAN - By manual betting I think you are referring to bets being called rather than people filling out cards. The whole question of how we operate is being considered with this replacement of the computer system. Eventually we would like to move to having terminals where customers can punch in their own bets in outlets. They will be still in outlets but there will be terminals in those outlets where they can deal with their own bets and they will not need to call bets or fill out cards, and the whole system of cards will be different. The reason for cards - from a player protection perspective it gives a record of the transaction, and there can be no dispute that the bet was different from that which was placed by the operator. Sometimes there are some disadvantages. I understand the point.

Mr DEAN - I do not know what they are talking about because I don't do it but -

Mr AIRD - You ought to, it is fun.

Mr DEAN - It would be fun winning.

Mr KENT - The other aspect to that is that in the main, in the hotels, where you have different staff on and off in shifts - new staff, for argument's sake - unless it is on a card they will not know how to do it and people run in at the death knock to put it on. It is hopeless.

Mr WING - Mr Coleman, you mentioned the potential for growing business in the United Kingdom. I assume that an important factor in looking at future growth of business would be the Asian market. Which countries require bets to be placed only at the racecourse?

Mr COLEMAN - At the moment there are a couple of OTBs. No, no countries. In Singapore, Hong Kong and Japan there are opportunities to place bets offcourse.

Mr DEAN - Legally?

Mr WING - Of business coming from those countries to TOTE Tasmania, would most of it come at times when there are race meetings in those countries?

Mr COLEMAN - In terms of business in those countries, if we are talking specifically about Singapore, Hong Kong and Japan, there are certain restrictions in those countries today with betting directly with an offshore provider. If it is not explicitly legislated to do something we do not do it so we would not accept bets from individuals who would be restricted under the law in those countries from placing them - that is, citizens in those countries. Most of the activity that happens in those jurisdictions is from ex-pats who are residing in those countries.

Mr WING - It was suggested to us that a lot of bets are placed in Asian countries at the racetrack itself.

Mr COLEMAN - And those bets would be placed with the home pool and they would be on Australian product. I know that it has been quite successful in terms of product fees for a number of Australian racecourses who have been able to sell their product in those racecourses.

Mr WING - Would we be looking to increase that business for TOTE Tasmania?

Mr COLEMAN - When we get to the in-camera session, I can give you some detailed specifics in terms of our operations and our partnership arrangements in Asia with some of those countries.

Mr WING - Without going into that detail, until we go into camera would it be helpful to increase that business? Is the potential there?

Mr COLEMAN - The business that you are talking about, it would be very helpful for the Tasmanian racing industry because they would get product fees from it but there is a potential for us to do some things so it is very helpful for us. So in answer to your question in simple terms, yes.

Mr WING - It was suggested that having race meetings here on Thursday night is not helpful in promoting business in the Asian countries of the nature that we have been discussing and that it would be much better if the race meetings in Tasmania were held at similar times to the meetings being held in Asia, which would be Friday, Saturday and perhaps Sunday.

Mr COLEMAN - It would seem to me that if you are dealing with a crowd and they are on the course obviously that would be useful to them but that said, it is a matter for the Tasracing Board and their negotiations with Sky Channel as to when they can get that product up and into Asia. But if they can get it at competitive times and where there are customers in those countries able to bet then yes, that is when they should be running the races.

Mr AIRD - It would become a choice between which markets are going to assist in terms of developing the local product. There may be a choice of going to Asia but is that going to fulfil the obligations of the TV channels beaming our products? It is going to be a commercial decision in the end in terms of having enough product in Tasmania which can be on TV screens and whether it is in Asia or Europe.

[10.15 a.m.]

Mr WING - I do understand that. But perhaps it could be possible to influence Tasracing in their negotiations with Sky Channel and any other organisation to have our race meetings on nights which gave the greatest potential for boosting our share of markets in other countries.

Mr COLEMAN - Yes, that would make sense.

Mrs TAYLOR - Treasurer, you referred to the \$40 million facility for Tasracing for capital works. Can you tell us who decides what those projects will be? I presume the easy answer is Tasracing but we have heard -

Mr AIRD - It is not only the easy one, it is the right answer.

Mrs TAYLOR - We have heard from a number of stakeholders over the last couple of days that it seems that Tasracing does not appear to have been consulted - certainly not as widely as they would have liked - and that announcements about Spreyton and lights at Mowbray have been made by a minister, somewhat to the surprise, certainly, of a number of stakeholders.

Mr AIRD - That was before, though. The announcement for lights in Launceston was before the establishment of Tasracing.

Mrs TAYLOR - So that is not out of the \$40 million?

Mr AIRD - No, that came off TOTE's balance sheet.

Mrs TAYLOR - Okay, good. But the Spreyton one is out of the \$40 million.

Mr AIRD - Yes.

Mrs TAYLOR - I suppose they expressed concern. I know it is Tasracing's issue and we will discuss that with them.

Mr AIRD - Yes.

Mrs TAYLOR - But seeing that we have you here and that TOTE is the facility -

Mr AIRD - The logic of Spreyton being the first out of capital works is obvious, particularly an all-weather track. If Elwick is to be redeveloped you have to have two other tracks that are sustainable as Elwick gets redeveloped. I would expect they would be redeveloped something akin to Sandown, but that is a decision for Tasracing.

Mrs TAYLOR - Absolutely, so TOTE has no influence on that.

Mr AIRD - No.

Mrs TAYLOR - And you, as Treasurer, have not had - you obviously did not make that announcement, did you, about Spreyton?

Mr AIRD - No. Tasracing announced that they were doing a feasibility study about Tasracing when I was still minister but I didn't know the result of that and the subsequent announcements in terms of the type of track. I was not involved in that but I support it.

Mrs TAYLOR - Thank you.

CHAIR - Treasurer, before we go in camera, I will first of all take the opportunity to thank TOTE for the extra work that I believe they have done with outlets. It has been an issue that has come to this committee since my time in this place and I am really pleased to see those numbers so that is something that I will place on the record.

But also, Treasurer, on behalf of our committee and your colleagues, we would like to thank you for today and wish you all the best in your new role as the member for Derwent.

Mr AIRD - I look forward to it.

CHAIR - For the next while and then obviously you will retire.

Mr AIRD - We will swap sides, maybe.

CHAIR - We might swap sides.

Mr AIRD - Can I say that I have always appreciated the atmosphere of these hearings. I think that as a model we lead Australia in terms of parliamentary practice, in terms of State-owned companies and GBEs. The search for information has always been appreciated, particularly from the Legislative Council side of these committees.

CHAIR - We are here to help, Treasurer, you know that.

Mr AIRD - Yes, that has been my line in the past too.

Laughter.

Mr AIRD - I will not be able to say the cheque is in the mail anymore.

CHAIR - We have learnt something and we do appreciate it. We know it has been a tough gig. Obviously it is a big job and it takes a toll on your personal life. We wish you all the best in the future and we thank Mr Coleman, who always presents well, Mr Kent for joining us, and Mr Bailey. So thank you very much and now we will take the opportunity to suspend and go in camera to hear some of that information that is not privy to the rest of the gallery.

We are going to make sure that the camera and the action part of these proceedings are off.

Pages 23 to 25 evidence taken in camera.