



# RESPONSE

to the

## Legislative Council Government Administration Committee 'A' Report



Inquiry into the Performance of  
Tasracing

August 2012

# Response to the Committee's Recommendations

## GENERAL RECOMMENDATION

*"Reconsideration should be given as to the most appropriate model to administer and fund the industry into the future"*

## RESPONSE: SUPPORT IN PART

The current racing model in Tasmania is underpinned by two important factors:

- The separation of commercial and integrity functions: Tasracing being responsible for the commercial wellbeing of the industry, and the Director of Racing, through Racing Services Tasmania (RST), being responsible for the delivery of integrity functions across the industry.
- Separate and distinct funding arrangements for commercial and integrity functions: Tasracing's commercial functions are funded through a 20-year Funding Deed, while RST's integrity functions are funded through the Department of Infrastructure, Energy and Resources (DIER).

### Separation of commercial and integrity functions

The separation of commercial and integrity functions in 2009 was, by and large, in response to concerns expressed by key industry stakeholders that the existing governance structure was unnecessarily cumbersome and confusing and was not achieving desired outcomes. The structure was fragmented, with each code addressing the same or similar issues individually rather than adopting a whole of industry approach.

The separation of integrity functions from the commercial aspects addresses the unique nature of the Tasmanian racing industry, that being it is small in size compared to other jurisdictions, which produces an environment conducive to potential conflicts of interest. The current structure clearly acknowledges the importance of a contemporary integrity model and its direct relationship to the wellbeing of the industry. It is a model that other racing jurisdictions and sporting bodies are moving towards in one form or another.

The importance of a specialised racing integrity unit was also recently acknowledged by Racing Ministers at the 2012 Australasian Racing Ministers Conference with the establishment of the National Racing Integrity Advisory Group. The Group, which comprises representatives of each national racing code body and the various states and territories, has primary responsibility to assist in enhancing the delivery of integrity across the three codes of racing in Australia. The movement to strengthen the delivery of integrity highlights the overwhelming industry view that while Australia is a leader in integrity in the international racing industry, it needs to continue to address current and emerging issues through the sharing of information and intelligence by the leaders in this field of endeavour.

It is fair to say that the delivery of integrity to the racing and sporting industries, especially in view of the changing wagering landscape nationally and internationally, is more challenging than ever before.

This Government is committed to being a leader in the field of racing integrity with a specialised, independent, separately funded integrity unit that can deliver high-level outcomes to the Tasmanian racing industry, with an absolute focus on its integrity, the safety of its participants and the welfare of its racing animals.

#### Separate and distinct funding arrangements

The Government is a strong supporter of the Tasmanian racing industry and the significant contribution it provides in terms of employment and the direct and indirect economic benefits it provides to the wider Tasmanian community. A critical part of this support was the finalisation of a 20-year funding deed between Government and Tasracing. Traditionally, the Tasmanian racing industry had been funded by revenue from TOTE. This was consistent with funding arrangements in other jurisdictions, where the primary source of revenue was the state-based TABs. The Government recognised the changing wagering landscape, and the resultant pressures on bodies such as TOTE, and moved the industry's funding from a model totally reliant on the success of a wagering operator to a model which provided absolute funding certainty for a 20-year period. This decision realised almost immediate benefit for the industry - without access to an alternate funding source, the subsequent downturn in TOTE's profits would have resulted in the State's racing industry being placed under enormous pressure for its ongoing viability.

The Government's decision provided certainty of funding to the racing industry and is a model envied by many jurisdictions still subject to the vagaries of a volatile wagering market. However, similar to the ongoing need to address current and emerging integrity issues, the challenge facing Tasracing in its efforts to maximise commercial returns to the industry is unprecedented. The economic downturn, the increased difficulty in obtaining sponsorship, the changing landscape of the wagering market, the significant technological changes that are taking place and the increased threat to market share from sporting and gaming bodies have all contributed to the challenge facing Tasracing to maximise returns to the industry. More than ever before, a commercial racing body such as Tasracing must ensure that it is able to maximise revenue streams at the same time as ensuring it operates with absolute efficiency.

In terms of revenue, the Government has provided Tasracing with the platform to collect race field information publication (RFIP) fees and the ability to respond to market pressures and movement by reviewing and, if necessary, altering the quantum of the RFIP fee on an annual basis.

In terms of the sale of the Tasmanian product to overseas jurisdictions, Tasracing is operating in a extremely competitive marketplace, yet has been able to source access to the highly valuable French wagering market. It is initiatives such as this that will assist Tasracing to further promote the Tasmanian product and maximise returns.

In terms of efficiencies, Government is working closely with Tasracing to ensure that it meets its corporate objectives. A number of initiatives such as identification of significant cost savings, a further movement of integrity functions to RST (with resultant savings for Tasracing) and a review of all Tasracing financial commitments is currently underway.

Additionally, Government will be strongly encouraging Tasracing and the State's racing clubs to promptly engage in a review of current club structures. The review should include detailed analysis of the interaction and funding arrangements in place between Tasracing and clubs. Similar reviews have taken place in other racing jurisdictions with significant efficiencies identified.

The Government is committed to the ongoing health and viability of the racing industry and will continue to ensure that not only does the industry's commercial arm operate in a manner to maximise returns to the industry, but also that its integrity arm continues to independently deliver outcomes beyond reproach.

## RECOMMENDATION A

*“A review of the Racing Regulation Act 2004 should be completed in light of the disagreement between Tasracing and the Director of Racing about the interpretation of their functions under the Act. The functions of integrity and administration more broadly should also be considered as part of the review, in order to determine whether a potential merger of the functions under the one organisation within a strict governance framework will deliver further efficiencies to the industry”*

## RESPONSE: SUPPORT IN PART

In addressing the Committee’s finding that “Tasracing and the Director of Racing have divergent views with regard to their respective roles and responsibilities as prescribed under the *Racing Regulation Act 2004*”, it is important to understand that with the implementation of any new structure there is a settling-in period. The governance restructure in 2009 brought about a significant change to the racing industry and it was a matter of both organisations (Tasracing and RST) understanding, embracing and growing into the new model.

It is equally important to acknowledge that the organisations have distinct and separate roles. While RST is responsible for the integrity, safety and welfare of the industry, Tasracing’s focus is on the commercial aspect - the health and viability of the industry. Naturally, given their divergent functions, from time-to-time it must be expected that conflicts will arise in terms of each organisation achieving its objectives.

However, any initial teething issues in terms of functions and responsibilities have since been resolved, and both organisations continue to develop and grow a positive and effective working relationship through regular meetings, constructive engagement and negotiation.

In terms of the Committee’s recommendation that “the functions of integrity and administration more broadly should also be considered as part of the review”, the Government is of the view that further adjustments to the model will assist both organisations to enhance their ability to achieve the required outcomes:

- In terms of Tasracing, the expectations are that it operates within budget and with a commercial focus to maximise returns to the industry.
- In terms of RST, the expectations are that it operates within budget and delivers the highest level of integrity to the industry, which in turn stimulates the confidence of stakeholders.

There is no doubt that the integrity of the racing industry is the cornerstone of its wellbeing. Recent interstate racing integrity issues have yet again highlighted the need to have a specialised integrity unit, which is separately funded and can operate independently, free from conflicts of interest. RST continues to deliver high-level integrity to the racing industry in Tasmania and has demonstrated leadership in terms of a number of integrity-related initiatives on the national front.

With this in mind, a review of the current model highlights opportunities for RST to assume some or all of the remaining integrity functions currently undertaken by Tasracing. With its existing expertise in the field of integrity, RST is well positioned to carry out extended integrity functions at the margin, resulting in cost savings to Tasracing and net efficiencies to Government.

Accordingly, the Government has requested that the Secretary of DIER and the Chairman of Tasracing enter into discussions to identify which integrity functions currently undertaken by Tasracing can be transferred at the margin to RST. This will result in cost savings for Tasracing and, most importantly, will also enable the Company to operate with a heightened commercial focus, thus being able to maximise returns to the industry.

## **RECOMMENDATION B**

*"The Racing Regulation Act 2004 be amended to prescribe the requirement for each industry code to establish and maintain a peak body to assist Tasracing in meeting its obligations to consult with industry codes. The industry should engage and work cooperatively with Tasracing to grow revenue for the Tasmanian industry having particular regard to the changing customer demographic and highly competitive wagering environment"*

## **RESPONSE: SUPPORT IN PART**

Industry consultation by Tasracing with racing clubs and industry associations is currently prescribed, although it is acknowledged (as highlighted in the Committee's findings) that there is difficulty, due to significant differences in views, for this consultation to be as effective as it could be.

It should be noted that Tasracing has set up peak consultation groups in the thoroughbred and greyhound codes and is currently endeavouring to establish a similar body in the harness code.

The preferred option of the Government is for Tasracing and the industry to identify and rectify existing communication and consultative issues. The Government is satisfied that recent

movements in this area are quite positive, however, it is prepared to consider prescribing peak code consultative groups if the existing issues cannot be addressed in the short to medium term.

### **RECOMMENDATION C**

*“The performance payment framework for executive staff of Tasracing be amended to ensure that payments are only applicable when significant defined performance targets are achieved”*

#### **RESPONSE: SUPPORT IN PART**

In accordance with the Government Business Reform Principles announced in February 2011, Government Businesses must ensure that remuneration arrangements are reasonable, defensible and appropriate.

The Tasracing Board is responsible for the setting of performance-based targets and accountable for monitoring performance against those targets.

In some circumstances, short-term incentive payments or performance payments may be an appropriate incentive mechanism. Such payments can be made to recognise –

- achievement of individual stretch goals or corporate performance beyond normal expectation; or
- significant cost containment; or
- significant increase in revenues.

Performance-based remuneration payments should be non-recurrent and payable based on annual performance achievements.

The Government expects that the Tasracing Board would take these factors into consideration when setting its executive pay framework.

### **RECOMMENDATION D**

*“A review of the current code funding arrangements be completed, with consideration given to the volume of wagering and the associated return on investment, in order to achieve greater efficiencies and better outcomes for the industry”*

## RESPONSE: SUPPORT

Following extensive analysis and consultation, Tasracing introduced a new code funding model in 2011 in time for implementation in the 2011/12 financial year. The revised code funding formula recognises and rewards the performance of each of the codes by using wagering performance factors in determining a proportion of annual distribution. In addition, Tasracing recognises that the code funding model must provide certainty and stability for the industry. As a result, the model includes a fixed allocation, set for three years, using factors such as relative costs for participants, economic impact and other national wagering trends as some of the indicators.

Tasracing will continue to assess the outputs of the current model to ensure it continues to deliver a suitable return to industry.

## RECOMMENDATION E

*"Tasracing give consideration to reporting financial performance by code segment in its external reporting. This information would assist readers to better assess and understand the contribution of each code to the overall company performance"*

## RESPONSE: SUPPORT IN PART

The recent introduction of amended race field legislation has not only provided the opportunity for Tasracing to generate revenue from wagering on the Tasmanian product but has also facilitated the collection of valuable data on the performance of Tasmanian racing, which can be used to create appropriate reports on the financial performance of the industry in wagering terms.

Information provided in the 2010/11 Annual Report referred to specific code performance in relation to wagering turnover (the key statistic) and code allocations (the key cost). Tasracing will continue to review and tailor this reporting process.

In the 2012/13 financial year, wagering operators will be required to provide sufficient supporting information on a quarterly basis, which will allow Tasracing to establish the turnover wagered on each race by code and enable it to differentiate between pari-mutuel and fixed odds bets. Consideration will also be given to segment reporting by codes for the same period.



## RECOMMENDATION F

*"Tasracing review all opportunities for increasing its revenue raising capacity including but not limited to:*

- a. racefield fees;*
- b. racefield size;*
- c. sponsorship;*
- d. development of emerging and new wagering markets;*
- e. consultancies; and*
- f. training and breeding opportunities."*

## RESPONSE: SUPPORT IN PART

Since its establishment in 2009, Tasracing has invested considerable time and effort in trying to further develop new markets for its product and diversify its revenue streams.

While the Company will continue to investigate opportunities in this area, it operates in a highly competitive and mature industry environment, which faces challenges from technological change and a subdued economic climate. In light of these threats, it will be important for Tasracing to ensure it can maintain existing revenue streams in addition to pursuing new opportunities.

Apropos to this, the Government has put in place a legislative mechanism to enable Tasracing to review and vary the quantum of the RFIP fee, in consultation with the relevant racing clubs for each code of racing.

## RECOMMENDATION G

*"Tasracing review all areas of operations to identify cost savings measures and reduce expenditure"*

## RESPONSE: SUPPORT

In light of the challenging conditions facing the Company, Tasracing is currently reviewing its cost base to identify savings and efficiencies. Any efficiencies achieved through this process will help ensure that Tasracing can continue to operate on a sustainable basis into the future.

## RECOMMENDATION H

*“The funding arrangements for the industry be reviewed. If Government is to continue with a Funding Deed model it should be linked to performance and return on investment”*

### RESPONSE: SUPPORT IN PART

The racing industry is an important part of the Tasmanian economy. It creates employment throughout our regions (an estimated 2,500 people<sup>1</sup>), contributes significant economic benefits, both directly and indirectly, while also providing entertainment and recreation for many in our community. The Government is committed to improving the long-term viability and sustainability of the three racing codes in Tasmania.

The Government has made a 20-year funding commitment to the racing industry, which is embodied in the Funding Deed. This arrangement will continue to provide certainty and confidence to the industry.

Capital spending of up to a total of \$40 million is provided for in the Funding Deed, with the approval of projects subject to an assessment of the return on investment or longer-term benefit to Tasracing, particularly in respect to the ability of Tasracing to grow international product fee revenue.

Shareholders regularly monitor the performance of the Company. Higher level performance expectations are set through the Shareholders' Statement of Expectations. This is further supported by annual pre-corporate plan letters to Tasracing and in the Shareholders' response to the annual Corporate Plan.

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<sup>1</sup> Skills Tasmania *Racing Industry Skills Plan*, January 2010 - December 2012, p.3