



Legislative Council Submission

Inquiry into Tasracing Performance

Prepared by Tasracing

For submission to the

Government Administration Committee "A"

June 2011



Item 1: The financial performance of Tasracing taking into account their Half Yearly Financial Report

INTRODUCTION

Financial Strategy

Tasracing is primarily funded by a base \$27 million appropriation from the Tasmanian Government in accordance with a 20 year funding deed. The company manages and distributes this funding on behalf of the racing industry in accordance with the funding deed. With an aim of efficiently and effectively using the funding made available by the funding deed and other generated revenue, Tasracing's financial strategy is based around being able to report a book loss on the basis that the loss is covered/funded from non-cash charges (ie. depreciation).

Once the loss is covered, the balance of the non-cash charges funds the company's ongoing capital expenditure program. This strategy, while reporting a book loss, is essentially a cash neutral position.

Government Funding

Government funding is received as a lump sum payment in late July of each year. In accordance with Australian Accounting Standards, Tasracing recognises this as income in its entirety directly in the profit and loss statement in July of each year. Due to this treatment, Tasracing returns a profit on a year to date basis until around May/June each year. The result is that as the year progresses, expenditure is incurred and at the same time recognises a reduction to the year to date profit. Tasracing's budget provides a forecast accounting loss for the full 2011 financial year of some \$3.2 million.

Race Field Fees

The relevant provisions of the Racing Regulation Amendment (Race Fields) Bill were passed by Tasmanian state parliament on 17 March 2011 and were enacted on 1 April 2011. This allows Tasracing to commence collection of fees from wagering operators for the publication and use of Tasmanian race field information. Tasracing initially budgeted some \$4.8 million for this revenue. This revenue is integral to the ongoing operating capacity of the business, that is, without it, Tasracing's operations would be impacted significantly. Estimated race field fee revenue is the difference between the funding revenue provided by the funding deed and the cash outlay (expenses and ongoing capital expenditure) required to operate the business. The current year budget, including a line item for race field fees, was approved by the Board in June 2010 subject to ongoing discussions with Government in relation to race field fee legislation.

The statement of financial performance provided in Table 1 herein has no cash allowance for race field fees for the first half of the year. Race field fees has been budgeted to be received in cash from 1 April 2011 (backdated to 1 November 2010) to coincide with the enactment of the amended legislation as per the



decision taken by Government in late 2010. In addition to this, in December 2010 the original revenue projection from this source was revised and reduced by some \$1.6 million due to a shortfall associated with fees originally anticipated to be received for the period 1 July to 31 October 2010. Amended legislation only allowed for retrospective collection of fees from 1 November 2010. The revised budget reduces Race field fees to some \$3.2 million for the 2010/11 financial year.

TOTE Tasmania granted Tasracing the equivalent of the budgeted race field fees in 2009/10. This forms part of the \$32.235 million revenue from Government shown in Table 1 below.

30 June 2010 Financial Result and comparison to 30 June 2011 Budget

Tasracing reported a loss of \$414k for the year ended 30 June 2010 against a budgeted loss of some \$800k. The budgeted loss for the year ended 30 June 2011 is \$3.239 million. Differences between 2010 actual performance and 2011 budget are broadly provided by the following:

- Shortfall of \$1.63 million in Race field fees as discussed above
Effect on operating position – increase loss
- Additional staff required to facilitate corporate plan objectives. This included the employment of a Chief Operating Officer and an Industry Training Co-ordinator
Effect on operating position – increase loss
- Stakes increase at CPI compared to increase in funding of CPI less 1%
Effect on operating position – increase loss
- Other expenditure variations provided by CPI increases
Effect on operating position – increase loss

Capital Expenditure

In accordance with Tasracing's financial strategy, the ongoing capital expenditure program (minor works, equipment replacement and upgrade) for 2010/11 is forecast to total some \$2.208 million. This is funded from non-cash charges and projects carried forward from 2009/10 that were originally scheduled for that year.

The Government has approved a \$40 million facility to be provided by Tascorp to undertake major capital projects and industry development initiatives at racing venues across the state. This facility has been provided largely as a result of the non-sale of TOTE Tasmania, that is, Tasracing was due to receive a \$40M injection from the sale of TOTE Tasmania for expenditure on capital infrastructure. Tasracing's Funding Deed with Government provides Treasury support for the Tascorp facility (ie. principle and interest repayments) subject to a number of conditions, the most significant of which is that the facility is serviced by Treasury if Tasracing demonstrate the inability to do so. A re-development of Spreyton Park



racecourse on the North-West coast of Tasmania is the first Treasury approved project at a current estimated value of \$11.5M. This project is currently in progress.

Half year financial performance to 31 December 2010

Tasracing's statement of financial performance for the period 1 July 2010 to 31 December of the current financial year is provided in Table 1 below.

Statement of Financial Performance

for the period 1 July 2010 to 31 December 2010

	note	ACTUAL \$'000	BUDGET \$'000	VARIANCE \$'000	ACTUAL 30 June 2010 \$'000
Revenue and Other Income					
Revenue from Government	1	27,510	27,513	(3)	32,235
Interest Revenue	2	618	578	40	764
Other Income	3	885	826	59	2,378
Total Revenue		29,013	28,917	96	35,377
Expenses					
Employee Benefits Expense	4	2,392	2,328	(64)	4,926
Prizemoney, Benefits & Incentives	5	9,252	9,210	(42)	20,876
Depreciation & Amortisation Expense	6	1,360	1,401	41	2,286
Borrowing & Leasing Costs	7	113	232	119	374
Commission Expense	8	679	516	(163)	1,214
Raceday and Racing Expenses	9	1,751	1,829	78	3,586
Marketing Expenses	10	314	439	125	784
Other Expenses	11	1,056	1,654	598	1,746
Total Expenses		16,917	17,609	692	35,791
Profit before tax		12,096	11,308	788	(414)

Table 1

NOTES – FINANCIAL PERFORMANCE

1. Government funding increases each year at a rate of CPI less 1% efficiency dividend in accordance with the Treasury funding deed.
2. Surplus cash from the receipt of government funding each July is invested in interest bearing accounts and drawn on as required for operational and capital expenditure. Interest earned on this investment is required to support operations. The average interest rate is 5% p.a.

In addition to this, Government interest assistance on the 2010-11 spend of the \$40M capital funding facility is provided for. There is a corresponding expense in borrowing and leasing expenditure.

The positive budget variance reported at 31 December 2010 results from cash flow timing which is largely attributed to the overall positive variance in the operating position and delays in the capital expenditure program. Interest Revenue is forecast to be \$929k by 30 June 2011.

3. Other Income from operating activities includes:

	<i>\$'000</i>
Rental Income	429
External sponsorship income	28
Commissions	164
Other Income	264

- Tasracing derives rental income in two forms;
 - Rent payable by race clubs for the use of venues on race days; and
 - Rental for stables leased to tenants at Brighton and Longford race tracks.
- External sponsorship income is predominately for naming rights of major events across all 3 codes and sponsorship of the Tasmanian Summer Racing Carnival. The majority of this money is received in February in conjunction with the major carnival period. Sponsorship income is budgeted at some \$674k for the 2011 financial year.
- Commissions relate to agreements for the use of facilities at Tattersall's Park.

Other income is budgeted to be \$2.464 million by 30 June 2011.

4. Employee Benefits expense includes all salary and wage expense and on costs for administration and track staff. Defined benefit plan gains and losses are adjusted at the end of the financial year. A small provision is made for this.

The negative budget variance is due primarily to the commencement of an Enterprise Agreement for track staff which resulted in unbudgeted wage increases. This is as a result of a successful negotiation resulting in a fixed 4 year agreement that will see track staff wages increase by some 18.5% over that period.

The initial labour budget was inherited from TOTE as employee headcount transferred at the time of separation of racing administration to Tasmanian Racing Board. Furthermore, there were additional costs for a Board of Directors and some management staff costs previously absorbed by TOTE. Tasracing has since undertaken an organisational restructure in order to streamline the business and appropriately deliver on its Corporate Plan. This restructure resulted in an initial reduction in staff headcount during the first half of the current financial year. Labour costs are forecast to be some \$4.876 million for the year ended 30 June 2011.

5. Prize money, benefits and incentives incorporates stakes and bonus payments to racing participants as well as meeting payments to race clubs. In accordance with the funding deed, overall stakes paid to the industry are required to be maintained in real terms and increase by CPI each year. Allocations to codes are made in July each year. The budget for 2010/11 is some \$21 million. Code and club funding models have recently been revised and will be implemented at the start of the 2012 financial year, however the overall allocation of funding to Codes will be increased in accordance with the funding deed (overall stakes maintained in real terms).

6. Depreciation and Amortisation expense relates to race track leasehold improvements and related machinery and equipment required for upkeep of the tracks.

The positive budget variance is as a result of timing in commencement of capital expenditure projects.

7. Borrowing and leasing costs relate to;

- Operating lease payments for equipment rentals including motor vehicles and office equipment; and
- Interest payments on existing Tascorp borrowings (\$1.5m loan inherited from TOTE Tasmania).

The large budget variance relates to loan servicing costs related to the \$40 million capital funding facility for capital projects provided by Treasury. This has a cash neutral transaction as it is offset by interest revenue as a result of debt funding support to be provided by Treasury.



8. Commissions are paid to race clubs based on TOTE Tasmania turnover levels achieved at race meetings. The negative budget variance has resulted from strong turnover achieved for all codes of racing at meetings during the 2011 season. The likely year end result is \$1.38 million.

The commission payment structure was inherited from TOTE Tasmania and is based on wagering turnover generated by TOTE Tasmania on local product. Tasracing does not receive this commission in full but from a continuity perspective agreed initially to pay this to clubs until a new funding model could be developed. In addition, clubs have little impact or control over the generation of this commission. Tasracing has recently revised the model for allocation of funding to clubs, which includes a more appropriate commission payment as a result of on-course wagering. Tasracing has an agreement with TOTE Tasmania which provides a commission payment based on wagering on-course, of which Tasracing pays it directly to clubs that generate it.

9. Race day and racing expenses incorporates:

- Race track maintenance associated with the operation of race tracks and training facilities across Tasmania namely Tattersall's Park; The TOTE Racing Centre; Spreyton Park; Brighton Training Centre; Longford Training Centre and Carrick; and,
- Broadcast costs associated with SKY coverage and ambulances onsite on race days.

The positive budget variance is due to decreased costs associated with race track maintenance resulting from high quality maintenance machinery purchased in 2010. The likely year end result is \$3.55 million

10. The majority of marketing spend is to help facilitate and promote racing industry initiatives and events. This is provided in the form of race club support, sponsorship and promotional and marketing assistance associated with major race meetings and carnivals. The current marketing model has been reviewed by management and the company will move to a customer focus model in the 2012 financial year, that is, ensuring marketing activities focus largely on customers wagering on local Tasmanian racing product, in order to generate additional revenue. The positive budget variance relates to timing of receipts. The forecast outcome for the full year is \$854k.

11. Other Expenses includes:

	<i>\$'000</i>
Insurance	258
Corporate Plan industry initiatives	213
Administration and other	585

Expenditure on Corporate Plan initiatives and industry development was originally forecast at \$1.2 million for the year. This makes up the majority of the positive budget variance at 31 December 2010 however this has since been reforecast to a lower amount. Additional positive budget variances relate to savings associated with insurance policy premium adjustments and travel expenditure.

Balance Sheet

as at 31 December 2010

Current Assets

Cash and Cash Equivalents	20,030
Trade and Other Receivables	413
Prepayments	414
Investments	736
Total Current Assets	21,592

Non-Current Assets

Property, Plant & Equipment	50,013
Intangibles	53
Total Non-Current Assets	50,066

Total Assets	71,659
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Current Liabilities

Trade and Other Payables	953
Employee Benefits	412
Other Financial Liabilities	163
Total Current Liabilities	1,527

Non-Current Liabilities

Borrowings	1,500
Employee Benefits	3,075
Total Non-Current Liabilities	4,575

Total Liabilities	6,102
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Net Assets	65,556
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Equity

Contributed Equity	47,459
Accumulated Profits/(Losses)	18,097
Total Equity	65,556

Table 2



NOTES – BALANCE SHEET

The significant items on the Balance Sheet (Table 2 above) are the Cash and Cash Equivalents, and Property, Plant and Equipment. Cash levels at half year are high as a result of receiving Government funding in July 2010 in accordance with the funding deed. Property, Plant and Equipment is largely represented by leasehold assets, including racetracks and racing facilities under the control of Tasracing.

Tasracing inherited the non-current liabilities of borrowings and employee benefits from TOTE Tasmania. The majority of employee benefits are a defined benefit scheme with RBF. The borrowings of \$1.5M are from Tascorp and were transferred to Tasracing on the basis that they were interest only, however Tascorp have recently requested that Tasracing start making principle repayments in addition to interest.

In addition to the information provided in this part of Tasracing's submission, a copy of Tasracing's Annual Report for the year ending 30 June 2010 is enclosed and provides further detail if required.

Item 2: Update of matters noted by the Auditor-General (Report No. 2 of 2010, Vol. 3, pp 130-134)

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Tasracing's financial statements for the 2009-10 financial year were prepared on the basis that the Company is a going concern. Tasracing relies on Government funding for continuing operations and without such, assets would be subject to impairment testing.

Tasracing's funding deed with Government provides a funding stream for 20 years, from a base in the first year (2009/10) of \$27.0 million, with indexation applied each year at a rate of CPI less 1%. The funding deed provides a number of conditions, including the requirement maintain stakes paid to whole of industry in real terms each year, that is, providing an increase in accordance with CPI. Analysis of the financial impact of this funding deed condition is provided in Section 3 of this submission.

KEY DEVELOPMENTS

Net assets transferred from the TRB

Assets are being appropriately maintained and improved or upgraded as required. There are currently no events or triggers that would lead to impairment of major assets in the 2010/11 year.

Financial dependence on the State Government

The funding deed not only provides operational funding of \$27 million plus CPI less 1% (as discussed above), it includes the provision of financial support from Treasury for a \$40 million facility with TASCORP. The deed broadly provides that Treasury will meet principle and interest payments on the debt facility if Tasracing demonstrates the inability to do so each year. In addition, to receiving this financial support, Tasracing must provide a detailed business case to Treasury in order to receive approval for draw down of funds for major capital projects of industry initiatives. The business case must address standard Treasury and funding deed requirements, including demonstrating a long term benefit to the racing industry.

The deed was signed shortly following the finalisation of the 2009/10 audit. A business case for the redevelopment of the Spreyton racecourse in North West Tasmania has since been approved by Treasury for which construction is currently underway.

As a result of Tasracing's 5 year financial forecasts, Treasury will be servicing the facility.

Tasracing's Corporate Plan

In summary, the key items and assumptions noted by the Auditor-General are:

- Tasracing will incur accounting losses for each of the five years in the Corporate Plan period;
- Those losses will be funded by non-cash charges (ie. depreciation);



- Tasracing's financial strategy is to operate on a cash neutral basis;
- Treasury will service the \$40 million TASCORP debt; and
- Race field fees will be collected from both domestic and international wagering operators.

Without any one of the above, it will be a challenge for Tasracing to continue as a going concern in the absence of any significant changes to the business.

Recently enacted amended legislation provides Tasracing with the ability to now collect Race field fees. Whilst the indexation of funding (CPI less 1%) provides a challenge, Tasracing is actively developing and positioning the product to generate opportunities to increase revenue from international and emerging markets. In addition, legislation provides that ability to increase the race field fee charge in the future.

Tasracing's 2011 Corporate Plan has been finalised and addresses the funding challenges, including forecasts for additional revenue generation. Further information is also provided in Section 3 of this submission.

The TOTE Racing Centre

One year has now passed since thoroughbred night racing commenced at The TOTE Racing Centre in Launceston.

The current Sunday afternoon timeslot is saturated with limited room for growth from wagering returns on Tasmanian product. In addition to providing a new product for the domestic wagering market, night racing's positioning is at a time that is attractive to international markets (ie. mornings in the United Kingdom, afternoons in South East Asia). Due to timing, there is limited opportunity to export Sunday afternoon racing.

The overall, and per meeting wagering turnover for the current year on the local thoroughbred product is encouraging and as a product in its infancy, will continue to improve in returns provided by wagering on local product with the support of industry.

The current position of the night racing product in its life cycle, as opposed to that of Sunday racing, is demonstrated in Figure 1 below.

Product Life Cycle

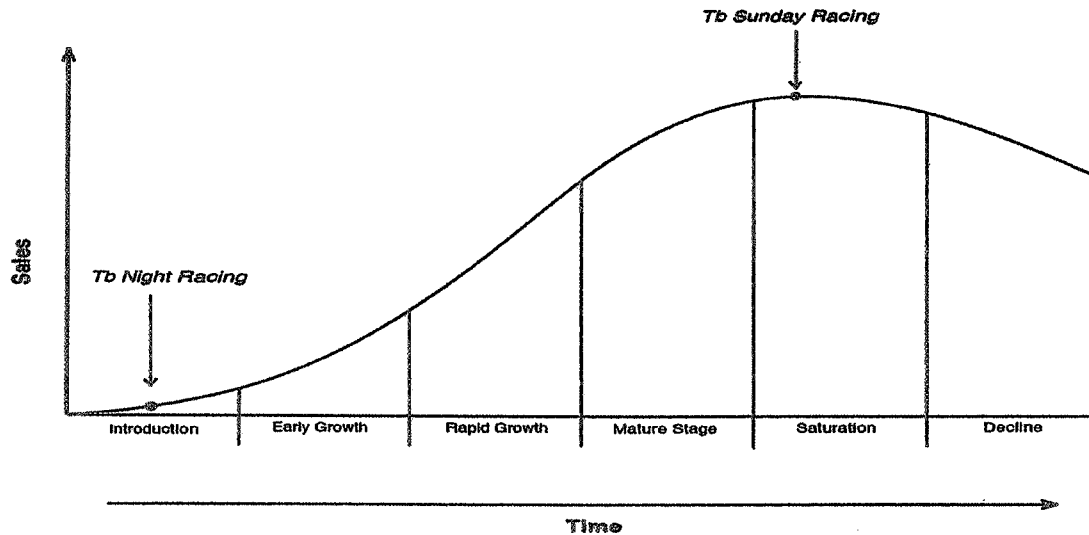


Figure 1

Analysis conducted on wagering returns for the period September 2010 to December 2010 inclusive, provides average national wagering on The TOTE Racing Centre night racing meetings of some \$1.56M per meeting. Tattersall's Park Sunday meetings in Hobart for the same period returned some \$1.61M per meeting. For a racing product in its infancy, the results for night racing are encouraging.

Some small financial returns have been provided as a result of international wagering on local product year to date, however as previously mentioned, Tasracing is pursuing international opportunities, with Thoroughbred night racing as the prime product offering.

FINANCIAL RESULTS

No key items of note provided by the Auditor-General. Further information in relation to financial performance and forecasts is provided in Sections 1 and 3 of this submission respectively.

Item 3: Factors impacting on the ongoing profitability and sustainability of Tasracing

Introduction

Racing is one of the most traditional and well established industries in the world. In Tasmania the industry has both a strong traditional, social and community role to play together with providing essential economic activity and employment.

Funding commitments provided by the then Treasurer on establishment of Tasracing in 2009 and the subsequent provision of a Funding Deed, provided a financial challenge for ongoing future operations. While Tasracing is developing and positioning the product to generate opportunities to increase revenue, Tasracing operates in a highly dynamic and competitive market. Operating costs are predominately fixed with some 67% being Code and Club funding allocations, which industry participants rely on, and Tasracing is obligated under legislation to maintain overall stakes paid to industry in real terms. In addition, inherent costs required to operate the business are unlikely to decrease in the short term in the absence of significant industry efficiency measures.

Government funding is essential for the ongoing continuance of the industry. The initial funding commitment based on adjustments less than real terms, together with legislative delays in being able to collect race field fees provides initial challenges to Tasracing in funding its operations.

To ensure Tasracing is able to continue to service the racing industry and meet its obligations to all stakeholders, additional revenue will be required to fund operations.

Whilst the racing industry provides significant employment it is not sustainable without extensive Government funding. Through Tasracing, the Government has taken on the responsibility of subsidising the cost of racing for participants and clubs.

Tasracing is pursuing opportunities to supplement Government funding through industry generated revenue. This however will not have an immediate impact.

The factors impacting the ongoing profitability and sustainability are broadly discussed further below.

1. Legislative Requirements

Tasracing is governed by the following legislation:

- *Racing Regulation Act (No.62 of 2004) (Act),*
- *Racing (Tasracing Pty Ltd) Act 2009*
- *Racing Regulation Amendment Act 2008.*
- *Government Business Enterprises Act 1990*
- *Corporations Act 2001*
- *Right to Information Act 2009.*

Section 11 of the Act defines some of the key functions, powers and responsibilities of Tasracing as:

- developing a vision for and promoting the racing industry;
- promoting the development of an efficient and effective horse and greyhound breeding industry;
- attracting sponsorship income;
- developing and maintaining racing and training venues under its control;
- administering and regulating the industry
- assisting racing clubs with the promotion and marketing of major race meetings and race carnivals and in meeting their governance obligations;
- determining fees in consultation with the relevant racing clubs;
- controlling race meetings and
- negotiating with broadcast providers scheduling and revenue-sharing

2. Stakeholder expectations

The industry supports some estimated 2,500 full time equivalent employees in Tasmania. Tasracing is required to balance the competing requirements of Government and Industry expectations.

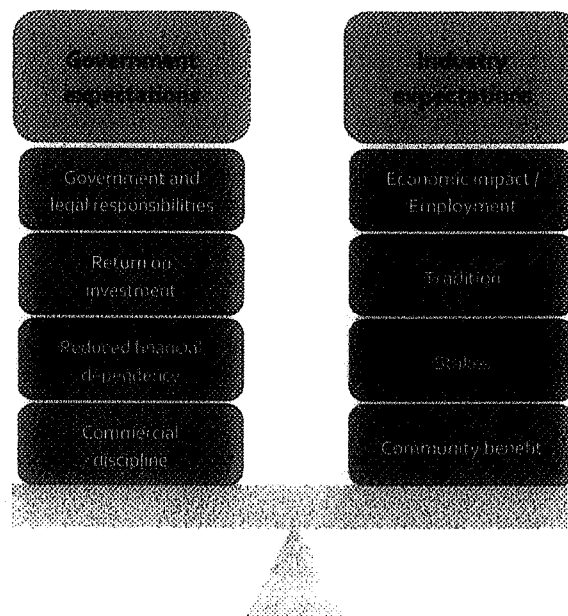


Figure 2

In order to meet Government expectations, the Company has two principal objectives:

1. To operate its activities in accordance with sound commercial practice; and
2. To perform any functions conferred by the Racing Regulation Act 2004 and any other Act.

Sound commercial practice means Tasracing:

- has to be results orientated,
- applies best use of available resources,
- is adaptable to change,
- must maximise advantages and minimise the impact of any adverse change,
- is ethical in operations and dealings,
- has an appropriate governance framework, and
- complies with the Corporations Act.

The current initiatives of Tasracing are directly linked to Government expectations, as identified across the following four key areas.

Government Expectation	Tasracing Initiative
Operate with a sound commercial basis	Code allocation model Club funding model Stakes realignments
Enhance the racing product	Night racing Infrastructure Investment Industry training strategies
Redefine approach to marketing	Customer Focus Model Customer relationship building Market research program
Address cost efficiencies	Organisational restructure Assets, Marketing and Race Day costs

Table 3

3. Overview of Business Model

Tasracing has revised its business model to focus on its major opportunities for revenue generation, thus ensuring that in future the racing product is most attractive to media and wagering customers.

The five Corporate Goals aligned in the organisation's value chain focuses attention and emphasise the sequential nature and linear dependencies of the Corporate Goals (as demonstrated in Figure 3 below).

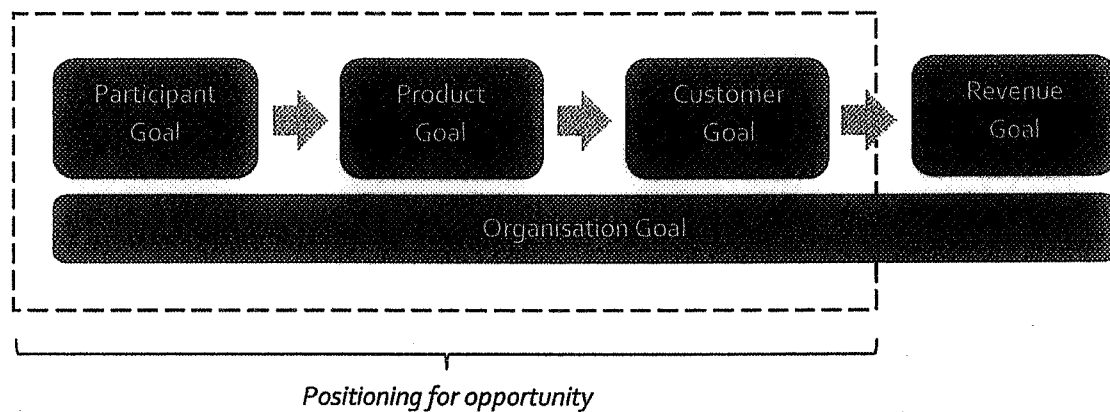


Figure 3

The success in generating additional revenue will only be achieved in a structured and progressive manner over several years.

The Australian racing business model has traditionally focused on meeting the needs of traditional stakeholder participants. Racing events, asset management, administration and marketing functions have focused on the needs of the participating stakeholders, whilst wagering customers needs have often been relegated to secondary concerns. The traditional model was suited to the monopoly conditions of domestic wagering markets, operating in stable environments.

Participating stakeholder interests will now be more effectively met by maximising revenue from wagering customers and aligning all stakeholder interests as per the new Customer focus model in figure 4 below.

Tasracing Customer Focus Model

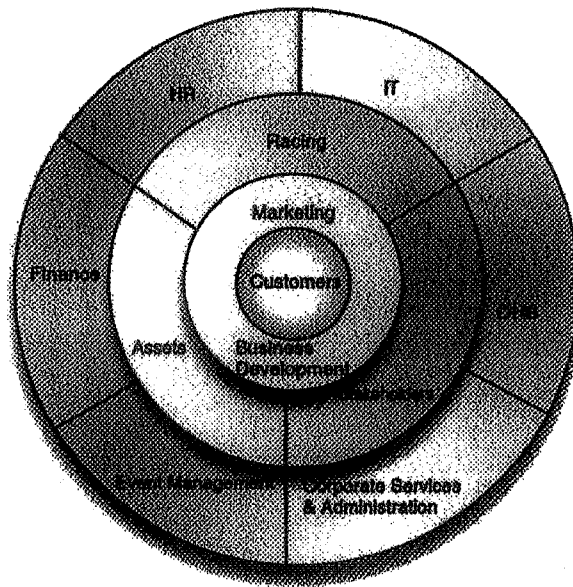


Figure 4

Owners are the key component in the flow of value within racing as depicted in Figure 5 below. Owners' investment is a key input and through industry facilitated by Tasracing, the racing product is created and provided to wagering operators. Base government funding provides critical support. In addition, wagering operators now provide returns to Tasracing who distribute those returns, via stakes, back to owners.

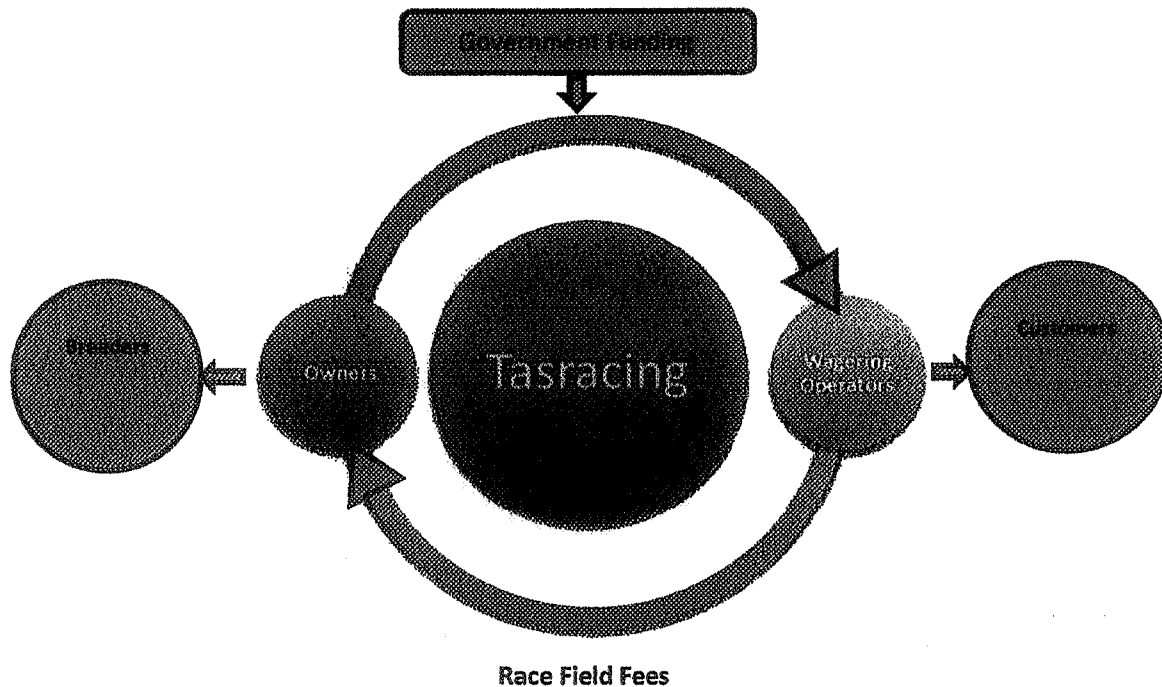


Figure 5

4. Operating Environment

Tasracing operations are currently impacted by:

- an uncertain economic environment that directly affects the disposable income of customers of the racing industry
- a statutory responsibility to manage the racing industry whilst at the same time maximising the industry's revenue to reduce its dependence on government funding
- a variety of non-commercial community responsibilities, based on tradition, to provide race days for the community. These 'community' race meetings cannot provide competitive product for off-track wagering customers and the continuation of the community benefits will need to be continually assessed in relation to costs
- environmental and animal welfare responsibilities that are directly connected to the community perceptions of racing product. A changing societal and cultural landscape with generational shifts resulting in changing customer demands. Generation X and Y have 'instant' entertainment requirements that the traditional racing industry is not well positioned to offer



- Technological trends which present both opportunities in product distribution, but also significant risks by providing more entertainment options (broadcast, wagering or otherwise), to the increasingly mobile customer

Whilst the racing industry provides significant employment it is not sustainable without extensive Government funding. Through Tasracing the Government has taken on the responsibility of subsidising the cost of racing for participants and clubs. Whilst mindful of these responsibilities, an increasing commercial discipline will need to be adopted in order to ensure industry sustainability

One of Government's expectations in relation to returns is reflected in the funding deed by provision of an efficiency dividend. As a result Tasracing must be able to supplement Government funding with industry generated revenue

The national racing market is a mature, saturated and highly competitive landscape where the Tasmanian racing product has a small market share and has not differentiated itself from other mainland product offerings

5. Market Conditions

A large portion of Tasracing's revenue is currently provided by Government in accordance with a 20 year funding deed. The funding deed also provides for Government assistance with a \$40 million facility for capital infrastructure and industry development.

Whilst there are various conditions provided in the funding deed in accessing annual operational funding, these are largely within Tasracing's control. Funding provided by the deed increases by CPI less 1% each year which does provide a challenge to the business as all expense items are likely to increase by at least CPI each year, subject to market forces. The deed also provides that funding to industry (ie. Stakes) must be maintained in real terms.

As a result of the indexation method provided by the deed, Tasracing must continue with strategies for increasing revenue from other sources, whether it is domestically or internationally generated.

Due to the limited population base of Tasmania and the highly competitive wagering environment, the only way to make the Tasmanian racing product commercially viable is to attract more off-track wagering customers to generate additional revenue. Off-track wagering customers are located beyond Tasmania, in other Australian states and international markets. To compete in these wagering markets Tasmania's racing product and the race tracks themselves need to be developed and managed more progressively to best service the customers via the transmission of data and vision.

Tasmania's racing industry needs to align its product and tracks to the requirements of the off-track wagering customers. The race meetings need to reward stakeholders who provide a product that is aligned to the needs of the off-track wagering customer. Those events or tracks that do not generate revenue need to be reformed.



Accordingly by focusing on wagering customers to expand existing and emerging markets the racing industry has developed beyond the original on-track customers to customers who receive the product via broadcast. There is no sustainable industry future unless the supplied data and vision meet the off-track wagering customer.

Provided the product data and vision broadcast from Tasmania meets the wagering market requirements the local industry can grow by successfully expanding into national and international markets.

To successfully meet the demands of off-track wagering customers, the racing industry needs to align its racing events, the professionalism of its racing participants and quality of its infrastructure with customer needs.

Tasracing needs to offer off-track wagering customers product on a regular and reliable basis. High profile annual racing carnivals are important community events that can attract off-track wagering customers, but regular racing events are essential to maintain customer interest and ensure robust, ongoing revenue streams. Reliance on local support at race days no longer covers operating expenses.

Traditionally the Tasmanian racing product and infrastructure has been focused on the requirements of the industry's participants, stakeholders and on-course patrons rather than the off-track wagering customers. This has created significant gaps in the state's product offering between what is provided in Tasmania and what is required by off-track wagering customers.

The alignment of our industry participant profiles with the requirements of a competitive wagering market will take time and considerable effort. Recognition of the need to change in response to the dynamics of the environment is critical for all stakeholders.

6. Customer Constraints

The access to timeslots and broadcast coverage across Australia is predominantly controlled by Sky Racing and is very competitive. Premium slots are oversubscribed by a multitude of interstate racing events and growth opportunities in these slots are extremely limited. There are however opportunities for Tasmania's racing industry to win new and improved timeslots by developing and expanding regular night racing across all three codes. International opportunities are limited unless the broadcast slots are fully exploited.

To succeed in attracting new wagering customers Tasracing will develop a racing calendar focused on the broadcast opportunities in the wagering market. The calendar will provide stakes and incentives for local participants aligned with events suited to broadcast and wagering audiences.

Within international markets Tasracing is in competitive opposition with mainland states and other export-orientated racing countries. Tasmania cannot compete on either a profile or a volume basis with such players, but its competitive advantage lies in its small and nimble size, allowing it to maintain outstanding infrastructure, quickly align its product offering with international customer needs. In



addition Tasracing's single pool of racing participants and racing animals represents a quantifiable wagering proposition suited to Asian markets.

Market access is dependent upon the efficiency and reach of distributors and Australian racing is heavily reliant upon the duopoly vision providers SKY and TVN.

Tasracing has inherited long-term agreements with SKY and has significant constraints placed upon its activities in relation to these agreements, across the three codes of racing. Sky's influence on the Australian racing and wagering landscape is well recognised and Tasracing works closely with SKY to optimise broadcast outcomes. Tasracing's market influence is limited but its value proposition to SKY is a consistent, quality product that can be quickly adapted to prevailing market demands.

Just as Tasracing's influence on vision distribution is limited by market power and existing contractual agreements, form distribution has similar challenges. Whilst larger jurisdictions have multi-million dollar agreements with major newspapers to supply form, Tasracing does not have the financial luxury of pursuing such arrangements. Dedicated efforts will be made to seek commercially viable niche markets to increase form penetration in target markets.

The challenge time and investment required to acquire and grow a customer base internationally is not to be underestimated.

7. Current Funding

Tasracing's Funding Deed with Government provides a base funding level of \$27M in the 2009/10 year which is to be indexed each year by CPI less 1%. The term of the funding deed is 20 years. In the absence of generating any other revenue (ie. international product fees) the diagram below demonstrates the increase in revenue required over the next five years to fulfill our obligations within the deed (in the absence of any other revenue). This additional revenue is required as a result of the indexation method applied under the deed and the additional requirement to maintain overall stakes paid to industry each year in real terms (increasing by CPI).

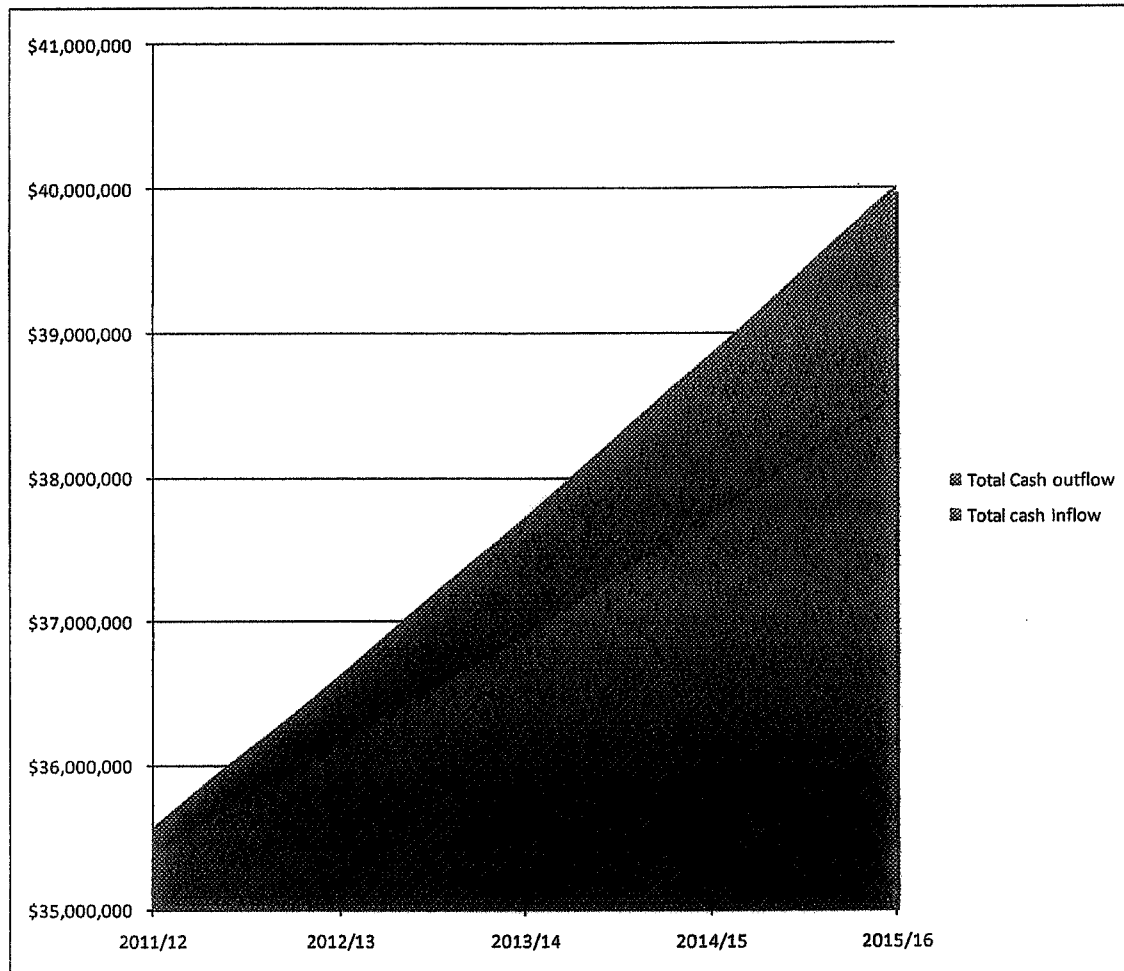


Figure 6

Figure 6 above provides CPI increases estimated at 3% on all expenses, growth in Race field fee revenue each year at 3%, and funding provided by Government increasing each year by CPI less 1%.

The diagram clearly represents Tasracing's operational funding challenge in the absence of generating any additional revenue.

Total cash inflow (BLUE) includes government base funding, other revenue and race field fees.

Total cash outflow (RED) is the additional cost of meeting our obligations under the funding deed and relevant legislation.

The funding challenge can be addressed by three broad options:

1. Increase the price of race field fees
2. Reducing costs
3. Additional revenue

Revenue

A possible increase of race field fees from 10% to 12 % of gross revenue introduced in say year 3 would assist in addressing this cash position. This could represent an additional \$1M in revenue. An opportunity may exist in the medium term to increase the race field fee charge as other racing jurisdictions are pursuing this. Racing Victoria have recently released a report that will see that jurisdiction increase its race field fee charge to 13% of gross revenue (18% during Spring Carnival) in 2012.

Additional revenue must be generated by race field fees that depend upon performance. In order to meet our obligations under the Deed AND maintain a cash neutral position, Tasracing (3 codes) must generate additional wagering turnover of some \$32m in year 2, increasing to \$98m in year 5 as demonstrated in Figure 7 below.

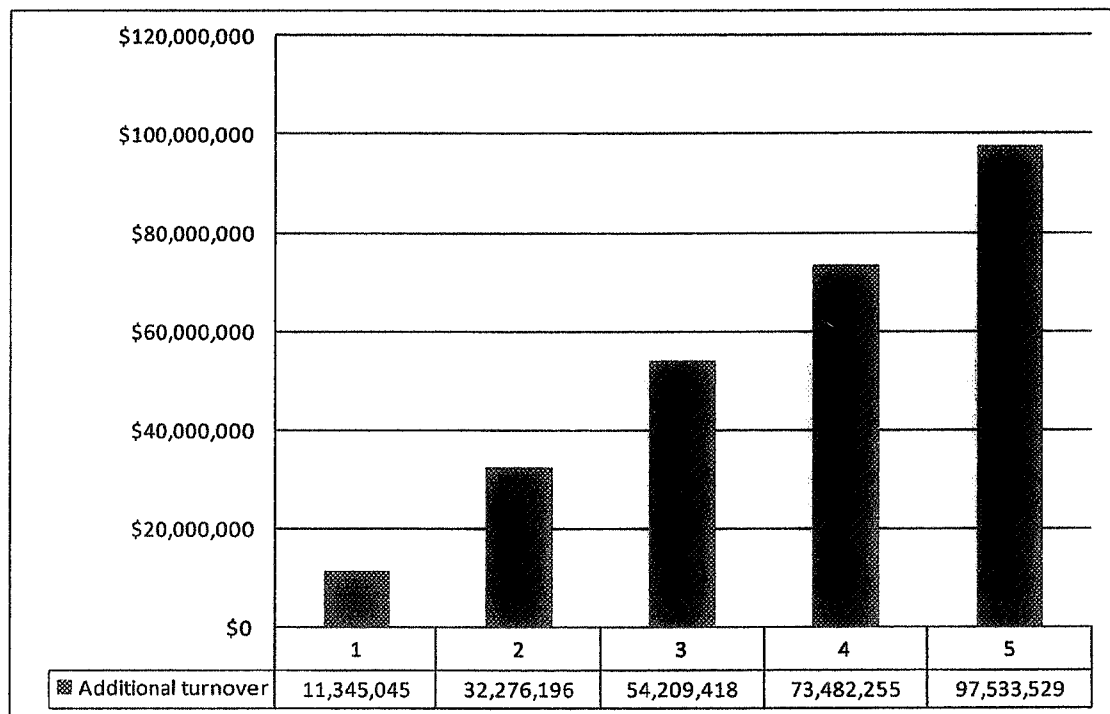


Figure 7



Expenses

Cost efficiencies are being examined or have been implemented in the following areas:

- Race day costs
- Marketing
- Assets
- Labour and administration expenses

A large portion of race day costs is for broadcast related purposes. Tasracing has initiated investigations of which a project is continuing in relation to future broadcasting requirements, with a view to providing cost savings over the long term.

The marketing budget was inherited from TOTE Tasmania, along with industry expectation in relation to expenditure for specific events and initiatives.

Efficiency in maintenance of assets is increasing as a result of investment in specialist equipment and infrastructure upgrades.

Tasracing has, in the current year, restructured the organisation to appropriately operate the business and deliver the outcomes of the Corporate Plan. The restructure resulted in an initial reduction in headcount.

Financial forecast

The initial Government funding of \$27M in year 1 provided base financial support but at the time, due to the inability to collect race field fees, was insufficient to meet Tasracing's operational needs due to the requirement to maintain the level of stakes paid to the industry.

Tasracing is aiming over time to achieve an improved financial position as a result of performance and supplement Government funding with externally generated revenue.

Table 3 below is Tasracing's target financial performance and cash outcome for the 5 year Corporate Plan period, providing a financial forecast as follows:

	2011/12	2012/13	2013/14	2014/15	2015/16
REVENUE					
Government base funding	28,060,200	28,621,404	29,193,832	29,777,709	30,373,263
Race field fees	4,877,775	5,024,108	5,174,831	5,330,076	5,489,979
Sponsorship revenue	1,110,000	1,110,000	1,110,000	1,165,500	1,165,500
Other (rental and publication)	1,174,609	1,209,847	1,246,143	1,283,527	1,322,033
Total cash inflow	35,222,584	35,965,360	36,724,806	37,556,812	38,350,774
EXPENDITURE					
Asset Maintenance	4,309,876	4,439,172	4,572,347	4,709,518	4,850,803
Tasracing operations	4,459,654	4,593,444	4,731,247	4,873,185	5,019,380
Club funding	1,313,509	1,352,914	1,393,502	1,435,307	1,478,366
Marketing	800,000	824,000	848,720	874,182	900,407
Stakes	21,589,000	22,236,670	22,903,770	23,590,883	24,298,610
Raceday costs	1,720,294	1,771,903	1,825,060	1,879,812	1,936,206
Total Cash outflow	34,192,334	35,218,104	36,274,647	37,382,886	38,483,773
*Net cash inflow/(outflow)	1,030,250	747,256	450,160	193,926	(132,999)
OTHER EXPENDITURES					
Additional loan servicing	226,000	226,000	226,000	226,000	226,000
Equipment replacement/minor works	800,000	824,000	848,720	874,182	900,407
**Net cash inflow/(outflow)	4,250	(302,744)	(824,560)	(906,255)	(1,259,406)
ADDITIONAL REVENUE/EXPENSES					
Additional/overseas revenue	-	600,000	900,000	1,350,000	2,025,000
Cost of generating additional revenue	250,000	257,500	285,225	273,182	281,377
Corporate plan related borrowings	(250,000)	-	-	-	-
***Net cash inflow/(outflow)	4,250	39,756	10,215	170,583	484,218
ADDITIONAL NON-CASH CHARGES					
Depreciation	2,942,448	3,526,048	4,228,048	4,326,048	4,326,048
TOTAL PROFIT/(LOSS)	(2,138,198)	(2,682,292)	(3,387,113)	(3,281,304)	(2,941,423)

Table 4

Government base funding is based on an annual CPI (assumed 3%) increase less 1% in accordance with the funding deed. Interest payments relating to the government funded loan facility have been provided separately and assumed to be funded by Treasury subject to approved business cases in accordance with the funding deed.

Amended race field fee legislation provides for collection to commence in 2010/11. A 3% year on year increase has been provided for in the financial forecast. This excludes any potential increase in the race field fee charge as discussed earlier.

Additional revenue from international or emerging markets is anticipated to substantially commence during 2012/13 at an initial base level of \$600,000 increasing to \$2,025,000 in 2015/16 (50% increase year on year).

Expenses are generally indexed by CPI and maintained at levels appropriate to support ongoing operations and achieve the goals of the corporate plan.

Stakes and industry development will be maintained in real terms in accordance with the funding deed with Government.

The five year forecast financial performance provides some surplus cash each year which is in accordance with Tasracing's financial strategy. The accounting loss in each of the years is sufficiently covered by non-

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Item 4: Review of the respective roles of the Department of Infrastructure, Energy and Resources (DIER) and Tasracing in relation to the administration of the Tasmanian racing industry.

Respective Roles

The racing industry has three main areas of operation – administration, integrity and wagering. The Tasmanian racing industry has a unique separation of these areas.

Activities related to administration and integrity services include:

a) Administration (Tasracing):

- Creation of the local Rules of Racing and associated policies and procedures; and ratification of national Rules of Racing
- Strategic planning for the Tasmanian racing industry
- State representation at national administration bodies (eg. Australian Racing Board, Harness Racing Australia and Greyhounds Australasia and their associated subcommittees and working groups)
- Racing administration – race meeting calendar, race programs, jockey travel, publication of the racing calendar
- Entries, race field creation and handicapping of thoroughbreds
- Prize money distribution
- Funding allocation to clubs and codes of racing
- Asset management
- Insurance administration
- Marketing and promotions (especially major racing carnivals)
- Racing vision and broadcast (including on-course cameras and Sky distribution agreements)
- Negotiation of commercial agreements
- Industry training
- Management of major sponsors
- Publication and distribution of racing industry publications
- Support to the breeding industry, including the management of horse sales

b) Integrity (Racing Services Tasmania, DIER):

- Execute operational activities that are a function of the Rules (as defined by Tasracing or national bodies). eg. licensing of participants and registration of clubs and venues

- Stewards ensure that the Rules are adhered to, and investigate, determine and where necessary, penalise any breaches of the Rules.
- (Stewards are) responsible for the conduct of race meetings throughout the State, in addition to the conduct of all persons registered in varying capacities in the various racing codes.
- Drug testing (both human and animal racing participants)
- Handicapping, entries and creation of the race fields for harness and greyhounds
- State representation at some national bodies (Chairman of Steward's Conference of the Australian Racing Board and Harness Racing Australia)
- Provide administrative assistance for the Tasmanian Racing Appeals Board (TRAB)

RST's primary responsibility in relation to the regulation and control of racing to ensure it is conducted with integrity, is a function of the Rules as laid down by Tasracing and/or national bodies.

An outline of some of the primary and secondary responsibilities in racing control and operations is presented in Table 1.

	Policy			Programming			Registration & Licensing			Entries			Create Race Field		
	T	H	G	T	H	G	T	H	G	T	H	G	T	H	G
Tasracing	•	•	•	•	•	•	○	○	○	•			•	○	○
RST	•	•	•		○		•	•	•		•	•		•	•

- Primary Responsibility
- Secondary Responsibility

Table 6: Partition of operational responsibilities between Tasracing and RST

Background

The original structure of the Tasmanian racing industry had three code councils with funding and administrative support provided by TOTE Tasmania. Integrity services for the industry were provided by Racing Services Tasmania (RST) a division of the Department of Infrastructure, Energy and Resources (DIER). The rationale for this separation was that it was "best practice" to have integrity services separated from the wagering arm of the industry.

The Tasmanian racing industry was restructured under legislation introduced into State Parliament in November 2008. Change was enacted to "strengthen" the commercial and integrity functions of the industry in response to a dynamic and competitive wagering environment. Drivers also included a need to over-come inter-code rivalry and provide the industry with a new business and customer focus, to assist in the development of better products with greater appeal to wagering customers locally, nationally and globally.

The three racing code councils were abolished with their existing powers and functions transferred to the new Tasmanian Racing Board (TRB) and the Director of Racing (RST). The reforms also allowed for the creation of an Integrity Assurance Board (IAB) to be created to adjudicate appeals arising from the statutory decisions of the Director of Racing (DOR). The TRB was modeled on the typical Principal Racing Authority (PRA) structure governed by an independent, skills-based Board. A PRA is recognised under the national rules of each code as the body, statutory or otherwise, that has the control and general supervision of racing within a State or Territory.

The TRB, which was created in January 2009, was tasked to develop a vision and plan to sell Tasmanian racing to new and emerging markets and make decisions in the best interests of the entire industry. Six months later the TRB was transformed into Tasracing, a State Owned Company (SOC), with two shareholders, the Minister for Racing and the Treasurer, who hold the shares in the company in trust for the people of Tasmania.

As a result of the reforms, TOTE Tasmania was released of its racing administration responsibilities allowing a dedicated entity (TRB and then later Tasracing) to be focused on the administration of Tasmanian racing.

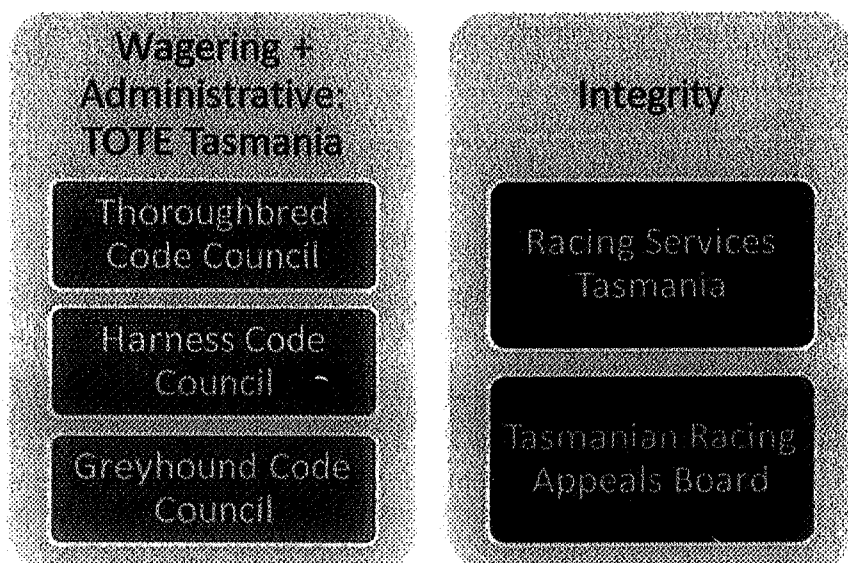


Figure 9: Original Structure up to January 2009

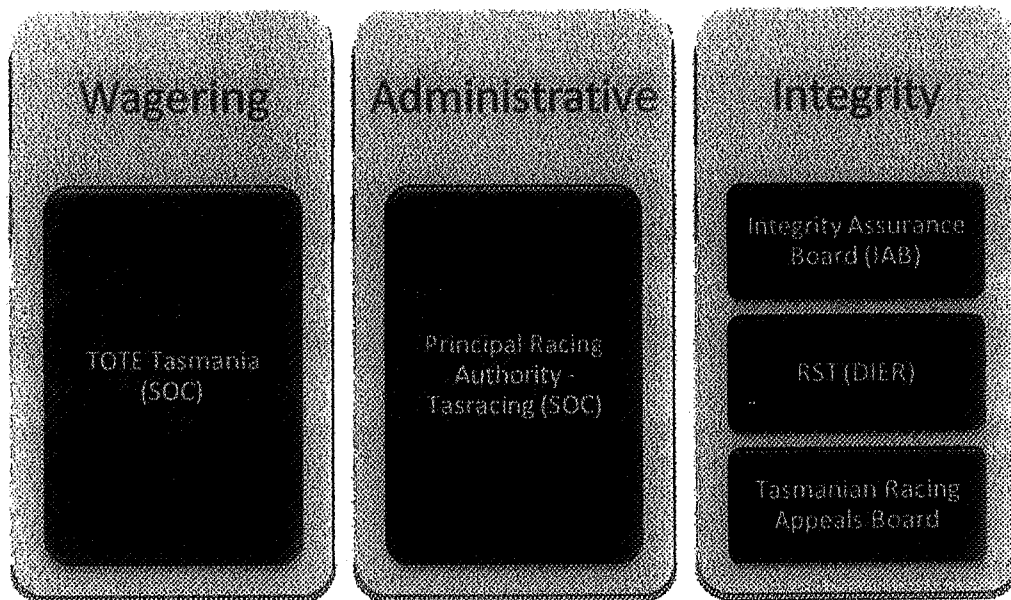


Figure 10: New structure under 2009 Reforms

Comment

All other states and territories of Australia have the integrity functions of racing incorporated into the PRA, as do most other international racing jurisdictions. The most probable driver for this is that there are operational efficiencies and synergies in grouping these functions into the one organisation. PRAs will have organisational structures that ensure that commercial and integrity operations function effectively whilst reporting to a single Board. The typical model in all other states is presented in Figure 3.

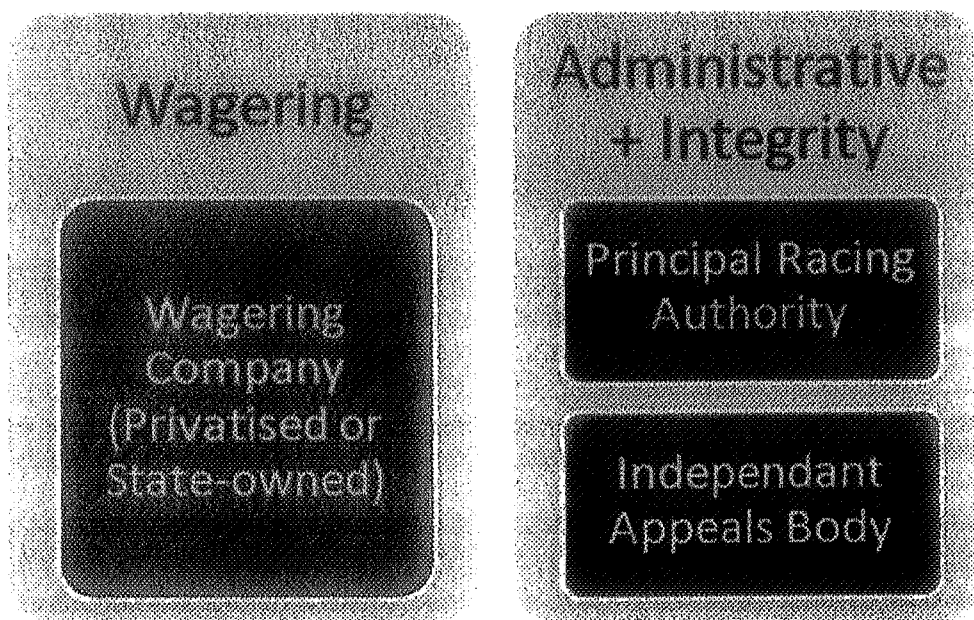


Figure 11: Typical model every other state of Australia and most international jurisdictions

Up until recently the harness industry in NSW did have a separate entity providing integrity services however this was amalgamated last year. Tasracing is not aware of any interstate jurisdictions moving to separate the integrity functions from their PRAs.

Most Australian States have privatised their wagering activities (eg. Tabcorp, Tattersall's etc) and these entities operate at an arm's length from the racing industry. One exception is Western Australia, where the wagering arm is still state-owned and RWWA encompasses all three industry segments (wagering, integrity & administration).

In Tasmania the drivers for the separation of integrity and administration functions related to a perceived conflict of interest between administration and integrity concerns. Given other racing jurisdictions are able to effectively provide these functions within a single entity, it may be timely to investigate whether this could be achieved in Tasmania.

Challenges

Tasracing is of the opinion that there are structural weakness in the current legislation in relation to the respective roles of Tasracing and RST, which could have the potential to compromise efficient outcomes for the effective governance of the Tasmanian racing industry.

In the two and a half years of operation Tasracing has identified areas of overlap between the responsibilities of RST's Director of Racing (DOR) and Tasracing. This overlap predominantly relates to functions and powers conferred on the DOR, as a result of a lack of clarity of wording utilised in the Racing Regulation Act 2004 ("the Act"). Areas of overlap include issues related to integrity, representation and in the interpretation of "control" of each racing code. It is Tasracing's belief that this ambiguity has led to divergent understandings of the boundaries of each organisation, leading to inefficiencies and a loss of value to the industry.

The Act does not provide guidance as to how these ambiguities, should they arise, be resolved.

The Act confers to the DOR the responsibility for "regulating and controlling racing to ensure that it is conducted with integrity, researching and investigating racing integrity and related matters and liaising with authorities and persons responsible for racing integrity".

Tasracing believe that this clause is exceedingly wide and that although the powers of the DOR to regulate racing are limited to "Integrity and related matters", these matters are not specifically defined under the Act. "Integrity and related matters", include matters which also fall within the statutory responsibilities of Tasracing such as rules, policies, consultation responsibilities, representation and racing control.

The unique separation of racing governance responsibilities in Tasmania has the potential for confusion in the minds of participants and other stakeholders.

Next Steps

Whilst in some quarters it may be viewed that the continued separation of the integrity function is a critical issue, Tasracing believes the more important question is whether the current structure is the most efficient and effective for taking the industry forward into the future?

The question Tasmania needs to consider is whether it can afford to maintain another administrative/integrity body because of adherence to past practice, based on integrity perceptions that were applicable to the previous TOTE model?

The PRA model, as adopted by every other mainland state of Australia and nearly every other international jurisdiction, recognises that integrity services are one function of the racing administration function and it is sensible and efficient to house these functions under the umbrella of one dedicated organisation. In addition, it is most probable that cost savings could be realised if the regulatory framework were restructured in a more efficient manner.

After two years of this regulatory structure, consideration may be given to an independent review the effectiveness and efficiency of the current framework.