



PARLIAMENT OF TASMANIA

**SELECT COMMITTEE INTO THE
ROLE AND FUTURE VIABILITY OF TOTE TASMANIA**

Interim Report No. 2

*Brought up by Mr Booth and ordered by the
House of Assembly to be printed*

MEMBERS OF THE COMMITTEE

Mr Booth (Chairperson)
Mr Best
Mr Gutwein
Mr Shelton
Mr Sturges

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1 APPOINTMENT & TERMS OF REFERENCE

- 1.1 The Honourable Member for Bass, Kim Booth M.P., the eventual Chair of this Committee, on 25 May last proposed an amendment to the motion that the Sale of TOTE Tasmania Repeal Bill (No. 28 of 2011) (the Bill) be read a second time.
- 1.2 Such amendment, having been moved was debated and resolved in the affirmative. The final resolution of the House was as follows:-

Resolved, That: -

- (1) *The Sale of TOTE Tasmania Repeal Bill 2011 (No. 28) be referred to a Select Committee of the House of Assembly for investigation and report thereon; and that: -*
 - (2) *The appointed Select Committee have the power to send for persons and papers, have leave to sit during any adjournment of the House exceeding 14 days, with leave to report from time to time and to adjourn from place to place, to inquire and report upon the Sale of TOTE Tasmania Repeal Bill 2011 (No. 28), including the following matters:*
 - (a) *to investigate and examine the potential impacts should the TOTE Tasmania (Sale) Bill 2009 be repealed;*
 - (b) *to examine the role of TOTE Tasmania within the racing industry, and to advise on options regarding the future of TOTE Tasmania within a modern and viable racing industry;*
 - (c) *other matters incidental thereto; and*
 - (d) *provided, if the House is not sitting, the report may be presented to the Speaker and then the contents of the Committee report may be made public.*
 - (3) *The Committee shall consist of 5 members being 2 from the Government nominated by the Leader of the House; 2 from the Opposition nominated by the Leader of Opposition Business in the House; and 1 from the Tasmanian Greens nominated by the Leader of the Greens.*
 - (4) *The committee report by Tuesday, 22 November 2011.*
- 1.3 Subsequent to the tabling of its Interim Report of the Committee on 25 October 2011 the Committee's Terms of Reference were amended to the following:

That the Select Committee into the Role and Future Viability of TOTE Tasmania investigate and report upon: -

- (a) *the potential impacts should the TOTE Tasmania (Sale) Act 2009 be repealed;*
- (b) *to examine the role of TOTE Tasmania within the racing industry, and to advise on options regarding*

the future of TOTE Tasmania within a modern and viable racing industry; and

(c) *other matters incidental thereto.*

- 1.4 The reporting date for the Committee was extended to Friday, 30 March next.

2 CONDUCT OF THE INQUIRY

- 2.1 The Committee resolved at its first meeting, to invite by way of advertisement on the Parliament of Tasmania Internet page and in the three daily regional newspapers, interested persons and organisations to make a submission to the Committee in relation to the Terms of Reference.
- 2.2 The Committee has, to date, met on 7 occasions and heard evidence from 16 witnesses.

3 PROGRESS REPORT

- 3.1 It is the desire of the Committee to produce a final report to the House which fully addresses the terms of reference.
- 3.2 After hearing evidence in public and in camera from the main stakeholders at the meeting of the Committee on 18 November last, the Committee came to the view that an Interim Report was necessary to advise the House of its concerns in relation to the possible sale of TOTE Tasmania in the immediate future.

4 CONCLUSION

- 4.1 The Committee believes that an immediate sale of TOTE Tasmania is premature and contrary to its Terms of Reference. In particular Term of Reference b) which provides for the Committee to:
 - b) *examine the role of TOTE Tasmania within the racing industry, and to advise on options regarding the future of TOTE Tasmania within a modern and viable racing industry.*

- 4.2 The Committee is unable at this stage to make any recommendation as to the future of TOTE Tasmania until all matters raised in the evidence have been properly considered.
- 4.3 The Committee feels that the evidence thus far presented contains vastly divergent views on the sale or retention of TOTE Tasmania.
- 4.4 Treasury on the one hand has a short-term focus on the sale value of TOTE Tasmania, whilst the racing industry has a long-term view as to the viability of the industry without TOTE Tasmania and the need to create a stream of income independent of Government.

Mr Terry Clarke, former CEO of TOTE Tasmania highlighted the Committee's dilemma when noting that:

"The overriding objective should be to provide a basis for the Tasmanian racing industry and wagering industry to survive or fail on its own business capabilities and strategies to maximize the returns therefrom and remove completely the exposure of the public of Tasmania which it now has to both entities and which cannot be justified as a long-term arrangement"

"The key issue for the Committee is to determine whether the current business of TOTE Tasmania can be changed to provide a basis on which a direct or indirect connection between it and Tasracing can be achieved so that the public of Tasmania does not have to continue to underwrite the funding of an entire industry ..."

- 4.5 The Committee at this point is not convinced that a compelling case on the risk of selling or not selling TOTE Tasmania has been made.

5 RECOMMENDATIONS

- 5.1 Given the above the Committee recommends that TOTE Tasmania should not be sold unless and until the Committee has so concluded and has reported same to the House.
- 5.2 The Committee further recommends that the Treasurer provide the House with a written assurance that the above recommendation will be honoured and that such written assurance be provided to the House by 12 noon on Wednesday, 23 November 2011.

Parliament House
HOBART
22 November 2011

Kim Booth M.P.
CHAIR

6 DIVISIONS

The following Divisions were recorded in the proceedings of the Committee.

An amendment was proposed by Mr Gutwein that the following words – “and that such written assurance be provided to the House by 12 noon on Wednesday, 23 November 2011” – be added to paragraph 5.2 after the word ‘honoured’.

The Committee divided.

AYES	NOES
<i>Mr Booth</i>	<i>Mr Best</i>
<i>Mr Gutwein</i>	<i>Mr Sturges</i>
<i>Mr Shelton</i>	

The question was resolved in the affirmative.

On the question that the Chairman’s Draft Interim Report as amended be adopted as the Report of the Committee. The Committee divided.

AYES	NOES
<i>Mr Booth</i>	<i>Mr Best</i>
<i>Mr Gutwein</i>	<i>Mr Sturges</i>
<i>Mr Shelton</i>	

The question was resolved in the affirmative.

7 Dissenting Statement

Having opposed the adoption of the Chairman's amended Draft Interim Report the Government Members of the Committee provided the following dissenting statement:

We dissent from the Chairman's Interim Report 2, endorsed by a majority of the Committee because it fails to take into consideration or publish important evidence provided by Mr. Martin Wallace, Secretary Department of Treasury and Finance Tasmania. In fact choosing to publish none of his evidence. Mr. Wallace clarifies the risk to the value of TOTE Tasmania due to the inherent risks through market volatility. The direction of the betting industry, which TOTE is forced to compete in and the capital required from the state government for TOTE to reposition itself. This important factual evidence is missing from the Interim Report 2 and I believe is required if not obligated to be responsibly provided to the House so that fully informed decisions can be made by Members. To support the non sale of TOTE there will be a need to direct money from the State Budget away from Health and Hospitals to prop up a betting agency and even then there are high risks in this all being lost.

Mr Martin Wallace, Secretary Department of Treasury and Finance Tasmania highlighted the Committee's dilemma when noting that:

"Treasury's view that the Government is much better suited to being a regulator of wagering businesses than an owner. As an owner, the Government is directly exposed to the commercial risks that are inherent in the gambling industry. The capital outlay required to replace the core wagering system is challenging for the Company because it also has relatively high borrowings and little surplus cash. In addition, and perhaps the biggest risk to TOTE's ongoing viability, is the threat presented by the increasing popularity of fixed odds betting. To retain its customer base over the longer term, TOTE will need to significantly enhance its fixed odds betting products. The fixed odds betting market is intensely competitive and inherently risky, and it would be a significant concern from a Shareholder perspective for TOTE to pursue growth in this market. TOTE's investment in Sports Alive is a case-in-point. TOTE invested in that business as a means of establishing greater strategic control over its fixed odds betting product. Unfortunately, given the risks in fixed odds betting, Sports Alive subsequently went into liquidation. TOTE has lost at least \$5 million on this investment. This is a prime example of the difficulties facing TOTE under Government ownership."

“Why is now an appropriate time to consider the sale of TOTE, the Government can achieve maximum value from selling TOTE now, despite its current environment, primarily because many of the challenges facing TOTE can be better managed by private sector operators. In particular, private sector operators, control large parimutuel pools, have greater access to growth capital, have significant economies of scale, have established fixed-odds betting businesses are able to better manage risk, such as the loss of wholesale customers. The Sale of TOTE Tasmania has been a vexed issue for Government in recent times. It is clear that there is a narrow window for a potential sale of TOTE, and it is critically important that the Government is allowed to explore options and potentially enter into a sale of a non-core asset if it believes the timing and the sale price is appropriate.”

Additionally TOTE itself in evidence has forecast an array of future possibilities from adventurous risky market investments, which it feels may possibly deliver a good financial position but may in fact deliver a very bad one. In the public component of the Committees Hearings we were told by TOTE that it requires \$20Mill to follow it’s adventurous plan and in Camera we were provided information upon additional significant amounts money that would be required above the \$20Mill so that the plan can be undertaken.

Whilst the racing industry has a long-term view as to the viability of the industry without TOTE Tasmania and the need to create a stream of income independent of Government.

Mr Terry Clarke, former CEO of TOTE Tasmania highlighted the Committee’s dilemma when noting that:

“The overriding objective should be to provide a basis for the Tasmanian racing industry and wagering industry to survive or fail on its own business capabilities and strategies to maximize the returns there from and remove completely the exposure of the public of Tasmania which it now has to both entities and which cannot be justified as a long-term arrangement”

“The key issue for the Committee is to determine whether the current business of TOTE Tasmania can be changed to provide a basis on which a direct or indirect connection between it and Tasracing can be achieved so that the public of Tasmania does not have to continue to underwrite the funding of an entire industry ...”

For these reasons we believe the recommendations should be as follows

- 1.1 Consideration be given to a vendor financed purchase of TOTE by the racing industry to achieve it's long-term view to create a stream of income independent of Government.
- 1.2 Given the above the Committee recommends that it is up to the Government to decide if TOTE Tasmania should be sold or not sold and be sponsored further through State Government hand outs.