

REVISED CORRECTED TRANSCRIPT*

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2005–06

Melbourne — 9 June 2005

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Witnesses

Mr J. Pandazopoulos, Minister for Gaming and Minister for Racing;
Ms P. Armytage, secretary, Department of Justice; and
Mr R. Kennedy, executive director, Office of Gaming and Racing.

*Corrections to the transcript by one or more of the witnesses have been received and accepted after the initial publication date.

The CHAIR — I welcome Ms Penny Armytage, Secretary of the Department of Justice, and Mr Ross Kennedy, executive director, Office of Gaming and Racing. Minister, could you give us a brief presentation on the portfolios. I understand you are going to do racing first and then in about half an hour we will do gaming, knowing that there will be the opportunity if people wish to ask questions.

Overheads shown.

Mr PANDAZOPOULOS — The racing portfolio forms part of the gaming and racing industry management output of the Department of Justice. The output provides strategic policy advice to myself as both Minister for Gaming and Minister for Racing, and on the responsible management regulation of both the gaming and racing industries. Measures of performance in 2004–05 are refined to reflect the full scope of the licensing policy and research functions of the Office of Gaming and Racing and have regard to recommendations made by the committee also in 2003.

The output cost of \$5 million includes continuation of funding of \$375 000 for the Living Country Racing program, which I will refer to later in the presentation. The significant variation of racing licences, appeals and permits reflects the triennial renewal of bookmakers licences which became due in 2004–05 and the apparent reduction of approximately \$3 million on the expected 2004–05 outcomes largely reflects the cost of the commercial gambling licence review, which will be funded by access to the department's operating surplus in 2005–06.

There is no question that racing in Victoria remains a national leader and under the government has consolidated its position. It is an industry of importance to the Victorian economy as well as community life and cultural heritage, and it fits well with my tourism portfolio responsibilities as well. The industry is a significant employer, particularly in regional Victoria where around half the industry's economic impact of \$2 billion is generated.

The Spring Racing Carnival alone resulted in an economic benefit to Victoria of over \$467 million in 2004, including \$74 million of economic benefit to country Victoria, so that just keeps getting bigger and bigger. We have to circulate for you the economic impact assessment of the Spring Racing Carnival. In spite of inclement weather, as some people might recall, there were attendances of over 650 000 across the state, more than 100 000 of whom were from interstate and overseas, so it is very big from a tourism point of view. But it is not just in spring time that racing is important, but also in regions. The three-day Warrnambool Cup carnival in May demonstrates how important racing is to local communities, and Country Racing Victoria calculates the contribution of racing to regional economies to be over \$900 million per annum, and to see investment in the industry, both capital and jobs, over the last five years of in excess of \$5.2 billion. You have the economic impact figures there. Also from racing, returns to owners, who are the main drivers of the racing product, reached \$115 million in 2003–04, which is good news.

I want to go briefly into the three different sectors. Thoroughbred racing continues in its role as the national leader in this sector. Confidence in the strength and integrity of Victoria's racing has seen Victorian racing product dominate national wagering turnover. Interestingly, in 2003–04 turnover by other state TABs on Victorian racing was \$658 million more than what was wagered in Victorian TABs on interstate racing. By comparison, New South Wales is a net importer of racing product, betting almost \$1 billion more on other states' racing than on their own, so Victoria is well placed in the thoroughbred area, but also well placed in harness racing.

Victorian harness racing continues to enjoy further growth in Victoria. The latest figures indicate an increase of just over 6 per cent up to April 2005. Again, it has increased its market share of Tabcorp wagering turnover. Victoria is the only Australian state where harness racing's market share is greater than the greyhound code. Harness racing has experienced particularly good growth in country Victoria where attendances at feature country race meetings have continued to increase, and attendances at country harness cup meetings were up by 28 per cent in the current racing year. On-course wagering has increased by 32 per cent and returns to harness racing during 2003–04 totalled \$27.3 million.

There is also good news on greyhound racing. It has hit the trifecta. I am pleased to say that the greyhound racing industry also increased its total wagering turnover by 8.4 per cent in 2003–04. This resulted in the final market share of 15.2 per cent, which is once again an unprecedented figure for greyhound racing in Victoria, and returns to greyhound owners totalled \$16.7 million over 2003–04.

The mission of the racing program is to secure the success and pre-eminence of Victorian racing in the long term, both at national and international levels, and the primary objectives are to ensure the probity and integrity of racing

which is so fundamental to public confidence and maximising racing's economic and community contribution. Achievements in 2004–05 include the racing community development fund, which is \$8 million over two years, which is a rebate of gaming machine levies back to the industry that targets key initiatives in the racing industry that the government ticks off on. There was the Living Country Racing program. We are also continuing work at a national level to get a fair return for Victorian racing from interstate and corporate bookies, and we have introduced legislation to minimise the diversion of wagering dollars away from Victoria and the resultant impact on wagering taxes. We have also introduced legislation to ensure that racing remains free from the influence of organised crime. At the national level we have investigated practical solutions to threats posed by the advent of betting exchanges and participated in simulation exercises on equine disease management. Parliament's Economic Development Committee is conducting an inquiry into the thoroughbred and standardbred industries, and this is about growing the breeding sector. We have also developed a comprehensive racing tourism plan which we are happy to also pass around for the committee.

Priorities for 2005–06 are to monitor the efforts of harness racing and greyhound racing as they implement stakeholder consultation; to review governance structures in the harness racing sector; to continue to work at the local and national levels to support the efforts of our racing industry to gain a fair share of return from interstate and overseas bookies; to work to protect Victoria's interests in the merger between Tabcorp and the TAB; and to work with the racing industry to ensure adequate support for less advantaged workers. That is it.

The CHAIR — Thank you very much. Before I ask my first question can I place on record that you are the winner of the prize for actually tabling the economic benefit of what many ministers have said. You actually provided the documentation to us, so thank you very much. I want to go the economic impact of the racing industry and the 2004 Spring Racing Carnival. I presume you are going to talk to the document you have circulated. Could you give us some detail of what the economic impact of the racing industry over the past 12 months was, and specifically the Spring Racing Carnival. Again, thank you for tabling this report.

Mr PANDAZOPOULOS — The thing we are very conscious of is that Victoria has one of the best racing products in the world. You might be interested to know that we are not only recognised as a national leader but Victoria is generally ranked as in the top four racing industries worldwide. So there is a lot of focus not only from interstate but from overseas about what we do, and that is the key driver. It is a \$2 billion industry. It has about 60 000 jobs, and the majority of those are in regional Victoria. Of course it is not just the race track; it is about the breeders, the jockeys and really everyone who is involved in racing. There are flow-on benefits and importantly racing is, after the AFL, the second biggest participation sport with 2 million Victorians alone of the 5 million around Australia attending racecourses. The spring carnival is what puts us on the map globally, and is what people know about us. It is obviously very big from a tourism point of view. I did say it is \$467 million. It attracts 25 000 international and 75 000 interstate visitors to Victoria, making it certainly one of the state's biggest tourism events from that point of view. But of course the carnival is not just Melbourne. It is also about country Victoria because a number of country cups are part of the Spring Racing Carnival as well as a number of the metropolitan tracks in Melbourne, and the participation or attendance at country events was also very high. Interestingly fashion spending is a key part of the economic impact. I think 49 000 hats were sold, 42 000 pairs of shoes and nearly 27 000 handbags for about \$16 million of fashion spending.

The CHAIR — We have asked for facts and figures, but that is another prize!

Mr PANDAZOPOULOS — If I can say — seeing we are talking about horses — there are a few horses outside at the front today and I reckon that every time there is a mountain cattlemen event in Melbourne, the Driza-Bone sales also go up, and the hats, so I think it is very similar; it is good publicity. The race is obviously more than racing is the point of view I am trying to make. It is about fashion, it is about hospitality and it creates 4268 full-time equivalent jobs. Overall the racing industry generates some \$16 million in tax revenue for the state. As you know, the state tax revenues go to the Hospital and Charities Fund, so they are major funders of our health system out of gambling taxes.

Mr CLARK — Can I ask, Minister, whether the government supports the proposal of the Harness Racing Victoria's V3 strategy that will see seven smaller racing clubs lose all of their TAB meetings?

Mr PANDAZOPOULOS — It is fair to say that the government has been concerned with the way Harness Racing Victoria has handled this. As I have informed the Parliament, we do not have powers under the Racing Act to direct them. Parliament resolved that many years ago, that they deliberately did not want the minister

to direct either harness racing or greyhound racing despite their being statutory bodies, because they are not directly funded by government. We have met with Harness Racing Victoria, as I have met with the clubs and local government areas. Yes, there are seven affected clubs that will have their meetings transferred. That was allowed by legislation in 1998. A number of clubs have availed themselves of that. Robinvale, for example, used to have Robinvale harness meetings; they run them out of Mildura now. There are others similar in other parts of Victoria. We have had meetings with them; we have offered state assistance; we have had the Minister for State and Regional Development meet with them. They have — understandably, I guess — said, ‘We do not think it is right for the government to be funding capital works upgrades. That is why we have never asked for them. We have to be masters of our own destiny and fund our investments and strategic planning from within our own budget resources which are based on turnover’. We still have not been satisfied with that because it is our view that natural justice has been denied to local clubs and communities. That is why I have indicated that we will review the corporate governance structure of Harness Racing Victoria.

I have been concerned for a long while now; what is the use of having statutory bodies if you cannot direct them? Is the industry mature enough now to self-manage, to manage itself as the thoroughbred sector does? It is my view that harness racing has reached that stage, so it is my intention to do significant work over the next financial year in having a look at appropriate governance models where you have appropriate independent industry stakeholders with representative structures, similar to Racing Victoria. I think Racing Victoria as a separate company does very well for the thoroughbred sector and I do not see why a similar model could not work for the harness sector. I think if we create new governance structures rather than a higher body, on the basis that the minister cannot direct them and — they are independent and they are doing the best thing for the industry, I am pretty sure that that is their view. They genuinely do believe they are doing the best thing for the industry, and I guess the results in recent years indicate that they have been doing a pretty good job in that regard. But it has been my concern for a while; do you need to have statutory bodies? Statutory bodies normally have different reasons for being formed and I think the reality is that racing has evolved in a different way.

I have been thinking along these lines. I guess the recent decisions of Harness Racing Victoria’s V3 plan have really confirmed my view of why we need to change the structure, so we intend to do that under a new structure working together with the seven affected clubs — because there are local community user groups that use those facilities. As we know, race clubs are community facilities. They are not just there for racing. Many other sporting clubs use the facilities. Particularly in regional areas there is a cross-subsidy from racing to other community uses. It is important that we encourage the continuation of those clubs and training at those clubs. I will work together with those clubs for their short-term needs and also look at some of the longer term needs together with Regional Development Victoria. Hopefully under a new governance model, subject to local community support, representations will be made to the new independent body of whoever governs harness, and the case will be put about reintroducing race meetings in some of those locations. Some of the tracks were marginal decisions; they were hard decisions for Harness Racing Victoria to make, like Hamilton. This is the best way forward. If industry can self-manage, it should always do so.

Ms ROMANES — Minister, I note that under the gaming and racing industry management output there is a measure, living country racing program grant applications processed. The target in 2005–06 is 70. Can you tell the committee what benefits accrue to Victorian communities as a direct result of the living country racing program?

Mr PANDAZOPOULOS — We introduced this as a recognition that it is really the only key area where we put some investment back into capital works at the local country clubs. Some of the clubs are not eligible for industry assistance because they are training facilities. For example, at Bacchus Marsh harness training and trialling goes on, but it is not a harness racing track. It is a racing community, but it is not eligible for funds under distribution from racing codes. As I responded in my previous answer, it is a recognition that they are community facilities. If we can encourage greater utilisation through small investments, then we should do so in partnership. The dollars we provide are at least matched, if not more being provided, by race clubs and local communities themselves. Since the program started in 2000 we have funded 81 country racing clubs and 145 minor capital works projects which provide benefit to those communities. They have included playgrounds and female driver change facilities. At the smaller tracks, which might only have a few meetings a year, the facilities were not constructed to recognise that there are female jockeys and drivers. In harness racing there are so many female drivers now, including the leading drivers. They are some of the projects we have undertaken. They have assisted communities.

With the drought we have funded a number of initiatives at country clubs to minimise the use of water. With funding we provided Maryborough Harness Racing Club has been able to identify that there is water near the track — strike a bore there and suddenly you are using local bore water rather than potable water. That is one of the innovative little things that can be done with a bit of state investment. It goes a long way towards making a major difference. There are other things that are important but might not end up being high priorities for clubs, because of a lot of them have their major issues in capital works around occupational health and safety. There are serious issues there. That has been part of the driver for Harness Racing Victoria. That is where it has to put its dollars as a priority. We provided that incentive. To look at some examples: the Manangatang Racing Club purchased a large portable cool room it can make available to the broader community. We provided \$7500, so it is not just a cool room during race days but any community activities held at the racetrack can use it. In Manangatang the racetrack is the heart of the community. They rent it out. I had many other examples; how disappointing that I will have to stop.

Ms ROMANES — And the level of grants per annum?

Mr PANDAZOPOULOS — It is \$375 000 a year over four years.

The CHAIR — You mentioned women and harness racing. Having had the opportunity to attend the Pearl Kelly awards as your representative, which were utterly sensational, I would be interested in what percentage of that \$375 000 goes to upgrade facilities to ensure women have access to high standards of amenity just as men do. That can be taken on notice.

Mr PANDAZOPOULOS — We are happy to provide that.

Mr RICH-PHILLIPS — Minister, I would like to ask you about the impact on the racing industry of the government's new \$3000 tax on gaming machines. The tax raises \$45 million from EGMs, and the racing industry estimates that under its JV with Tabcorp the cost to it is \$5.1 million. The budget appears to provide additional compensation to the racing industry for this latest change of \$3.5 million, leaving a shortfall of \$1.65 million. My question is: will the government provide additional compensation up to the level of the cost to the racing industry of this latest change, and is this transitional compensation ongoing beyond the 2005–06 year?

Mr PANDAZOPOULOS — The member would be aware that the tax and rebate is an issue for the Treasurer. The rebate that has been provided to the next financial year is \$3.5 million, and there are ongoing discussions with the racing industry. From our point of view, we already have \$8 million over two years that goes to the racing community development fund. It is our view that the \$3.5 million rebate this year will be added to that fund. We believe if government sets taxes and decides to rebate industry, it should show the community where that money is going. At the end of the day it is taxpayer dollars that are returned to the racing industry. We are working with the racing industry about where those dollars go. It is very happy to be part of that.

We were part of a strategy just the other day where I launched Operation Pegasus, which is an equine disease simulation which was partly funded out of the racing community development fund. It is at the state emergency centre in Nicholson Street. It looked at a simulated exercise of an equine influenza outbreak in Victoria. It was very interesting. We are also funding a number of occupational health and safety upgrades; jockey and industry welfare upgrades; disease control programs; promotion of women in racing; purchase of new horse ambulances; and harness racing junior development programs. We believe government taxes being rebated to industry should go to things which are quite clearly additional and of community benefit. But there are ongoing discussions with the racing industry about all sorts of issues in the future, including this one.

Mr RICH-PHILLIPS — Given that you are both racing minister and gaming minister, are you party to the discussions with Treasury about the industry getting the extra \$1.6 million it is entitled to?

Mr PANDAZOPOULOS — I am party to discussions with government about all sorts of objectives the racing industry has for the future.

Mr RICH-PHILLIPS — Are you advocating on its behalf on this issue?

Mr PANDAZOPOULOS — I am always advocating for the racing industry.

Mr MERLINO — Minister, I refer to the racing tourism plan 2005–07, a copy of which you provided to every member of the committee. Could you outline the potential benefits to the government and the racing industry of this plan?

Mr PANDAZOPOULOS — From a tourism point of view we have a number of industry plans — food and wine plans and adventure tourism plans — and what we really did not have was a racing tourism plan, which is recognising that the racing industry is an important part of the tourism industry as well. There are some very good examples of where racing works from a tourism point of view, such as the Spring Racing Carnival. But there are more opportunities beyond that carnival in regional areas, where we can grow a better understanding of the tourism industry in racing, and it is about trying to get more yield at a number of events. So beyond the Spring Racing Carnival, how can we get more visitors, because at the end of the day the racing industry wants more people on course? If you get more people on course, the objective in tourism is not just to get people to turn up and spend their bucks on course, you want them to stay overnight, explore the region, and use racecourses to showcase the region.

There are a number of examples of where that is happening, such as Taltarni Avoca Cup, which showcases the food and wine of the Avoca–Pyrenees region. Can we do more of these sorts of things? Can the racing industry package up accommodation and travel as well as tickets to the races to get visitors from Melbourne and other parts of Australia? So that is what this strategy is really about, recognising that there is more that we can do, working together. It identifies opportunities and strategies where the racing industry can be involved. It also recognises that racing clubs have good facilities; some racing clubs are well geared for hosting conferences in regional Victoria, so can you work with them and the local tourism industry to attract conferences to be hosted by race clubs, with accommodation provided in the nearby town?

There is also the question of how we showcase racing. At the moment, together with the Victoria Racing Club, Tourism Victoria, Invest Victoria, the City of Melbourne, the Melbourne Convention and Visitor Bureau there is the Melbourne Cup on Tour. That went around Australia two years ago, and last year it did Australia and New Zealand. This year it will do the same, and it has already done Ireland and the United Kingdom, and later on this year it will do Singapore, Hong Kong and Dubai. It is all about showcasing something the world knows about — taking the cup to the world and letting your tourism industry get an experience of it. There are a whole lot of things that you can do under the heading of racing tourism, which is about building profile, increasing visitation, yield and length of stay in regional areas, and from that growing the reputation we have, as one of the top four racing destinations in the world

Mr CLARK — Minister, you may have covered this during the part of your presentation that I missed, but what are the reasons why the total output costs for the gaming and racing industry management is \$5 million for 2005–06 compared with an expected outcome for 2004–05 of \$8.1 million, and within that what is happening with funding for the country racing program, which I gather to date has been funded to the extent of about \$375 000 a year?

Mr PANDAZOPOULOS — I did cover it in my presentation. This was basically close to \$3 million. It appears as a reduction, but the licensing review now is coming out of DOJ surplus.

Mr CLARK — And the country racing program — is that continuing at the same or a different level?

Mr PANDAZOPOULOS — At the same level.

Mr CLARK — At \$375 000?

Mr PANDAZOPOULOS — Yes.

The CHAIR — Minister, would you like to move to your overheads for gaming?

Mr PANDAZOPOULOS — Yes. The gaming portfolio includes the Office of Gaming and Racing, which involves policy advice; the Victorian Commission for Gambling Regulation, which is the regulator; the Advocate for Responsible Gambling, which is a conduit between different parts of industry and community to government; the Responsible Gambling Ministerial Advisory Council appointed by me of industry and community stakeholders, so we can plan the future of how we reduce harm and problem gambling; and the Gambling Licences Review Project, which I will talk about later. The functions under the gaming portfolio include the regulation of

gambling, gambling policy development, gambling research and gambling licences review. Under regulation it is about fostering responsible gambling, licensing and equipment approvals, investigations and compliance audits and casino supervision.

The commission comprises a part-time chair and deputy chair, with a full-time executive officer, and I have reported in the past that we have streamlined and made the commission more effective. Sessional commissioners have also been appointed to assist the commission as required from time to time in conducting hearings or undertaking special investigations; and as well as commercial gambling activities an important function of the commission is the regulation of gambling for community fundraising purposes, such as raffles, bingo and lucky envelopes. Gambling policy and research is about day-to-day gambling policy advice, development of policy frameworks and legislative proposals for responsible gambling practices, commissioning of gambling research, consultation with gambling stakeholders, and strategic planning for the future of gaming.

In relation to the research program, the functions of the previous gambling research panel are now conducted under a new structure within the Office of Gaming and Racing, and like the gaming policy advice function, the gambling research function falls under the gaming and racing industry management output. An independent peer review panel of expert researchers is working closely with the ministerial advisory council to develop and review new gambling research projects. Independent peer review panels are an important focus on getting gambling research methodology right. It is an established practice in many other research fields, such as in the medical field, and there is a national agreement that all research needs to go through this process to inform those interested in setting research programs and agendas about the opportunities and limitations of different research methodology. A new research plan is currently being considered by the ministerial advisory council in conjunction with the peer review panel, and all research projects and a published work plan of the former research panel will be completed and the results released.

A cross-departmental steering committee is also being formed to guide a whole-of-government approach to responsible gambling, and Victoria also hosts it as secretariat of the national gambling research program, which was established under the auspices of the ministerial council on gambling. That program involves \$5 million over five years provided by all jurisdictions, including Victoria, and that is a recognition that Victoria is a leader in gambling research. The licences review is being undertaken in two stages. The public lottery licence review commenced in July 2004; the electronic gaming machine, wagering and Club Keno licensing reviews will commence later this year; the lotteries licence review is well advanced, with the registration of interest documentation released on 19 May. The next line of my submission shows our output figures, and we have dealt with some of those with the racing discussions we have had. In terms of the regulation of gambling, again some of the output figures there show licences, compliance, services, timeliness and so on. Gaming and racing industry management is shown there as well, and I am happy to take questions on that.

Key achievements: commencement of the Gambling Regulation Act; establishment of the Victorian Commission for Gambling Regulation; the establishment of the Responsible Gambling Ministerial Advisory Council, and the introduction of the mandatory community benefit statements. We have also seen the introduction of the Gambling Regulation (Amendment) Act, the Gambling Regulation (Further Amendment) Act, the Gambling Regulation (Public Lottery Licences) Act, and the Racing and Gaming Acts (Police Powers) Bill. We have also, in 2004-05, banned gaming machine advertising, given councils more local council control over gaming machine placement and introduced mandatory responsible gambling training for venue staff that were working on a training program, and a review panel has been put in place to review our regional caps on gaming machine numbers in Victoria.

The next table focuses on electronic gaming machine expenditure impacts, which I think is worth having a look at. The pink line on that table reflects what was projected compared to what was actual — and these appear in budget papers. That is telling us that there has been a sizeable drop in gambling revenue. I think we are the only jurisdiction around the world which has seen a decline in gambling revenue as a result of a number of initiatives. In the last financial year EGM expenditure was estimated to be around \$660 million less than it would have been had there been no government intervention. I am raising this because I have read comments from others that we have this gambling explosion. The reality is that, as you can see from the blue actual in that graph there is an increase going on, at the current rate it will take about four years to get back to where we would have been so there has certainly been a decline in revenue.

Priorities for 2005–06: the commercial gambling licences in all of the four areas; reviews that are wholly transparent and consultative; consolidation of the work of the ministerial council; establishment of a forward

gambling research agenda and the cross-departmental steering committee; venue signage restrictions; and second round of regional caps on EGM numbers. That table shows the five capped areas and what has happened; there has generally been a high decline in revenue in areas that are capped compared to areas that were not capped which have also declined as well.

The CHAIR — Thank you very much.

Mr SOMYUREK — I am interested in contingent liabilities. I refer you to page 122 of budget paper 2 under ‘Gambling/gaming licences’. EGM licensing arrangements were negotiated under the previous government. Can you inform the committee about the possible future impact of these arrangements which, as I said, were negotiated under the previous government?

Mr PANDAZOPOULOS — There has been some media comment on these issues. The budget papers highlight contingent liabilities that will obviously have to be worked through at the time depending on what happens. The budget papers tell us that for Tabcorp there is a contingent liability of \$597 million. The act requires the state to provide a refund to Tabcorp in 2012 if it does not get a renewal of its licence of an amount equal to the value of the former licence or the premium payment paid by the new licensee whichever is the lesser. That is not necessarily the actual figure — it depends on what happens at the end of the day — but that is in the books as a contingent liability which we inherited and we need to manage as part of the process in the future. While it creates an obligation on the state, as part of the licensing process we want a competitive process and we will be determining where we go with the EGM and wagering reviews commencing later this year.

A gaming operator’s licence was issued to Tattersall’s in 1992. The act says it entitles the licensee to be paid in 2012 an amount equal to the value of its current licence or the premium payment paid by the new licensee whichever is the lesser. This entitlement is contingent on the licensee not being granted a new licence. You can see from both of those that you are talking about a heck of a lot of dollars. Putting a price on it — I do not know, but some people have speculated \$1 billion. It is a very interesting exercise to look at how these things were done with licences at the time. It is my view that I do not want to take these as any constraint on the government and what it will do in the future. It is important to be able to say that in future. However, I note there is speculation by some that there will be all this money available from gambling licences that can do all sorts of things including paying for no tolls on EastLink and that sort of thing. I cannot see how that is all going to be done with these contingent liabilities plus a reduction of 5000 poker machines as has been suggested by some. It does not all add up. However, the important thing that I want to say as Minister for Gaming is that while we have these contingent liabilities and they are a factor in any consideration, at the end of the day it is my job to do what it is in the best interests of Victoria in the long term. While they are a constraint, I will focus on the best interests of Victoria and those contingent liabilities I imagine will continue to appear in the budget papers until they are dealt with over time.

Mr CLARK — Could I just clarify two aspects of your answer there? You mentioned a figure of \$1 billion. Were you using that as a description of an estimate of the value of the current Tattersall’s licence or were you talking about both licences together? The second aspect is the Club Keno licence amount included in the figures you were talking about?

Mr PANDAZOPOULOS — I am referring to media comments that have estimated a billion dollars of contingent liabilities. I am not putting a figure on it because while there is a figure allocated there for Tabcorp there is not one for Tattersall’s and even the Tabcorp one can vary depending on what happens. They are things that we have inherited and obviously they are sizeable liabilities that the state has in these areas. It is fair to say that I was very surprised to have inherited them and seen the details as we go through this exercise. I am not sure how common or usual what was in there is when governments go through similar exercises in other jurisdictions, but obviously they are very sizeable issues that can constrain governments in the future because of very early policy decisions that others have made.

The CHAIR — So it is media speculation.

Mr PANDAZOPOULOS — It is speculation from media that has been commented upon.

Mr CLARK — My question refers to your slide about actual versus projected gaming machine expenditure. On what basis was the red line for the projected figures determined? In terms of the difference between the red and the blue lines, have you broken up that difference between different policy measures that have been taken by the government? For example, the common view is the bulk of that reduction is due to what was

intended to be an anti-smoking policy, which seems to have failed in that respect and turned into an anti-gambling policy instead. Can you break it up between the different policy initiatives of the government or other factors that have produced the shortfall between the projected and the actual?

Mr PANDAZOPOULOS — It is not as scientific as that. The pink figure you refer to is projected EGM expenditure based on average expenditure growth of 7.66 per cent in the 12 months prior to the smoking bans in September 2002. We are saying that that is where we would be if we had kept the same trajectory of growth in that year so at the moment actual turnover would be \$3.2 billion compared to \$2.5 billion which is actual. In relation to being able to break it down to other components, no, it coincides with a number of other initiatives that governments have put in place. In some regards the regional caps research review paper, which I put out a week or so ago, has some interesting information. It says there were a lot of things happening at that point in time. We know there has been a decline in revenue, but we also know that in that same coinciding period there was no 24-hour gaming in Melbourne or the suburbs outside of the casino and it is their view that that has had an effect as well. It is really a combination of different measures. There is no doubt that smoking has had the single biggest effect, but we cannot accurately predict all areas.

Ms GREEN — I take you back to the subject of gaming licences. Could you outline for the committee what will be the benefits to Victoria of the post-current licence awarding process for the June 2007 lotteries licences?

Mr PANDAZOPOULOS — The committee would know that the lottery licence ends on 30 June 2007. On 25 March I announced the arrangements for the new lottery licence post 2007 when the current exclusive licence expires. It is important to remind ourselves that the national competition review that was commissioned by the previous government but delivered to me highlighted that the key focus had to be around competition. Our response to that national competition policy review is that in principle we believe in having a competitive environment. I also note that federal Treasury has a sort of watching alert on Victoria. It has said it will be watching what we do with our lottery licences to see whether it will withhold any NCP payments nationally because on face value they are not competitive exclusive licences. That is the context of it all.

The approach that I announced on the 24th is around a structure that will create a competitive field. We are prepared to entertain up to three licences, and we are prepared to entertain an exclusive licence — noting that some argue that lotteries are natural monopolies. There is a national pool, and what we have done with our lotteries legislation, which was recently passed through Parliament, is try to set up a level playing field to create a competitive environment so that we can remove impediments to any potential bidders. Some of those have been removing an impediment that limited Tabcorp, for example, bidding on lotteries, removing an impediment that required head office operations of the lottery providers to be based in Victoria and removing impediments which include getting access — because of the nature of an exclusive monopoly gifted by the government on behalf of the community — to one private provider being able to share with other bidders information about the national lottery pool in order to have an understanding about that so we can encourage effective and competitive bids.

What we have also decided to do is increase the length of the licence term from 7 to 10 years. We believe that is a reasonable period for licence operators. We are also providing a clearer definition to prospective bidders of what is a lottery, because there is confusion in those sorts of areas. For the first time — we have not had the ability to do this in the past as have other states — we will have responsible gambling requirements in future lottery licences and obligations. That is one of the tests. The test is about best value for Victoria, but best value is not just financial — it is not just about the products, the investment and the contribution they make to Victoria but also about how they will respond to the responsible gambling requirements. We have had an issues paper that went out in September, there was a public release of submissions from interested parties in December, there were assessments and the registration of interest phase formally commenced in May, which has not yet closed. I will be relying on the evaluations of the registrations of interest by the Victorian Commission for Gambling Regulation, which will select applicants. Selected applicants will then be invited to apply for a public lotteries licence.

The Department of Justice recently released an information paper which outlined the licence application process to prospective bidders, including the registration of interest process timetable, evaluation criteria and overall licensing conditions. The licence-awarding process and conditions are really aimed at establishing a Victorian lotteries structure which will deliver the best results for Victoria. There is a very broad definition of best results, but there are a key number of parts to that, as I referred to earlier. For the committee's benefit, does it want copies of the information paper that was made available? We could circulate that.

The CHAIR — Thank you.

Mr RICH-PHILLIPS — On the issue of racing, the Champions Australian Racing Museum at Federation Square, I understand, is a joint venture between Racing Victoria and the government in terms of the funding of its set-up. It is my understanding that at the end of this financial year the museum will have accrued operating losses approaching \$10 million, and that investment is at risk of leaving Federation Square because it is failing. Is the government giving consideration to stepping in and propping up that enterprise?

Mr PANDAZOPOULOS — Firstly, you are wrong; it is not a joint venture with the state; it is a Racing Victoria museum. There has been a museum at Caulfield for many years. We have returned some unclaimed dividends from the wagering sector to the value of \$3.75 million, which was our half capital contribution.

Mr RICH-PHILLIPS — It is jointly funded.

Mr PANDAZOPOULOS — It is jointly funded capital. You would recall, and I think the Hansard transcript of the PAEC last year would show that it is not a government project. It is not our job to put recurrent funding in there; it is an industry-run thing, and it was a industry-run thing before. It has about 110 000 visitors annually, and it is fair to say that it acknowledges that it had an overly ambitious business plan. It compares with other similar museums in terms of the way it is operating. At the end of the day museums do not make money, and it expected that it would make some operating losses, but it is part of its investment into the community and demystifies racing in the broader community. That is why it chose to be at Federation Square. I am advised by Racing Victoria that it is satisfied with its new business planning, and I believe it is a very important addition to the cultural flavour of Melbourne. It interprets what many had only heard about, because it did not having a proper physical site that was accessible to the public. It was costing Racing Victoria quite a lot of money to have it hosted at Caulfield. It was a very small site, but it was a site that was not very accessible. Costing it a little bit more to be at a very accessible site I think is very valuable overall for racing. Considering the big turnover that it makes from the gambling public, it is in effect a contribution that it is making to Victoria's racing heritage and to the community that funds racing.

Mr RICH-PHILLIPS — Are you concerned about the prospect of that museum falling over at Federation Square, given that the government contributed \$3.75 million?

Mr PANDAZOPOULOS — The advice I have from Racing Victoria's board is that it is satisfied at the way it is tracking at the moment.

The CHAIR — I take you to your overhead presentation where you referred to the Victorian Commission for Gaming Regulation. Could you explain to the committee its operation and how it manages and regulates gaming in Victoria? If you have figures on anything to do with its cost or staffing, that would also be helpful.

Mr PANDAZOPOULOS — The new commission commenced on 1 July 2004. It comprises three members — Ian Dunn, the chair, Judith King, the deputy chair, and Peter Cohen, the executive commissioner. I highlighted earlier on that there are some sessional commissioners. The objective of setting up the new commission is to do what the Ombudsman highlighted there was a need to do — to untangle the bowl of spaghetti legislation that was there. We have done that by consolidating all gambling regulation and by streamlining the commission so it is much more responsive to the community. It can respond to issues and applications quicker. We have also reduced some unnecessary administrative burdens that we thought were not very valuable — for example, having one employee licence rather than a variety of different employee licences. I am pleased to report that there was a smooth transition.

As you can imagine, it was important that, with applications being in the pipeline, the move from the structure of the Victorian Casino and Gaming Authority to the new commission structure and the change in personnel, such as having a different chairperson et cetera, went smoothly. I am very pleased that it was a successful implementation of change management. The thinking that was going on about the change management strategy worked quite well. We have not really had any complaints about the way we did it. Part of its mandate is to engage with the community to demystify gambling regulation. The thing I was concerned about with the previous authority was that it was not part of its charter necessarily to go out, explain and be proactive in the decisions that it made. Early on in government we made all the hearings public unless there were any specific commercial-in-confidence issues, which can be done behind closed doors. The commission has also been going out into the community to explain how the laws work and what it does. It also conducts hearings now in regions where there are a few applications.

Rather than having everyone from Gippsland coming to Melbourne, they will go out there, or they will go down along the Mornington Peninsula, where they were recently.

I think that is a very important proactive, community-based approach to reach out to communities to allow venues that might have applications to be able to do it in their own regions, allow local government to do it in their own regions, allow community groups that might want to be involved to have a say and to attend the hearings and for it also to be done at the local level. And by going out to regions, of course, rather than looking at applications on paper, they can go out and inspect venues themselves, go and talk to different people and just get a better perspective. Hearings have been held in Sale, Wangaratta and Mornington recently, and very importantly there is a series of free information sessions that have been very valuable. I noticed in the media a number of positive comments about going out explaining gambling laws, trade promotion lotteries, bingo, raffle and lucky envelope activities. This opportunity has not been available in the past, it has all been in a leaflet, on the web site and you could always ring in to the office, but there is nothing like actual people going out and explaining.

The CHAIR — Have you got any figures?

Mr PANDAZOPOULOS — Figures specifically in certain areas: its budget for 2005–06 is \$20.8 million; the budget for 2004–05 was \$18.5 million; but the expected outcome is \$17.9 million. There is some explanation of variations, if you want that. Under the act the commission will be able to set fees for the licensing reviews that are done in order to recoup its costs in particular for probity investigations, auditing costs and other matters. That has been part of a bill that I think has now been passed in Parliament.

The CHAIR — Is there any significant variation in your costs? With ‘significant’ I am thinking around 10 per cent.

Mr PANDAZOPOULOS — The difference between the budget provision and the expected outcome is about 12 per cent, due to a range of factors including the budget provisioning at the commencement of 2004–05 associated with the anticipated costs for the new commission entity which were not fully required. If you recall there were previous questions, I think from Bill Forwood, about it receiving its money afterwards; it did not have a separate budget. We have created its own separate budget, and we have obviously been getting that right and understanding what is needed to be done in advance, so I think we are much more accurate now.

The CHAIR — I will pass that on to him, thank you.

Mr CLARK — Can I come back to the issue of the two gaming licences that are going to come up for renewal that you referred to earlier which are also referred to on page 122 in budget paper 2. Notwithstanding that that page refers to the gaming operators licence being issued to Tattersall’s in 1992, my understanding is the gaming licences were issued to both Tattersall’s and to the TAB in 1991, taking effect from 1992, and that they were issued at no cost. Subsequently it was negotiated with Tattersall’s for it to pay a licence fee which is paid predominantly by way of an annual payment. You, Minister, no doubt would be aware of the provisions in the Gaming Regulation Act 2003 that provide a formula for calculating the amount that is to be paid to Tattersall’s in the event that it does not renew its licence, and that formula as far as I can tell is based on information that is going to be public. Can I therefore ask you what estimates, if any, your department has undertaken as to what that payout value is likely to be, and can you provide that information to the committee either now or on notice?

Mr PANDAZOPOULOS — The independent review will obviously look at all those, and I am informed — you would know better about the scenario of the early 90s when you were around and the environment of it — that it refers to the environment of the last year of the licence. Obviously we have not reached that yet, so there is some work that needs to be done as part of the review process, and for very good reasons I can tell you in advance that that will be held in confidence. I have referred to figures that have been speculated about, but it is very important that at the end of the day these are constraints. I want to limit them as constraints to government, but I obviously also need to be advised appropriately as does the review panel that will be considering this and recommending to me a way forward for the future.

Mr CLARK — To follow through, to me the key number is the actual daily net cash balance of the gaming machines of Tattersall’s. Now that is going to be data that is in Tattersall’s and presumably is going to be in your possession. If you are going to have a full and fair process, would you believe that that information should remain privy to you and to Tattersall’s or should it be made available to other people?

Mr PANDAZOPOULOS — Again, the reason we have got an independent review panel is so that it can think through all these things and advise me about the things that I really need to know about, so I imagine it will be part of that process.

Ms ROMANES — Minister, I have a question about the implementation of community benefit statements, and there are three parts to it. Can you explain to the committee how community benefit statements are related to the tax rates for clubs and pubs that have electronic gaming machines; can you tell us about how venue operators have used revenue earned from gaming machines for community purposes, and if so what was the breakdown of gaming revenue applied to each of the nine categories listed in the community benefit statement for 2003–04? You may want to take that on notice, that last one.

Mr PANDAZOPOULOS — Okay. The last bit was?

Ms ROMANES — It was about the breakdown of gaming revenue applied to each of the nine categories listed in the community benefit statement for 2003–04.

Mr PANDAZOPOULOS — First of all the whole idea — again there has been press comment — around the statements was in order to create transparency, and the venues themselves self-nominated what they believed to be of benefit. Regulation is enabling, but you do not just necessarily need it. You can also have an effect on encouraging additional contributions beyond their tax rates by simply having information made available in the public arena, and if people want to go and gamble, then they can make some choices about venues they might want to spend their money in. In other jurisdictions, like New South Wales, they have had equivalents of community benefit statements for their club sector, because there is a public interest assessment in that. We have not had that, although clubs are required under the act to be providing more than 8.33 per cent as benefits to the community. The only way you can let the community know about that of course is if you have published that information.

We decided we should go one step further and also include pubs, and whilst noting that pubs pay an extra 1 per cent of hotel pokie revenue to the community support fund, there have been expectations, and the industry itself has been highlighting that hotels do things above and beyond their minimum requirement, which are the tax rates. The way to test it, and I guess create a bit of competitive tension, was to again allow them to determine what they believed were community benefits.

It is fair to say we have taken a quite broad view on community benefit, because community benefit initially, going back to when gaming was legalised back in the early 90s, was not just about contributions to the local community groups, charitable organisations and sports clubs, it was also about the environment in the 1990s when a whole lot of pubs and clubs could have closed down. With the liberalising of liquor laws there was a concern that pubs would shut down, there was a concern that clubs were finding it very hard. One of the advantages of clubs was that they were licensed liquor outlets et cetera. So part of the reason for introducing gaming machines, which I guess we can forget after many years, was that there were supposed to be employment benefits and retention of facilities and renewing of facilities for that community's use, because communities use both pubs and clubs not necessarily for gaming but for other things, like dining, entertainment et cetera. So we took a very broad view, but I am pleased to say for clubs, whilst the minimum requirement is 8.33 per cent of gaming revenue, the 2003–04 community benefit statements have indicated that 27 per cent of club revenue from gaming was directed towards community purposes. That is \$211 million from revenue of \$773 million — 27 per cent of their earnings. I think as part of this exercise it is important to champion those that are market leaders. It is fair to say that I was disappointed that the focus in the media was on those who claimed Mercedes Benz as community benefits, rather than necessarily on the many different venues that have done a pretty good job — and that should be the benchmark. If we look at Hastings cricket and football clubs, they make direct donations to support local charities and cultural recreation groups, as well as subsidising the activities of groups using the club's premises. The Mildura Workingman's Sports and Social Club is again a strong supporter of community sport and recreation. The Clocks Tabaret at Flinders Street station directed substantial revenue to charitable purposes and youth welfare. They are some examples in that area.

Even in the pubs area there are some very good examples. One would expect that the clubs would be doing more than the pubs, because they have a legal requirement beyond more than 8½, but I would hope that there is some valuable discussion and debate in communities and approaches to venues about the sorts of things communities would like to see these venues do. As a breakdown, if I can give the committee some additional information, I am advised by the commission that in 2003–04 a total of \$427.9 million of venue operators revenue earned from gaming machine was used for community purposes. Consideration is being given at the moment by the

commission about the types of questions we have asked as part of our information seeking. Of that, employment is \$265.2 million; gifts of funds, \$5.67 million; sponsorships, \$2.63 million; gifts of goods to the community, \$1.07 million; voluntary services to the community, \$14.31 million; volunteer expenses, \$0.49 million; activities subsidised, \$9.66 million; fixed assets provided, \$55.67 million; and direct and indirect costs, \$73.17 million — all defined as community benefits.

The CHAIR — Where do we find our own areas?

Mr PANDAZOPOULOS — On the commission's web site.

The CHAIR — And they are up there for 12 months, are they — the previous statement is up there for 12 months?

Mr PANDAZOPOULOS — The web site, for your information, is vcgr.vic.gov.au. They are up there permanently, I understand, so we will be able to make some comparators year by year, and I am sure the commission will consider in the future how it can adjust it to make some comparators over time.

The CHAIR — You mentioned the example of the Mercedes — that was well publicised. Does the commission take up with venue operators what they might consider to be questionable?

Mr PANDAZOPOULOS — Part of the core role of the commission is to make some judgments about that and raise that. We are also considering at the moment what questions we should ask about what is a community benefit. Obviously there is only one year of data available at the moment. After the end of this financial year they will have to provide additional information later this year, and what the form will look like is being considered at the moment.

The CHAIR — Has the government at this point considered the possibility of designating a set percentage to be applied to charities and sponsorship?

Mr PANDAZOPOULOS — No, because we are doing above the minimum requirement, and it is my view that creating community debate will be more beneficial in trying to maximise where the benefits are. There are different views on benefits. Some will not necessarily consider the number of people employed as a benefit, and some will not consider capital works upgrades that have been done — a bistro that may otherwise not have been done — as a benefit. We have kept faith with the original reasons for legalising pokie venues, and they are the principles we have set in terms of what we say is in as a community benefit. But it is not unreasonable for debate to occur in the community to help guide venues about where they put their investments.

Mr RICH-PHILLIPS — I would like to ask you about the number of gaming licences, as shown in budget paper 3, page 166. You have a target for 2005–06 of 15 091, down from an expected outcome this year of 15 593. They are obviously very precise figures and you would expect the department to know how many licences are on issue. I am a little surprised that in last year's budget paper you reported the expected outcome for 2003–04 as being 16 818, but this year's budget paper shows the actual for that same year was 15 759, so there is over 1000 difference between the number you said would be on issue and the number that were actually on issue. Given this is something the department controls and would know intimately, how do you account for the difference between the expected outcome and the actual outcome?

Mr PANDAZOPOULOS — What we have seen is that the gambling work force has stabilised. Whilst you have a figure of expected outcomes at the moment of 15 593, it does not reflect how many people work in gaming venues. A number of people, obviously, get licences beforehand and a number have gone and got licences just in case they got a job at a gaming venue. I have been advised that as the work force has stabilised and turnover has decreased, there has been less need for gambling licences. It really reflects current levels of demand in a maturing industry.

Mr RICH-PHILLIPS — The issue here is the difference between the expected outcome for 2003–04, which was obviously in the budget last year — so around May of last year — and the actual outcome which you are now telling us is 1000 different. Given you control these licences and you know how many are on issue, how can the figure you told us last year be 1000 different to the actual figure when these are numbers held by the department? Why would it have changed between preparing the budget papers and the end of the financial year? I do not see, given this is data that is in the department — —

Mr PANDAZOPOULOS — The only thing I could imagine is that it was reflective of trends at the time, and they are different trends in a maturing industry at the moment reflecting current demand.

Mr RICH-PHILLIPS — So you are saying, conceivably, between preparing the budget papers and the end of the financial year there could be a change of 1000.

Mr PANDAZOPOULOS — I do not have any problem with getting more information for you about the methodology that was used on that.

Mr RICH-PHILLIPS — If you could we would appreciate that.

Mr SOMYUREK — Different departments and different portfolios have different time lines as far as expected outcomes are concerned. Your expected outcomes for 2004–05 — when are they from?

Mr RICH-PHILLIPS — As of 30 June?

Mr PANDAZOPOULOS — It is when the budget papers are done, but we will give you a complete answer on all of those as per the previous question.

The CHAIR — I thank the minister, the departmental staff, those in attendance and those who have beavered away at preparing these information packs for you and ultimately for us. We will be circulating the Hansard transcript to you together with follow-up questions, and we look forward to next year.

Committee adjourned.