

VERIFIED TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2008–09

Melbourne — 3 June 2008

Members

Mr G. Barber	Mr G. Rich-Phillips
Mr R. Dalla-Riva	Mr R. Scott
Ms J. Munt	Mr B. Stensholt
Mr W. Noonan	Dr W. Sykes
Mr M. Pakula	Mr K. Wells

Chair: Mr B. Stensholt

Deputy Chair: Mr K. Wells

Staff

Executive Officer: Ms V. Cheong

Witnesses

Dr R. Kelleher, Acting Secretary,
Mr R. Kennedy, Executive Director, Office of Gaming and Racing, and
Mr G. Prescott, Manager, Office of Racing, Department of Justice.

The CHAIR — I welcome Ross Kennedy, executive director, Office of Gaming and Racing, and I call on the minister to give a brief presentation of no more than five minutes on the budget estimates for the racing portfolio.

Overheads shown.

Mr HULLS — The first slide speaks for itself, really. We are a national leader. The industry employs over 70 000 people, two-thirds of those are in country Victoria. It is a huge economic and social contributor to the state and contributes in excess of \$2 billion in economic activity and the bulk of the economic benefits have arrived in rural and regional Victoria, including a very vibrant breeding centre. The next slide again is the make up of the portfolio. It is a very small part of the Department of Justice's budget. It contributes 2 per cent of the total budget of \$3.58 billion. The next slide talks about achievements in 2007-08 including the race fields legislation. It includes basically the fact that it was introduced primarily to protect the integrity of Victorian racing by ensuring that wagering activities of non-Victorian bookmakers on our races could be appropriately monitored by our racing stewards.

The next slide talks about funding support. RIDP, the Racing Industry Development Program and also the Living Country Racing Program, all about capital infrastructure in the main in relation to racetracks around the state. The next slide talks about priorities for 2008-09 and obviously the biggest priority is the wagering licence. We remain committed to a very strong and vibrant racing industry and we want to ensure that funding arrangements are structured to ensure that we continue to have a world-class racing industry. We have confirmed that after 2012 the Victorian racing industry will be funded from wagering to the greatest possible extent rather than through a combination of wagering and gaming machine revenue. We believe this is the appropriate path down which to go. It will maximise incentives for the wagering licence-holder and the wagering industry to work towards the overall betterment of the racing industry. The next slide which is the last slide is again on priorities for 2008-09, ensuring we have a strong and growing racing industry, an appropriate legislative framework and governance structures in place to ensure that we maintain public confidence in our racing industry.

The CHAIR — Thank you, Minister. I refer to pages 180 to 181 of budget paper 3, which deal with the outputs and deliverables on the gaming and racing management and regulation. One of the things we are interested in as a committee is good governance. I guess you could elaborate on what the government is doing and what it wishes to do in the future to ensure the racing industry is actually appropriately governed both in its present and obviously future day challenges.

Mr HULLS — I think there is a bit of misconception out there in relation to what role the government has in relation to the racing industry, setting race dates and those types of things. People forget that we did put in place an independent governance structure for the racing industry that was supported by all sides of the house and it is true that the next decade will see the racing industry facing challenges and opportunities that are unprecedented in its history. We were always concerned to ensure that the industry was best positioned to respond cohesively and effectively to these challenges and that is why we commissioned an independent review in 2006 to assess the industry's ability to respond appropriately. The review has been, I think, a catalyst in motivating internal discussions within the industry on issues such as governance, administration, future wagering environment post 2012 and the like. Under landmark changes to Racing Victoria Ltd's constitution, which passed the Parliament towards the end of 2007, an independent board was set up to lead Victorian thoroughbred racing into the future. This new board is independent of government. It has seen the appointment of three women, I might say, which is really quite unprecedented and reflects the growing importance of women to the racing industry. The amended RVL constitution was tabled in Parliament on 30 November 2007, paving the way forward for the implementation of a completely independent RVL board that was announced immediately after the AGM of Racing Victoria Ltd in December 2007.

I think this board is one of the most talented boards of any sporting organisation in Australia and is well placed to lead the industry into the 21st century. It includes Pamela Catty, who was a group manager of corporate affairs in Coles and brings substantial commercial and banking sector expertise; Robert Cooke, who is the managing director and chief executive officer of Symbion Health and has qualifications in finance and administration; John Harvey, director and chair of the audit committee at David Jones, amongst many of his board appointments; Peter McMahon, who has a wealth of experience in finance and banking; Naseema Sparks, whose background is marketing and also business; and Tim Warren, who has finance experience, mainly in the resources sector. When you add those to the chair of RVL, Michael Duffy, who has a racing background but is also a former federal

Attorney-General, so is experienced in dealing with government; deputy chair David Karpin, with extensive business and board experience, and also Barbara Saunders and Mark Ewing, who have experience in accounting and administration. I think you would agree that it is pretty impressive line-up to take the industry into the future. But I repeat: this is a board that is independent of government. It makes decisions for and behalf of the industry independent of government.

Mr RICH-PHILLIPS — Minister, you spoke about the changed gaming arrangements-racing arrangements and talked about the shift from supporting a racing industry through gaming and wagering to one that is based primarily on wagering. When those announcements were made in April you indicated the government was committed to developing funding arrangements that were no less favourable for the racing industry in this state. Can the committee take from that the current contribution to racing from EGMs through Tabcorp of \$35 million will now come from wagering in addition to its current contribution?

Mr HULLS — That is really what the discussions are about now between the government and the industry as to what ‘no less favourable’ means. ‘No less favourable’ is a term that is not new; it is actually enshrined in the Gambling Regulation Act, so it is not new terminology. Just to go back a bit, we decided to have a single wagering operator. We did that because we believe that provides certainty and stability for the racing industry in Victoria. A single parimutuel licence is a consistent feature wherever racing is held around the world. It has served Victoria well in the past and I think it will do so in the future. What we will do of course through this process is introduce competition into the bidding process for the licence to get best value for money for the industry and also for Victoria.

One advantage of having a single parimutuel licence is that we will retain the system of one large pool. What does that mean? It basically means that you get better and more stable odds when punters place a bet. The wagering and gaming operator licences originally issued in 1994 were linked because the licences were granted to the then state-owned TAB. Since then of course Tabcorp has become a publicly listed company and the gaming operator licences will not exist beyond 2012.

The wagering industry is growing. It is a viable industry that has the potential to increase revenues from its own racing product. I think these new arrangements, where the funding of racing to the greatest extent possible will come from wagering, does give the racing industry control of its future. They will work very closely with the wagering partner who will give primacy to the racing industry. The industry in Victoria is the second-largest wagering expenditure in Australia. I think it does offer a very attractive licence for any potential provider of wagering.

We are committed — and this again gets to the second part of your question — to ensuring that the industry continues to prosper and we have commenced consultation with the industry on future financial arrangements, with the guarantee that the conditions will be no less favourable than currently exist. Discussions are taking place as to what that means and I expect those discussions — and I do not want to pre-empt the outcome — will canvass a whole range of issues including taxation arrangements and the like. But it is true that the industry currently gets about \$75 million — and I will stand corrected — a bit more, about \$75 million-plus from gaming machines each year and discussions are being held at the moment as to what ‘no less favourable’ means. But if they are getting \$75 million-plus from gaming machines now, obviously those discussions will be centred around how that money is going to be made up and that will be part of a whole range of discussions that are taking place.

Mr RICH-PHILLIPS — You said the industry would be funded from wagering to the greatest extent possible. Does that mean the government is keeping the door open either to direct funding from government or some residual EGM funding?

Mr HULLS — I am not going to pre-empt the outcome of the discussions that are taking place now, but what you are saying is not new. The government made an announcement that the racing industry would be funded to the greatest extent possible from wagering revenue. We have broken the nexus with gaming machines, and the industry will be funded and dealt with on terms that are no less favourable. There are experts involved from the racing industry and from the government and overseen by a probity auditor in relation to what those things actually mean, and that is taking place now.

Ms MUNT — I would also like to speak about the regulation of the gaming and racing industry. In particular I wonder if you could explain to the committee what the racing integrity review is.

Mr HULLS — I think, as the Chair said at the outset, the reputation and health of any industry, in particular the racing industry, is built on its foundation of integrity, and it is absolutely crucial that this integrity is not compromised, and that the integrity of all participants is upheld, as are the rules of racing. You cannot compromise integrity in any way. As you know, there was an investigation in relation to activities surrounding the former CEO of RVL, and I think that investigation acknowledged some shortcomings within betting services and integrity services divisions of RVL. That included some difficulties in the transfer of information between betting services and integrity services areas up the chain of command.

From my point of view the difficulties really shone a spotlight on the issue of whether RVL's integrity assurance services should continue to reside within the same corporate structure as its commercial operations. That is something the industry needs to face; it is something that I as minister need to address as well. As a result I set up a review by acting judge Gordon Lewis in relation to giving me advice about world best practice integrity services within the racing industry. He has been given fairly detailed terms of reference and they have been publicly released. They will take into account some of the issues I have raised, including whether integrity services should remain a function alongside the commercial and development roles of the controlling bodies, or be set up as a separate independent entity. If a case can be made out for the separation of functions, whether they should be delivered individually for each of the three codes — for thoroughbred, harness and greyhounds — or whether there should be one integrity body dealing with all three codes, ensuring that adequate pathways exist for the escalation of integrity issues up the chain of command, developing an integrity assurance structure and culture that is fully transparent and accountable and incapable of external influences, and any other aspect that he wants to report on. He is due to report to me by early August of this year. Once he has made those recommendations the government will have to make a decision, in consultation with the industry, as to which path it wants to go down.

Mr SCOTT — Minister, I refer you to budget paper 3, pages 180 and 181, and the output 'Regulating gaming and racing'. What is the government doing to support the greyhound industry in caring for retired greyhounds?

Mr HULLS — That is a good question because it — —

The CHAIR — Derelict dish-lickers.

Mr HULLS — It is asked at any public accounts committees that I have been at, and I am always keen to give an update, because I have to say that the greyhound adoption program is a fantastic program. It is one that is recognised right around the world so far as animal welfare is concerned. Hopefully gone are the days when a greyhound that is past its use-by date — all sorts of things used to happen to them. Anyone who has ever had anything to do with a greyhound would know they are extremely placid animals. Believe it or not, they are quite lazy, and I am not going to make any reflection on the upper house and similarities. They actually make great pets. The greyhound adoption program has been enormously successful. In 06–07, 354 greyhounds were put through the program bringing the total number of adopted greyhounds — to go through the program they train the greyhounds and then they are adopted out as pets. There have now been some 2200 adopted out since the program started in 1996.

What has happened since the last Public Accounts and Estimates Committee meeting is that they have extended the program to a prison pet partnership program — a PPP. When people think of PPPs they would not normally think of the prison pet partnership program. I was fortunate enough to launch that program at Dhurringile Prison. The program's catchery is not bad: everyone deserves a second chance. It is not just the greyhounds, it is the prisoners as well. I have to say that the PPP plays a very impressive role. It rehabilitates retired greyhounds, as well as attempting to rehabilitate prisoners. Some of the prisoners I spoke to were extremely attached to the pets, and were very upset when, having undergone the greyhound rehabilitation program, the pets then left the prison and were fostered out, if you like, to the families who were adopting them. They have had a huge impact on the prisoners at Dhurringile, so much so that I am advised that they are going to expand the PPP, the program, to other low-security prisons such as Beechworth, Tarrengower and Langi Kal Kal as well. So if it is as successful at those prisons as what I saw at Dhurringile, it is fantastic not just for the pets but also for the prisoners as well.

Ms MUNT — Do you know how it goes when they actually go to homes? Is it working out?

Mr HULLS — Extremely well. I have met with some people that have adopted greyhounds and they just have not looked back. Some of them have adopted more than one. They find that the pets are extremely tame as a

result of this program. When I was first racing minister I actually demuzzled greyhounds. You probably remember that greyhounds had to be muzzled, and I could never quite understand why. There was a view around that they were vicious animals and used to bite everybody, but it is quite the opposite — they are very placid animals. Once they have gone through this program they can be demuzzled and they are loving pets basically.

Mr DALLA-RIVA — Attorney-General, I refer you to the statement of finances budget paper and in relation to taxation in racing on page 43 it talks about the forward estimates increasing from 129.4 million up to 152 million into the 11–12 year. You will be aware, and I probably want your question in relation to how you are dealing with it, but moneys wagered through Northern Territory-based bookmakers and betting agencies have increased substantially from about \$200 million in 2001 to what is estimated around \$4 billion today. So can you advise what impact this will have on the revenue proposed here for Victorian racing in particular?

Mr HULLS — I think it is important we send a message to those corporate bookmakers that operate in other jurisdictions that they cannot free ride on our product, and that is why we have introduced the race fields legislation to ensure that those bookmakers who want to bet into Victoria have to pay a fee to RVL to be able to use the product and the integrity of the product that exists here. I think that those figures in the budget papers are right, and I expect that the wagering industry will be a vibrant industry and will continue to be vibrant. But it has to be remembered that it is competing against other forms of discretionary dollar spending so it is absolutely crucial that the industry continues to innovate and revitalise its product if it wants to compete, and I expect the announcement of the stand-alone wagering licence will ensure that that does occur.

In relation to the competition from corporate bookmakers, as I said, we have introduced our race fields legislation, but I have also reconvened the bookmakers reform working group to ensure that bookmakers here can continue to compete for that wagering dollar that is going to other forms of betting, whether it be Betfair or corporate bookmakers interstate. I think the health of the industry in Victoria is reflected by the fact that for the first time in a decade there are in excess of 200 registered Victorian bookmakers and significant numbers applying for registration. It is pleasing to note, I might say, that 11 of those, I think, are women; female bookmakers in Victoria. Nonetheless, it is clear that the evolution in the national and global wagering sector has resulted in an increasingly challenging market environment for those that are in the wagering industry. You have probably noticed recently that Tabcorp, in an innovative move, decided that they were also going to set up in the Northern Territory to compete against some of the corporate bookmakers that exist in the territory.

In relation to the bookmakers reform working party, I reconvened that to consider various proposals to meet head-on some of the challenges that are facing the industry, and that group reported to me, from memory, in January, I think, of this year, and they have made a number of recommendations. That includes bookmakers being allowed to operate 24/7 from approved racecourse locations; bookmakers being permitted to operate offcourse from premises that I, as minister, would approve; Tabcorp being approved to offer fixed-odds betting on all races which again would, going to your question, enable Tabcorp to better compete with some of those corporate bookmakers; that the issue of non-bookmakers being able to invest in bookmaking operations be looked at, and that public companies be permitted to become registered bookmakers.

So a lot of those recommendations, or all of those recommendations at least, have been made. I am currently considering each and every one of those with a view to taking legislation into the Parliament later this year. What I would say about them is that it is important that bookmakers are able to compete. It is important, of course, that Tabcorp be able to compete appropriately. We are entering a new wagering environment but any reforms that I implement will have an eye to keeping bookmakers operating at racecourses because it is absolutely crucial in my view for the colour and movement of racing, for the ongoing viability of the industry and the ability to continue to attract people to the course. The last thing we want is to lose bookmakers from our racecourses. So some of these reforms will enhance the viability of wagering and in particular bookmakers oncourse. Some of them, I suspect, will lead to bookmakers removing themselves from racecourses. I simply repeat, without wanting to pre-empt what the government intends to do in relation to these reforms, that we will always have an eye to retaining the presence of bookmakers oncourse.

The CHAIR — Thank you, Minister. I note for the record that Ged Prescott from the Office of Racing was also at the table assisting the minister. I thank departmental officials for their assistance during this hearing. We will now break for a few minutes while we change to the industrial relations portfolio.

Witnesses withdrew.