

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2012–13

Melbourne — 8 May 2012

Members

Mr N. Angus

Mr P. Davis

Ms J. Hennessy

Mr D. Morris

Mr D. O'Brien

Mr M. Pakula

Mr R. Scott

Chair: Mr P. Davis

Deputy Chair: Mr M. Pakula

Staff

Executive Officer: Ms V. Cheong

Witnesses

Dr D. Napthine, Minister for Racing,

Ms P. Armytage, Secretary,

Mr R. Kennedy, Executive Director, Racing and Gaming, and

Mr S. Condron, Chief Finance Officer, Department of Justice.

**Necessary corrections to be notified to
executive officer of committee**

The CHAIR — I welcome from the Department of Justice Ms Penny Armytage, secretary; Mr Ross Kennedy, executive director, racing and gaming; and Mr Shaun Condron, chief finance officer. I now call on the minister to give a brief presentation of no more than 5 minutes on the more complex financial and performance information relating to the budget estimates for the racing portfolio.

Overheads shown.

Dr NAPTHINE — Thank you, Chair. The government is continuing its strong commitment in its support for all sectors of the Victorian racing industry. Racing is a vital industry that is not just a great and exciting sport but is an important part of the Victorian economy that supports over 70 000 jobs across the state — more than half of these in country Victoria — and is worth well over \$2 billion annually to the Victorian economy. The bulk of racing's benefits are derived to regional and rural Victoria, including a vibrant breeding sector. These benefits flow through diverse allied industries, including tourism, hospitality, manufacturing and agriculture.

On 19 December 2011 the government issued a 12-year wagering and betting licence to Tabcorp Wagering (Vic) Pty Ltd. This licence commences on 16 August 2012. It allows Tabcorp to conduct parimutuel and fixed odds betting and operate an off-course retail network. The terms of the licence clearly deliver on the government's election commitment to deliver an outcome that is no less favourable to the racing industry. Importantly, the licence provides a 50-50 joint venture arrangement between Tabcorp and the Victorian racing industry, and this is a significant improvement on the existing arrangements. As part of their licence, on 19 January 2012 Tabcorp made an up-front premium payment of \$410 million to the government. This is an outstanding result. It provides excellent value for money and a fair deal for the racing industry.

The establishment of the \$79.5 million Victorian Racing Industry Fund delivers on the government's election commitment to return unclaimed wagering dividends and oncourse totalisator taxes to the racing industry. The rightful return of unclaimed punters' dividends back to the racing industry is providing funding to improve and modernise infrastructure and facilities at racing and training venues across the state. It is also delivering a number of key industry projects identified in the government's plan for racing. To date these funded commitments are more than 70 projects throughout the state including critical infrastructure improvement; modernisation of racing and training venues; animal welfare projects, such as Living Legends and the greyhound adoption scheme; cutting-edge drug research; and support for breeding and sales industries in the three racing codes.

The establishment of the Raceday Attraction Program provides an opportunity for racing clubs to better compete for the sporting and entertainment dollar by developing innovative and exciting ideas to increase oncourse attendance at Victorian thoroughbred, harness and greyhound tracks. The government has committed at least \$30 million over four years for racing infrastructure. To date the funding is committed to racing clubs, both large and small, for critical infrastructure and projects. Funding includes projects such as sustainability projects; installation of desalination units at Flemington — VRC; works to return harness racing to Boort, Gunbower, Ouyen, St Arnaud, Wangaratta and Wedderburn; safety projects, including automatic horse float park gates at Seymour, a new racecourse entrance fencing at Ballarat, a perimeter fence at Sale and mounting yard upgrades at Benalla and Stawell; and amenity upgrades, including alfresco extension of Trackside Cafe at Kilmore, new floor coverings at Edenhope, and outdoor decking at The Meadows, Shepparton and Geelong.

The Raceday Attraction Program commenced in July 2011, and funding has been committed to more than 36 racing clubs to promote their race meetings within local communities and the wider racing public. An example of the success of the program is the highly successful cricket club series conducted by the Sandown Greyhound Racing Club. It was held over 27 weeks at the Sunday afternoon greyhound race meetings. Attendance increased substantially with the presence of eight cricket clubs and their supporters at each week's meeting. The club has now moved to promote its activities to football clubs without the need for government sponsorship of this program. Other examples include more than 1000 at the recent Back to Willaura — Willaura Cup — meeting at Ararat, and close to 2000 at Tradies Day at a Ballarat Thursday twilight meeting.

As discussed, the government has issued a wagering and betting licence on a no less favourable basis to the racing industry. We have established the \$79.5 million Victorian Racing Industry Fund, and we have delivered on a number of key animal welfare projects, including Living Legends, the Greyhound Adoption Program and drug research. We have delivered on funding support to encourage breeding animals in Victoria, which creates jobs in this area, and we have reversed the cuts to country racing, including the return of harness racing to six

clubs. Ouyen, Wangaratta and Boort are already done, and Wedderburn and Gunbower will return later this year. We returned thoroughbred meetings to Avoca, Towong and Latrobe Traralgon. At the national level we will provide leadership on the critical issue of a fair return to racing from the interstate corporate bookmakers.

Just let me finish on one of the highlights of the racing year, the Spring Racing Carnival. This study highlights the benefits of racing to the broader economy of the state. This highlights that there was a record attendance at the Spring Racing Carnival in 2011 versus 2010. There were 78 000 international and interstate visitors, and they spent \$113 million while they were here. There were over 18 000 international visitors, including \$32 million on accommodation, 70 000 hats and fascinators, 60 000 pairs of shoes, \$9 million on transport and \$9 million on personal grooming.

The CHAIR — Thank you, Minister. In the remaining time we will direct some questions, and I ask: given that the key growth and efficiency initiatives announced, can you please outline for the committee the likely impact of the budget on enhancing service delivery, promoting productivity and achieving efficiency gains in this portfolio, and could you advise the committee how you intend to monitor the portfolio's effectiveness in maximising improvement in these areas?

Dr NAPHTHINE — Thank you, Chair. The most significant part of the racing industry from a government perspective where we assist and work with the racing codes is through the \$79.5 million Victorian Racing Industry Fund, which funds infrastructure — racing and training infrastructure, patrons' facilities. It encourages the breeding industries, particularly in thoroughbred and greyhound where there are job creation programs, and the Raceday Attraction Program, which I talked about before. We are very actively involved in using money that comes from racing through unclaimed dividends and the state tax on oncourse totalisator turnover and putting that money back in to grow and develop racing and to create the economic benefits and the job opportunities from that.

Mr PAKULA — Minister, you have made reference already to the new joint venture agreement and you have made reference to the no-worse-off principle, but I am wondering if you are confident that the board of Harness Racing Victoria was properly briefed on the implications for harness racing of the new joint venture agreement before it was signed off in December. I ask the question because whilst both greyhound racing and thoroughbred racing are seeing a growth in their revenue, that does seem to be at the expense of harness racing, which has a reduced fixed share. I know, and I am pretty sure you know, that there is major concern within aspects of the harness racing industry about that agreement.

Dr NAPHTHINE — Chairman, there is no doubt there are challenges facing the harness racing industry. The chair of the board, Ken Latta, and his board are aware of the challenges facing the harness racing industry. It is very important that the harness racing industry works hard to increase their turnover and market share. They were part of the Victorian racing industry. They are a partner in the VRI organisation, and they were a partner to all the work that was done under the previous government in the lead-up to the wagering licence deliberations. They were part, through the VRI, of the deliberations, considerations and negotiations in terms of finalisation of that agreement. They were fully aware of their circumstance. They now face the challenge of dealing with the new agreement that has been signed and is proceeding forward, and their challenge is to grow and develop their industry. We, as a government, are certainly working with them on that, and that is why we have worked with them in terms of growing their market share by reopening harness racing tracks that were closed under the previous Labor government — —

Mr PAKULA — By the board.

Dr NAPHTHINE — They were closed under the previous Labor government by — —

Mr PAKULA — By HRV.

Dr NAPHTHINE — No. Mr Pakula needs to understand, as he should understand, that HRV is appointed by the minister. It was appointed by the minister, and they closed six harness racing tracks. We have reopened those harness racing tracks, and we had a record crowd at Wangaratta — —

Mr PAKULA — For one meeting a year.

Dr NAPTHINE — We had a terrific crowd at Boort. We had a terrific crowd at Ouyen. That really does boost the grassroots of harness racing, and that is how harness racing can rebuild its support. But there are other challenges for the sport to make it attractive in terms of patronage, attractive in terms of participation and attractive in terms of punter involvement. That is a challenge for the board.

Mr PAKULA — Just to follow up. Can I say at the outset that I am pleased to hear from the minister that he will not be hiding behind the independent boards — decisions rest at the feet of the minister. That is good to know. But my initial question was, and I thank the minister for the answer he gave, it does seem inexplicable that the CEO and the chair of HRV signed off on this agreement. Are you confident that the board was fully briefed on the implications of this deal for HRV before it was signed off?

Dr NAPTHINE — As I said, HRV was involved in the decision-making process. They are part of the Victorian racing industry — —

Mr PAKULA — The chair and the CEO, but the board — —

Dr NAPTHINE — They are part of that, and it is appropriate that the chair and the CEO inform their board.

The CHAIR — Before we proceed I have been advised by the deputy that he will be taking all questions on this portfolio because he is the shadow minister.

Mr O'BRIEN — Just in relation to budget paper 3, page 202, under the racing industry development section, as part of the racing industry development agenda could you tell the committee how the government is looking to grow economic benefits through the breeding industries?

Dr NAPTHINE — Thank you, and I know Mr O'Brien has a great interest in breeding.

Mr O'BRIEN — My register of interests in fact discloses some interest.

Dr NAPTHINE — On a more serious note, Mr O'Brien understands that the breeding industries, particularly the horse breeding industries, have a great opportunity to grow jobs and opportunities. With respect to the past decade, it was a pretty lean period for the Victorian thoroughbred breeding in particular. I am pleased to say that there has now been a resurgence of interest and enthusiasm and investment in the thoroughbred breeding industry and indeed the breeding industry across the three codes. The breeding industry is largely conducted in regional and rural Victoria. It is a very hands-on industry, it is a very labour-intensive industry, so it is a really terrific industry to create jobs and economic benefits to regional and rural Victoria.

That is why through our Victorian Racing Industry Fund we particularly targeted funding — \$10 million over four years — to grow the breeding industries of the three codes. For example, we have worked in partnership with the Victorian thoroughbred breeding industry to develop a product called VOBIS Gold. VOBIS Gold will involve the VRIF putting in \$6.8 million over the four years and that will be more than matched by the industry, so that we will pay half the nomination fee of \$2200 for foals bred to Victorian stallions and/or Victorian mares. In return that will entitle those VOBIS Gold horses to race for bonuses of up to \$18 million, which is an enormous opportunity for those horses.

We are already seeing in the yearling sales that were held earlier this year in Melbourne that VOBIS Gold-eligible yearlings were attracting a premium price and premium interest, because people want to race a VOBIS Gold horse and they want to be eligible for VOBIS Gold prize money. More recently I announced at the stand-alone meeting in Bendigo in March this year that in 2013 there will be a two-year-old race for VOBIS Gold-eligible horses that will be worth \$280 000 — one of the richest races in regional Australia. With VOBIS Gold incentives you can race for a maiden in country Victoria and not only win your prize money but win another \$10 000 to \$20 000 in VOBIS Gold incentives.

Similarly with the GOBIS scheme in the greyhounds, we have a scheme again where money has gone in from the state government to work with the greyhound industry, and we now have a situation that the \$500 Victorian breeder bonus scheme is paid for all races at main metropolitan meetings. At the main meetings on a Thursday night at Sandown and on Saturday night at The Meadows, if you are GOBIS-eligible dog, you win an extra \$500 every time you win. There is a \$10 000 breeders bonus for all Victorian group races, and there are other additional incentives for GOBIS-eligible dogs. So again, a significant incentive for people to breed greyhounds

and race greyhounds that are Victorian bred, which adds dollars to the breeding industry and creates jobs and opportunity in the breeding industries.

Mr PAKULA — Minister, just going back to the no-less-favourable issue that we talked about. I note also that in budget paper 5, page 203, there is a reference to the current wagering licence arrangements — it is under ‘Contingent liabilities — and it talks about:

Potential exposure exists for the Victorian racing industry in relation to the conclusion of the ... joint venture ... in August 2012 — et cetera. I just want to understand how this no less favourable works exactly. For the benefit of the committee more generally, there was an old parimutuel tax rate of, I think, 19.2, which was reduced to 7.6 in contemplation of racing no longer getting its share of EGM money. I think at the time that happened the former government committed to a further review of that tax rate. Is your commitment to no less favourable one whereby the tax rate will be adjusted so that the racing industry is no worse off, dollar for dollar, against EGMs on the tax issue alone, or will you offset the loss of EGM revenue against whatever increases racing has obtained through the new joint venture?

Dr NAPHTHINE — Chair, I am afraid this answer will require some background and explanation. Mr Pakula has asked a question, and I think it is appropriate that we give a full answer. Mr Pakula was part of a government that announced, out of the blue, a significant decision, if I recollect, back in April 2008, that electronic gaming machine revenue which had previously flowed to the racing industry would be withdrawn. They also announced at the same time that Tabcorp and Tattersall’s would no longer operate the electronic gaming machines post-2012. That was a policy decision of the previous government, which led to that infamous poker machine auction supervised by the previous government, in which Mr Pakula was a cabinet minister and integrally involved, where subsequent investigations by the Auditor-General found that the value of those poker machine licences was something around \$4.3 billion and the previous Labor government so mismanaged that auction process and that policy that they got less than \$1 billion — —

Mr PAKULA — So you would have taken three billion more from country clubs?

Dr NAPHTHINE — for a \$4 billion asset. They burnt \$3 billion which could have been used for schools, hospitals and roads. That was a policy of the Labor government, the Labor Party of Mr Pakula. That is what they did. They burnt \$3 billion of taxpayers assets with a completely mismanaged process. But the other part of that was that because they went down that pathway they exposed the government to potential litigation that may cost \$1.2 billion. They exposed the government to that potential litigation. They also took away a growing funding stream for the racing industry through Tabcorp’s poker machines. This had triple whammy policy failure written all over it. It was an absolute and utter disgrace.

Mr PAKULA — I thought you supported breaking up the duopoly.

The CHAIR — Let the minister answer.

Dr NAPHTHINE — The racing industry was on the back foot.

Mr PAKULA — On a point of order, Chair, I have let the minister go on for 5 minutes now with this diatribe about the gaming industry. I actually asked him a very reasonable question. I asked him to explain an item in the budget, and he is banging on about how they would have taken \$3 billion more from country clubs and all this sort of stuff, pretending they did not support the break-up of the duopoly — —

The CHAIR — What is the point of order?

Mr PAKULA — My point of order is can you bring him back to the actual question, which just asked the minister to explain what that item in the budget means in terms of practical applications — —

The CHAIR — Deputy, I understand your point of order, and my response to it is this: you endeavoured to give some significant background to your comments before you asked your question.

Mr PAKULA — Helpful comments.

Mr O’BRIEN — These are helpful comments as well.

The CHAIR — As I understand it, the minister is responding in kind by giving some background before he comes to the point of your question. The minister is entitled to give an answer in his own way. You have invited him and encouraged him in fact to elaborate, so I will ask the minister to continue.

Dr NAPTHINE — As a result of that policy announcement by the previous Labor government, some months later the previous government amended wagering tax rates to seek to compensate the racing industry for the significant and secure funding streams they were destined to lose from this stupid policy announcement by — —

Mr PAKULA — You would have retained the duopoly, is that what you are saying?

The CHAIR — Deputy, you are only extending the answer.

Mr PAKULA — I am sure country clubs would be interested to hear that they would have retained the duopoly.

Mr ANGUS — Just listen to the answer.

Dr NAPTHINE — the previous Labor government that has not only cost Victorians \$3 billion but also placed in jeopardy the racing industry. They reduced the wagering tax rates, and at the time the racing industry was not happy with the earlier policy decision. They were absolutely irate with the earlier policy decision because they were not consulted and they were not involved by an arrogant government that did not care about the racing industry. They were not consulted, they were sidelined and then the racing industry demanded, when this tax rate was announced, that as part of this process there be an agreement about a review.

Mr PAKULA — Yes. Now we are back to where we started.

Dr NAPTHINE — It is important to get the background and to know why we are where we are today. We are here today, and the racing industry is facing this issue because of the policy stupidity of the previous Labor government — the policy failures of the previous Labor government. That is why we are in this situation at the moment, and that review is currently under way.

The CHAIR — We have time for one more — —

Mr PAKULA — The minister for Tabcorp.

The CHAIR — Deputy! Just settle down.

Mr PAKULA — Or is it the minister for Tatts? The minister for Tatts or the minister for Tabcorp.

Mr O'BRIEN — The former minister for myki.

Mr MORRIS — Minister, budget paper 3, page 202, refers to the government's racing industry development agenda. Can you indicate to the committee what benefits there are to Ballarat from the industry development funding initiatives contained there?

Dr NAPTHINE — Ballarat is a microcosm of the opportunities that arise in the racing industry and particularly in regional and rural areas. It is an area that I, as minister, am keen to work with the racing industry to pursue. The Ballarat region is a very important component of the racing industry. There is a terrific thoroughbred racing track at Miners Rest. It also has a significant harness racing industry and a terrific greyhound track that are adjoining each other. With respect to the thoroughbred industry, in addition the Dowling Forest, Miners Rest, racetrack, it has significant training facilities, and there are great opportunities to expand those training facilities, and indeed in my capacity as regional cities minister I have worked with the City of Ballarat in terms of some of the planning overlays that apply to that area to protect that area in terms of opportunities for further investment in jobs and opportunities in the equine industries in that area. Indeed the University of Ballarat has established an equine centre out in that region as well.

Racing in Ballarat has an economic benefit of more than \$90 million a year and includes more than 1300 jobs. I am pleased to announce that the government has worked with Ballarat in terms of funding for perimeter fencing, new starting stalls and the Raceday Attraction Program for Tradies Day, but the most important thing I

want to highlight here is the way that we have been able to invest in training facilities that has attracted additional trainers and jobs to that region.

Ballarat already has great trainers in Dan O'Sullivan and Simon Morrish, and Darren Weir is probably one of the top country trainers, but more recently Malua Racing, which includes John Sadler and Troy Corstens, have opened a 30-horse stable at Ballarat, which creates a terrific number of jobs and is a great investment in Ballarat. And now group 1 winning trainer Jim Mason has decided to relocate his 30-horse stable from Caulfield to Ballarat.

That is another vote of confidence in Ballarat, and it is a vote of confidence in the training facilities there. It reinforces the investment in training facilities and it highlights that if you have a good equine precinct with good facilities for trainers, you attract additional trainers and create jobs for local people as stable hands, as track riders and add to the services provided by farriers, vets and feed merchants.

Ballarat is already established as a great training centre. It is building on that strength, and that is why we as a government are happy to use racing money through unclaimed dividends to reinvest in racing to grow this exciting sport but also to grow the jobs and economic benefits from the breeding industry, the training industry and the other components of our great racing industry.

The CHAIR — Thank you, Minister. That brings us to the end of this session, and I can see that everyone around the table is disappointed by that. I would like to thank Ms Armytage, Mr Kennedy and Mr Condron for their attendance. I will adjourn the committee for 5 minutes.

Witnesses withdrew.