

CORRECTED TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into 2004–05 budget estimates

Melbourne – 24 June 2004

Members

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Witnesses

Mr J. Pandazopoulos, Minister for Racing;

Ms P. Armytage, secretary, Department of Justice; and

Mr R. Kennedy, director, Office of Gaming and Racing.

The CHAIR — I officially welcome Ms Penny Armytage, secretary, Department of Justice, and Mr Ross Kennedy, director, Office of Gaming and Racing.

Minister, I understand you are going to cover racing for a start, and you are going to race through these in 5 minutes, and then you are going to give us 5 minutes on gaming later.

Mr PANDAZOPOULOS — We are treating racing and gaming as two separate and distinct areas of the portfolio, and the financial information for racing forms part of the gaming and racing industry management output of the Department of Justice.

Overheads shown.

Mr PANDAZOPOULOS — The following slide lists the output measures here. This output provides strategic policy advice to the Minister for Gaming and the Minister for Racing on the responsible management and regulation of the gaming and racing industries, and measures of performance in 2004–05 have been refined to reflect the full scope of licensing policy and research functions of the Office of Gaming and Racing, having regard to recommendations made by the committee last year. The output cost of \$8.3 million includes continuation of funding of \$375 000 for the Living Country Racing program, which I can refer to again later on.

The significant variation in racing licences that is highlighted there under licence appeals and permits reflects the triennial renewal of bookmakers' licences which become due in 2004–05. There is no question that racing in Victoria remains a national leader under this government, and the government has consolidated this position. It is an industry of importance to our economy as well as our community life and our cultural heritage and it certainly sits well with my tourism portfolio responsibilities as well. The industry is a significant employer — \$2 billion and 60 000 people. The Spring Racing Carnival alone provides \$330 million to the Victorian economy, and when you add other great regional events like the Warrnambool carnival it is a pretty big business right across the state.

There is some interesting data here. The thoroughbred racing industry continues in its role as the national leader. While the number of races conducted in 2002–03 constituted just 22.6 per cent of the national total, the number of starters sits at just over 30 per cent of the national figure, and prize money distributed in Victoria is a whopping nearly 35 per cent of the national figure, so it just shows how strong racing is in Victoria. The returns to thoroughbred owners, who at the end of the day pay the bills, was \$131.7 million during 2002–03.

The good news also continues with harness racing. It has once again increased its market share of Tabcorp's wagering turnover. Victoria is the only Australian state where harness racing's market share is greater than the greyhound code, and it is particularly good news for country Victoria where attendees at feature country race meetings have increased by 25 per cent, so people are going back on track for harness racing as well. Returns to harness owners is \$26.7 million, and again the good news continues for greyhound racing as well. I am delighted to report that greyhound racing increased its total wagering turnover by 7.1 per cent in 2002–03. This is a final market share of 14.6 per cent of wagering product, and return to greyhound owners is \$16.7 million.

The mission for the racing program is to secure the success and pre-eminence of Victorian racing in the long term, both at national and international levels. Our primary objective is to ensure probity and integrity of racing. There are a number of strategies we have to promote the industry. We are looking at the key issues of thoroughbred industry governance arrangements mandated to maintain certain stakeholder consultation. We have also reviewed harness racing governance to ensure that clubs like Moonee Valley are run not by Harness Racing Victoria but by committees like the Melbourne Harness Racing Club that has been set up. We are also about strategic partnerships between government and key parts of the industry.

One of those strategic partnerships is the racing museum that is opening on 1 July, dollar for dollar with the state government, \$3.75 million; under the Living Country Racing program \$375 000 was provided last year to 33 country racing clubs. We continue to work at the national level to support development of a national framework to ensure a fair return to the Victorian racing industry from interstate bookies, and also continue to work at the national level to seek practical solutions to the threats posed to our racing industry by overseas betting exchanges. In the budget you will note that we have provided again continuity for what has been termed the health benefit levy — another \$4 million over two financial years to the racing industry that will assist in its development. I can go into details about that later on if you wish.

Other priorities are continuing to work through the Crown land issues to get new leases on race clubs that will lead to new infrastructure investment and support the breeding industries. Other priorities are making sure that the racing museum along with Racing Victoria works very well from a tourism point of view and a visitation point of view. I am happy to raise more details there.

The Tabcorp-TAB merger will be a key issue to ensure that we work through that process to try to maximise the benefits for Victoria, noting that it is a privatised agency and we do not run it. There are some benefits, but there are some possible issues of concern there. I can talk about those if you want, but I am happy to take questions.

The CHAIR — Minister, we will go until about 10 past 3 or quarter past 3 on racing, and then move into gaming. There may be some questions people want to still ask in that latter part, but given it is under Justice that will allow us that overlap, if necessary. With respect to page 78 of BP4, health benefits levy transitional payment to racing clubs, I want some explanation on the purpose of this contribution to racing clubs and how you measure the success of what you wish to achieve.

Mr PANDAZOPOULOS — A gaming machine levy of \$1533 was put on all gaming machines across Victoria. When that announcement was made the government decided the racing industry would not be worse off, or it would get a rebate on that levy. Being a 25 per cent shareholder of Tabcorp and Tabcorp having to pay that levy to the government meant there was a potential reduction in revenues to racing. The budget papers highlight that we are continuing this for another \$8 million over two years to maintain that contribution to at least 2006.

We are working through a process with the racing industry at the moment about what that extra allocation will mean over two years, and where it is likely to go. But certainly where dollars have gone and where the priorities are is what we call the country racing support measure, which is about working with racing clubs to support their structural needs and to consider the way they structure themselves, but also major occupational health and safety issues, which is a major issue in clubs, particularly with so many clubs being drought affected at the moment. We are working through those strategies.

We are trying to prioritise where is the best investment for this government contribution. Also the industry is interested in using some of that resource for event development and tourism promotion. There is more opportunity to promote regional races as tourism events as well, and they are wanting to use some of that resource there and also extending welfare programs to other participants in the industry. In the past the contribution we have provided has gone to things like welfare programs for jockeys. We are wanting to extend those to other industry participants like track riders and stable hands who do not have superannuation schemes or retirement benefit schemes. That is one other area. Also training and education and country racecourse development plans are some of the things we will be talking about for the next two financial years. Seeing that the government is returning this to the industry, we can actually spell out where the dollars go and into what programs.

The CHAIR — I know I am hurrying you along because you have three portfolio areas. I am interested in performance measures as well, so you can either do that now or take that on notice.

Mr PANDAZOPOULOS — If we could take that on notice. We have not developed performance measures over the next two financial years, but we will work through that.

Mr RICH-PHILLIPS — What does the government do beyond the two years just from the point of view of certainty for the racing industry?

Mr PANDAZOPOULOS — At the moment we are extending it up until 2006, or maintaining it until 2006. Obviously we will be able to review it in that year. We want to see what the Tabcorp-TAB merger actually means. We are also commencing the review of the duopoly that racing is a partner with Tabcorp, so we might end up with an idea of where the industry will be going in the future. We are maintaining that until 2006. The industry has been very appreciative of that, and you might have seen press releases from them and also reports in their newsletters and the magazines that are supportive of the continuation until 2006 at least.

Mr RICH-PHILLIPS — So the decision will not be made until 2006 as to what you do beyond there?

Mr PANDAZOPOULOS — We will review it at that time of course.

Mr CLARK — Minister, you referred in your presentation to the new consultation requirements being imposed on the racing code statutory authorities. I understand the statutory authorities have to put consultation plans before you for acceptance and sign off. I also understand that there is no requirement that the statutory authorities actually consult with industry participants about what will be in the consultation plans. If that is correct, do you think that is an acceptable position, or will you encourage statutory authorities to consult with industry participants in formulating the consultation plans they are going to put before you?

Mr PANDAZOPOULOS — You would be aware that only just recently we passed legislation that requires Harness Racing Victoria and Greyhound Racing Victoria to consider similar mechanisms that are in the legislation for Racing Victoria, which obviously is not a statutory body. We believe the principle is that industry participants should be aware of the consultative mechanisms. Part of the problem in greyhound racing and harness racing is that the industry groups probably need a bit more support for their professional development. I know with greyhound owners and trainers it is a good organisation but the majority of people who own greyhounds and train greyhounds are not members, so how do you talk with a group knowing you have certainty that all greyhound trainers are supportive of that? They are some of the issues we will work through. There will be a schedule that we will agree to with both HRV and GRV so everybody knows how to participate. The intention is to make it similar to what exists in Racing Victoria.

Ms GREEN — Minister, page 175 of budget paper 3 contains the output measure relating to ‘Living Country racing program grant applications processed’. Can you outline to the committee how this program has improved access to racecourses for people with disabilities and has built better facilities for the broader local communities?

Mr PANDAZOPOULOS — I think the issue of disabled access was raised in the past by the chair at previous meetings. I said earlier that last year we funded 33 clubs, and since the inception of the program \$1.26 million has been made available to country racing clubs. The targeting of that program is specifically to facilities that help improve access but also encourage involvement with other community groups. Noting that most racing clubs are co-located with other user groups as well, we are encouraging the use of racing club facilities with other community groups.

Specifically for disabled access, the Bendigo Jockey Club has received \$19 000 worth of funding for disabled car parking and sealing of areas for disabled access. Edenhope Race Club has also received upgrades for the sealing of car parks for disabled patrons. Casterton Racing Club has received funding for access walkways to make them more secure for people with disabilities. So it is one of the areas we are encouraging race clubs to do. But there are other things that have been of importance. At Benalla Racing Club there has been the development of a children’s playground, and the same at the Pakenham Racing Club in the past. We think these are very valuable programs. The applications have just closed for the most recent round, yet to be determined, but certainly we are encouraging racing clubs that if there are issues about disabled access or upgrades, that is one of the areas they can apply for. We think it is valuable to improve access for all to racing clubs.

Mr FORWOOD — Minister, I refer you to page 176 of BP3 and to the output measure ‘Successful appeals against licensing and registration decisions’, which shows a target of less than 1. Let me first award you the prize for the most ridiculous output measure in the budget papers of 2004–05, because if it is less than 1 it has to be zero, particularly when you are talking about successful appeals, because you cannot have a half-successful appeal. Secondly, do you not believe that the implication behind having such an output measure is that either you will make decisions that are completely unappealable and therefore you will not do your job properly, or if someone does appeal, you will behave inappropriately in order to meet your output projection?

Mr PANDAZOPOULOS — No.

Mr FORWOOD — Will you fix it for next year?

Mr PANDAZOPOULOS — I think you have raised this issue in the past, if I recall. It is really about the robustness of the process. You are wanting to make sure there are opportunities for appeal against licensing decisions and you want to make sure that the integrity of that minimises that risk.

Mr MERLINO — I refer you to page 175 of budget paper 3 and the various gaming and racing industry output initiatives and also to pages 232 and 236 of last year’s budget paper 2 where there was an appropriation of \$3.8 million for the relocation of the racing museum to Federation Square; you also referred to that in your

presentation. I understand that the museum will soon be opening to the public. Can you explain to the committee how the museum will meet its ongoing costs and outline the possible benefits to Victoria?

Mr PANDAZOPOULOS — I did highlight earlier that \$3.75 million has been provided dollar for dollar. This is the first time there has been any of this type of capital work done since the TAB was privatised in 1994 and I think it shows the support this government has for the racing industry. The decision has been made to call the Australian racing museum and hall of fame Champions. It will open on 1 July at Federation Square. We have been working together with the racing museum and Racing Victoria, which is the owner. It understands that what we are doing is providing half of the capital and recurrent funding will be run by and contributed to by the racing industry itself.

The CHAIR — So they are to run it.

Mr PANDAZOPOULOS — It is not a state museum, it is a racing industry museum. We have provided a capital contribution. Of course we will support it in terms of encouraging it to be part of the broader Federation Square and tourism as an educational tool, but also as the latest cultural tool in Melbourne. The heritage and culture of racing is something that will be much more appreciated as a result of the racing museum being on a site that is visited by 6 million people each year like Federation Square. It is the biggest new tourism spot in Melbourne. I walked through the museum the other day. Apart from the traditional museum artefacts that are of interest to racing enthusiasts, there are a number of interactive audiovisual displays which will be really great for kids and families in the exhibition space. It will house a retail shop and corporate conference and function facilities. One of the first functions will be the racing ministers conference to be held in Melbourne over the next few months; it will be held in the conference area there.

I can tell you that the business model they have proposed will see recurrent costs covered by use of special exhibition space and revenue from the retail, corporate and function facilities. That is the business model they have provided. They understand that they are paying the bills. I think it will be very valuable for Victoria. I can also inform the committee of some really good news, which is that in line with other attractions at Federation Square like the national gallery the decision has been made to provide general entry to the museum free of charge. There was some talk in the past about charging, but they have chosen the business model they have produced so they can have other income-earning streams that will pay the bills for the facility while there is free-of-charge access.

The CHAIR — Can I just have that absolutely clear — the ongoing operating costs of the museum will not be the responsibility of the state. That is what I understood it to be.

Mr PANDAZOPOULOS — The contractual arrangement is we are just providing half of the capital.

Mr RICH-PHILLIPS — Can you expand on what action is taking place with respect to betting exchanges?

Mr PANDAZOPOULOS — You are aware that betting exchanges pose a significant threat to racing. I understand from betfair.com itself that the equivalent of \$150 million is being bet on racing every week. It is one of the fastest growing forms of gambling, but it is unregulated. It is against Victorian law, but, as you know, we cannot control what happens on the Internet. As you may know, the federal government has been reviewing the Interactive Gambling Act. We have been calling on it for a period of time to amend the Interactive Gambling Act to prohibit betting exchanges unless they are licensed and registered by each jurisdiction and each racing code. Our concern is that bets are being placed on unregulated sites and a different type of product. It is different in two ways: first, you can bet on horses to lose; and second, you are not betting against a bookie, you are betting against somebody else placing a bet. You are placing a bet against somebody else who has also placed a bet — they might have placed a bet to win and you are placing a bet to lose.

It is a different form of gambling. Not 1 cent is coming back to the racing industry, although in fairness to betfair.com it is saying that if it is registered it will be happy to provide dollars. We believe the federal government should prohibit it. That is what the racing ministers and the gaming ministers have called for at their ministerial councils. We hope the federal government in its review — and hopefully it will announce it before the election — will prohibit it as we have asked. We believe if the net outflow of dollars from Australia without a cent coming back in continues, the product we love — the Australian racing product, particularly the pre-eminent racing product in Victoria — that without the returns from Tabcorp and bookies wagering at the moment we will not have the sort of product we enjoy now and the industry will be diminished because it will not get returns.

Mr RICH-PHILLIPS — From a practical point of view, whether it is you legislating or the commonwealth legislating, betfair.com is based in London so how are you going to practically control the problem?

Mr PANDAZOPOULOS — This is the issue. A task force has been put in place by the racing industry and the racing ministers. The recommendation is that it is doable. The commonwealth already has an Interactive Gambling Act in relation to prohibiting casino and poker machine-type games which requires the commonwealth to work with banking authorities because you are using credit card details to access and place bets. Something similar could occur in relation to betting exchanges. Prohibiting something unless it is licensed opens the door that if they can prove the integrity and probity of the product over time, racing codes might want to license them. At the moment there is a big gap between their proving the integrity of what they are doing. While they are interested in offering returns to the racing industry — the racing industry being the owner of the product — our key concerns are really that anything which undermines the integrity of our racing industry undermines the product that we have. There is more potential growth in this product, particularly as an export product, and we believe all you need is to have two or three negative incidents where people have rorted the system using an unregulated betting system and that damages our reputation here in Australia. That is something we do not want. That is why we have taken a very hard-line view.

The CHAIR — We have two final questions so could your answers be brief.

Mr DONNELLAN — Leading on from Mr Rich-Phillips's question, what are we doing about the freeloaders from offshore like Vanuatu and so forth? I believe the Northern Territory might be coming to the party eventually. What is happening there at an interstate ministerial level?

Mr PANDAZOPOULOS — There have been two processes. One has been a task force which is looking at what we call cross-border betting — that is, in effect, interstate bookies. The other one is the issue of betting exchanges which are offshore. In relation to betting exchanges, we know from information provided by betfair.com that it has 2000 registered clients in Australia alone. If it was made transparent, I think you would find interesting, well-known names of people who are placing bets offshore on the racing industry they theoretically love. We are taking a hard-line view against freeloaders. People who love the industry need to make sure that they are not undermining it at the same time and being opportunistic.

It is disappointing that a resolution has not happened yet on cross-border betting despite talks with corporate bookies interstate. There has been an agreement about a product licence fee which gets returned to the racing industry among racing ministers and in principle by corporate bookies, but there has been no agreement about what that will entail. Unfortunately the corporate bookies, while being prepared to offer something up, want to dilute other laws to in effect grow their business at the expense of racing. There is a way to go. This again highlights the problem of betting on the Internet. While the advice we have from the Government Solicitor's Office is that it offends Victorian law, we cannot regulate it unless there are gentlemen's agreements or the commonwealth determines to regulate it. So far, in terms of wagering, the commonwealth has unfortunately been highly reluctant to get involved to help us to assist to regulate effectively.

The CHAIR — Minister, at this point we are happy to move to the gaming portfolio.

Witnesses withdrew.