

INQUIRY INTO GREYHOUND RACING IN NSW

Organisation: Greyhound Action Group NSW Inc

Date received: 18/09/2013

To : Legislative Council Select Committee on Greyhound Racing in NSW 18-Sep-2013

Submission - "Corporate Bookmakers" and Potential Solutions.

Relevance: - Terms A (economic viability), B (financial performance) , C (Government Assistance measures)

Background

In the Greyhound Action Group Submission One it proposes as part of its "Potential Solutions" (p32):- *"GRNSW has been lobbying government to alter arrangements in respect to charging of corporate bookmakers. This should be further explored"*.

I support a review of the corporate bookmaker charges and taxes as it would appear these are underweight in respect to NSW Stakeholders.

Hopefully GRNSW will submit to the Inquiry in this respect as to its basis of charging, as it has stated improvements are achievable through that aspect (gross margin versus turnover fee model); therefore that matter is not addressed in this submission.

However, this submission intends to raise discussion on the actual turnover fee level being charged and the state taxes applicable to the corporates.

Publicly available information is limited but I have made some broad estimates and put these forward as follows :

Comparison - overleaf

	Totalizator Betting	Corporate Bookmakers
Returns to the NSW Racing Codes	<p>In Y2012/13 Tabcorp returned <u>\$249.8M pa (Note 1) to the NSW racing industries</u> under the Racing Distribution Agreement. In broad terms (it is a complex formula), the RDA provides that 4.7% of turnover is paid to the racing industry (Note 2).</p>	<p>It is my understanding that corporate bookmakers pay a 1.5% turnover fee for use of Race Fields Information (rising to 2.0% for premium product), that percentage determined by NSW government Racing Administration Regulation.</p> <p>If we estimate corporate bookmaker turnover on NSW racing product as \$2B pa [(extrapolated by sourcing data from the Y2010 Racing NSW Strategic Plan - (Note 3)] then:- <u>Current Race Fields Information fees paid to the racing codes are \$30M (Note 4)</u></p> <p>If the turnover fee was the same as the RDA, it is estimated the \$30M payable would rise to \$90M+ (Note 10).</p>
NSW State Taxes	<p><u>\$157M per annum (5) is generated for the NSW state government</u> <i>"to be utilized for public services such as health, education and law enforcement"</i></p> <p>http://www.parliament.nsw.gov.au/prod/parlment/hansart.nsf/V3Key/LA20130815029.</p> <p>It is estimated that \$107M of this is derived directly from betting on NSW racing product (6).</p> <p>The totalizator state tax rate is 19.11% of player losses (7).)</p>	<p><u>NIL</u> - It is my understanding that as the corporate bookmakers generally operate outside NSW, they are not subject to payment of NSW state taxes.</p> <p>In most cases, these operators offer tote markets based on the relevant state tote dividends. Therefore, potentially these operators can achieve similar 14%+ net margin returns (the totalizator returns are governed by the NSW Totalizator Act).</p> <p>Based on the same estimate of turnover as above, it is estimated if that corporate</p>

		bookmakers paid similar state taxes then NSW state taxes would be \$55M+.(8)
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Corporate book makers provide a very positive market based productivity mechanism

It must be carefully noted that the corporate book-makers themselves provide a market based mechanism to productivity for the three racing codes. That is, under the RDA TAB distributions, the Inter Code agreement between the three codes stipulate fixed returns, broadly 13.2% for greyhounds despite the fact that greyhound market share is above 20%. Whereas corporate bookmaker fees are earned direct by the codes.

This in itself provides a market based mechanism to reward productivity, though because it is a much lower market share relative to total turnover (less than 20% as I understand it, and gauged by the above figures showing totalizator return to industry of \$250M and yet if corporates are charged the same rate, \$90M), its impact is dulled but real nonetheless.

That is, for every \$100 bet:

- On totalizator, \$4.70 is derived by racing industries, of which greyhounds receives 13.2% being \$0.62c, despite contributing 20% of market share which should equate to \$0.94c.
- With corporate book makers, the \$1.50 return is paid directly to the greyhound racing industry.

Therefore the corporates serve to provide a market based mechanism to performance of the codes.

General -

The corporate book makers have been paying the 1.5% Race Fields Information and continue to grow in size and in general, they are flourishing. For example, the recent acquisition of TomWaterhouse.com (9)

I suggest that an increase in the return basis (1.5%) as set out in government regulations be considered. If the 1.5% fee was lifted to 3.0% with a 10% state tax charge on racing receipts, then this would improve returns to NSW stakeholders as follows, assuming the numbers already used :

- Returns to racing codes would lift from \$30M to \$60M
- State government charges of \$6M
- Nets \$54M for racing industries.
- If greyhound racing market share is 20%, that would provide \$11M for greyhound racing in lieu of \$6M on the same data assumptions.

It would be important to inquire from the viewpoint of all stakeholders including the impact that the increased charges would have on competitiveness and those knock on effects to the racing industries. For example, we would not want to simply lose market share to other states and result in net turnover losses to the racing industries as it is critical to sustain these industries. It may be important to take a stepped and very considered approach.

It should be carefully noted that the corporate book makers themselves provide a market based mechanism to productivity for the three racing codes and this is a massive positive for the productivity of the overall racing codes (collectively) and its contribution to the NSW economy.

However, on the balance of information, it appears to be that returns from corporate book-making are underweight for the NSW racing industries and state government and that some adjustment should be considered.

Michael Eberand CPA and Participant NSW Greyhound Racing.

Notes / basis of calculations:-

(1) [http://www.tabcorp.com.au/resources.ashx/shareholderreportschilddatadocuments/1459/FileName/FA43516C064E26F14E99A4AF93525EFB/Full_Concise_Annual_Report_\(2.9_Mb\).pdf](http://www.tabcorp.com.au/resources.ashx/shareholderreportschilddatadocuments/1459/FileName/FA43516C064E26F14E99A4AF93525EFB/Full_Concise_Annual_Report_(2.9_Mb).pdf)

(2) This is a complex formula but summated at 4.7% by Alan Cameron AM Attachment B to the Greyhound Action Group NSW Inc. Submission One.

(3) Racing NSW Y2010 Strategic Plan p11 estimates Bookmaker and Betting exchange turnover at \$1,403,000,000 on NSW thoroughbred racing. If we assume the market share of thoroughbreds is 68% then estimated turnover is \$2B. http://www.racingnsw.com.au/flipbook/strategic_plan_2010/index.html.

(4) Referring to item 3 then calculating: $\$2B \times 1.5\% = \$30M$

(5) http://www.budget.nsw.gov.au/_data/assets/pdf_file/0015/25224/Ch_6.pdf

(6) Calculated by extrapolating the stated \$21.02M raised from NSW greyhound racing betting (GRNSW Annual Report p33) and extrapolating by NSW greyhound racing market share (19.6%) to arrive at a total NSW racing product figure.

(7) NSW state tax for totalizator betting is 19.11% of player loss

http://www.treasury.nsw.gov.au/_data/assets/pdf_file/0004/24349/TRP13-01_Interstate_Comparison_of_Taxes_2012-13_dnd.pdf .

(8) If we assume player losses are 15% (totalizator Act provides for 14-25%) then $\$2B \times 15\% \times 19.11\% \text{ tax} = \$57.3M$

(9) <http://www.news.com.au/sport/superracing/uk-bookmaker-william-hill-buys-out-tom-waterhouse-bookmaking-operation/story-fndps3qy-1226694002015>

(10) 4.7% (note 2) $\times \$2B$ (note 3), = $\$94M$. If greyhound racing market share is 20%, this would be approx. $\$20M$ for greyhound racing.