

# A PLAN TO GET BACK ON TRACK

FINDINGS FROM THE RACING INDUSTRY ECONOMIC REVIEW



RACING AND WAGERING WESTERN AUSTRALIA



# ISSUES & TRENDS

## REVIEW PROCESS

The formation of Racing and Wagering Western Australia (RWWA) in 2003 brought with it the commissioning of a comprehensive economic review of the Western Australian racing industry.

### CONSULTANTS

RWWA engaged three leading consultancies to assist in the review process.

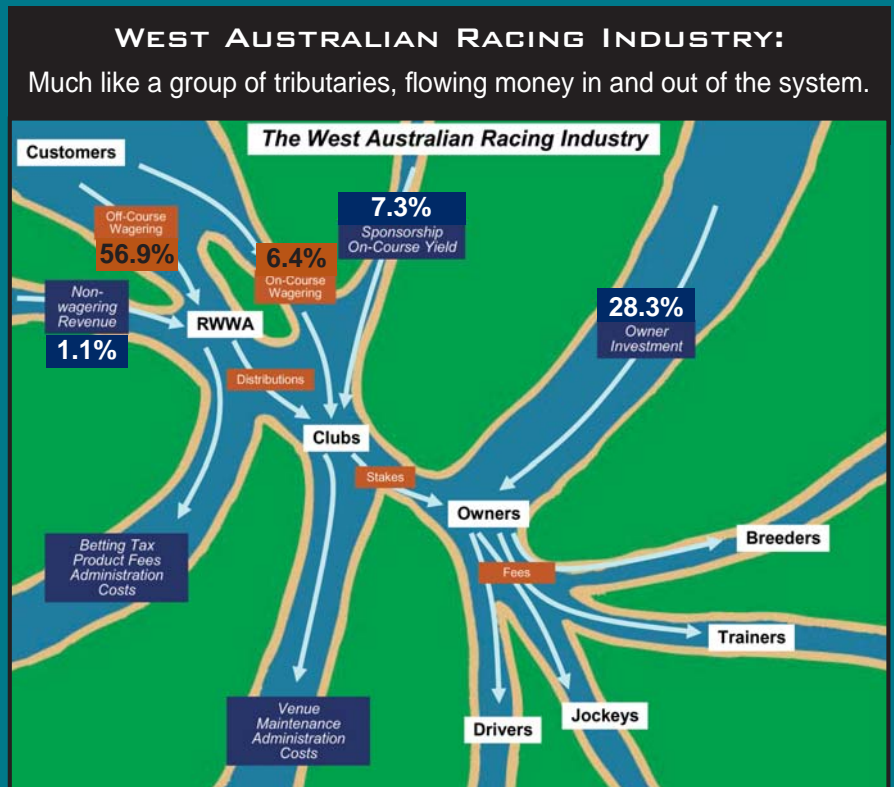
- The Marketing Centre *project management and strategy development*
- IER *consultation and communication*
- Allen Consulting Group *financial modelling and betting tax reform arguments*

### INDUSTRY CONSULTATION

During the process, RWWA

- Issued surveys to 17,000 participants
- Hosted 22 workshops statewide

Off-course wagering and owner investment are the industry's biggest financial levers.



## ISSUES

The "gap" in stake money per meeting is widening.

GST has increased the cost of participation, particularly for hobby owners.

Declining participation across the board - owners, drivers/riders, trainers, on-course attendance and number of animals.

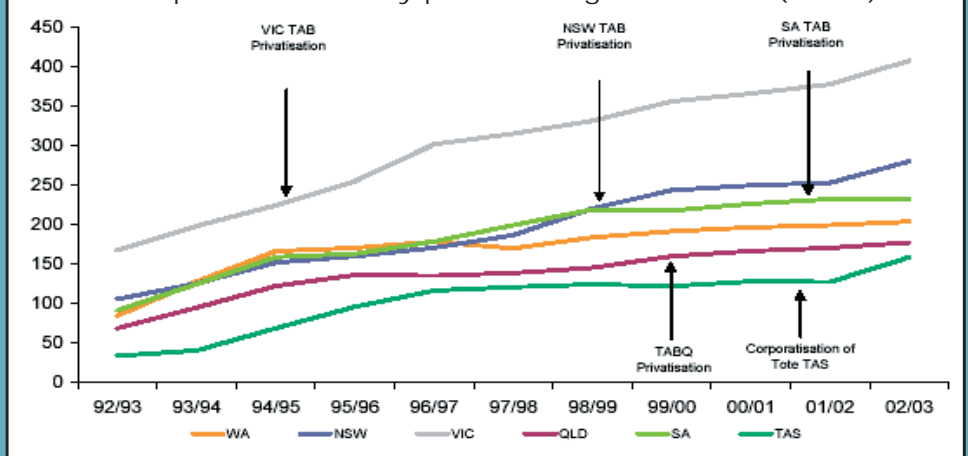
A significant proportion of club financial resources are directed to the management and maintenance of outdated venues built prior to the 1970's.

New competitive threats in the form of external providers of wagering products that do not currently contribute financially to the racing industry.

Product fees would require TAB to pay approximately \$9m in fees for Western Australian wagering on interstate racing products that represent 75% of TAB turnover.

Clear indication was received from the surveys, workshops and preliminary findings of the review that financial issues were more paramount in the horse codes than the greyhound code.

Example: Stake money per Thoroughbred Race (Index)



# OBJECTIVES & STRATEGIES

## REVIEW OBJECTIVE:

To develop a comprehensive industry plan that produces lasting results for the enduring benefit of the industry, enjoys the support of the industry and is capable of implementation.

RWWA's charter under the Act is "to foster development, promote the welfare and ensure the integrity of metropolitan and country thoroughbred racing, harness racing and greyhound racing, in the interests of the long term viability of the racing industry in Western Australia."

## WHAT ARE WE GOING TO DO?

The industry plan developed from the review has a range of strategies that target:

1. Increasing the levels of funds flowing through to participants.
2. Introduction of a grants policy that adequately develops infrastructure.
3. Seeks to retain existing owners, and later increases the number of new owners.
4. Improves the industry's marketing and promotion capabilities.
5. Increase operational efficiencies.

## VISION

Racing in WA has a unique character, driving enthusiast participation and generating wide appeal. It is financially robust with efficiency at its core and is a vibrant contributor to the fabric of regional communities.

This vision has the following components:

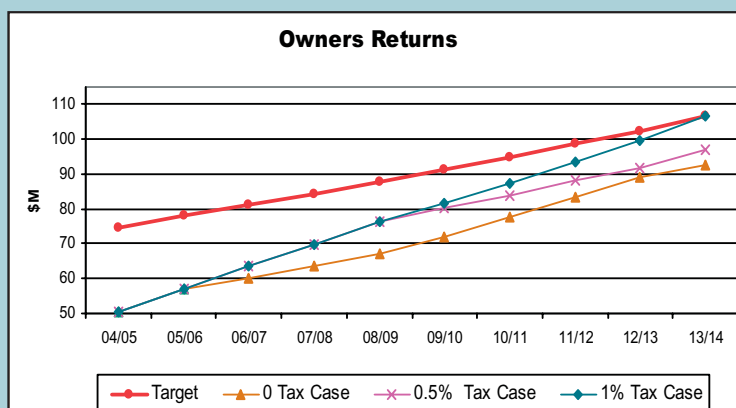
1. Widespread participation
2. A significant contributor
3. Social benefits for Western Australia
4. The animal as the athlete
5. Reputation is a strength
6. Our capabilities are cutting edge
7. We strive to eliminate all forms of waste

## OVERCOMING THE GAP IN RETURNS TO OWNERS

The independent report for the recent economic review detailed a requirement or "gap" in 2002/03 of over \$25 million in additional returns to owners in the form of stake money, subsidies and breeders bonuses for WA to achieve the national average stakes per meeting.

Recognising that WA costs structures are lower than most states and that there are other revenue opportunities for the leading states, it is believed that the WA racing industry, encompassing the thoroughbred, harness and greyhound codes, needs to target in aggregate at least 70% of the "gap" to retain current levels of ownership and move towards 90% of the "gap" to increase ownership participation

The total funding required to meet the 70% target is \$69.9m in 2004/05 or \$74.8m if the 90% target is to be achieved. RWWA has developed financial models that will achieve the 90% target level for funding over ten years but it is subject to Government support being provided in the form of a 1% betting tax cut.



## RETAINING OWNERS

A number of strategies to retain and later attract new owners of racing animals.

The strategy involves:

Making the process of animal ownership more simple and more user friendly.

Researching and understanding ownership motivation and barriers in order that we can actively pursue increased numbers of owners in the industry.

Appointing a development officer within RWWA to focus on assisting potential owners and as a key contact point for ownership.

Developing and implementing schemes to promote ownership. eg. syndication, web site, signage and documentation.

Developing programs that meet owner's non-financial needs to ensure their contribution is recognised and respected.

# INDUSTRY INFRASTRUCTURE

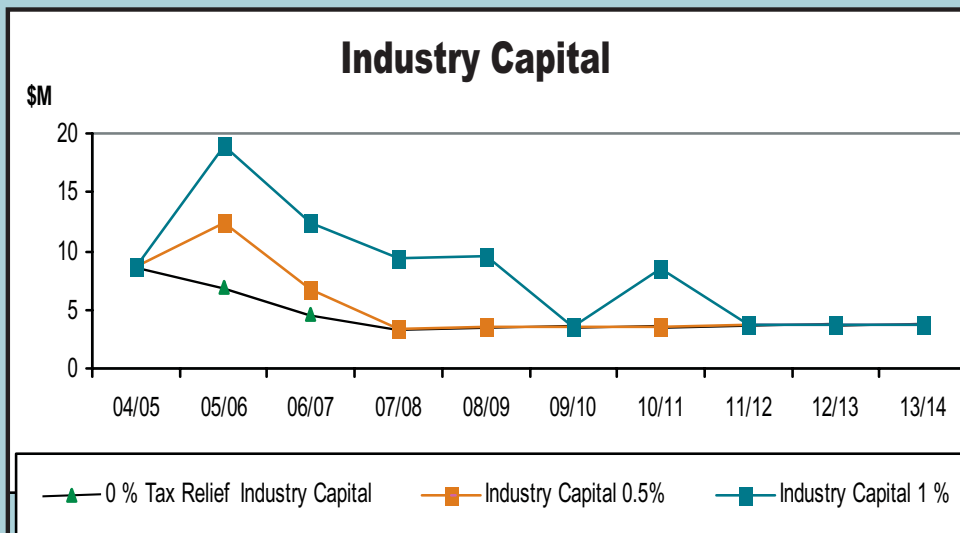
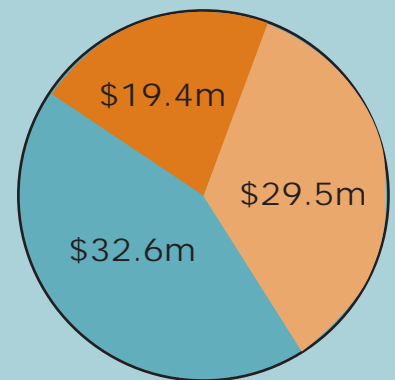
## COMPREHENSIVE GRANTS POLICY

Another key strategy is the introduction of a comprehensive infrastructure grants policy that targets \$81.5 million in grants over the next ten years to significantly raise the standard and quality of the major racecourse and training venues in the industry.

**\$32.6 million** of recurring grants have been identified for the clubs to finance replacement, repair and maintenance projects across all codes and clubs.

**\$19.4 million** of grants have been identified as essential improvement projects.

**\$29.5 million** of grants have been identified as development projects including the major regional projects at Albany, Bunbury, Geraldton, Kalgoorlie and Pinjarra.



## MAXIMISING CLUB EFFICIENCIES

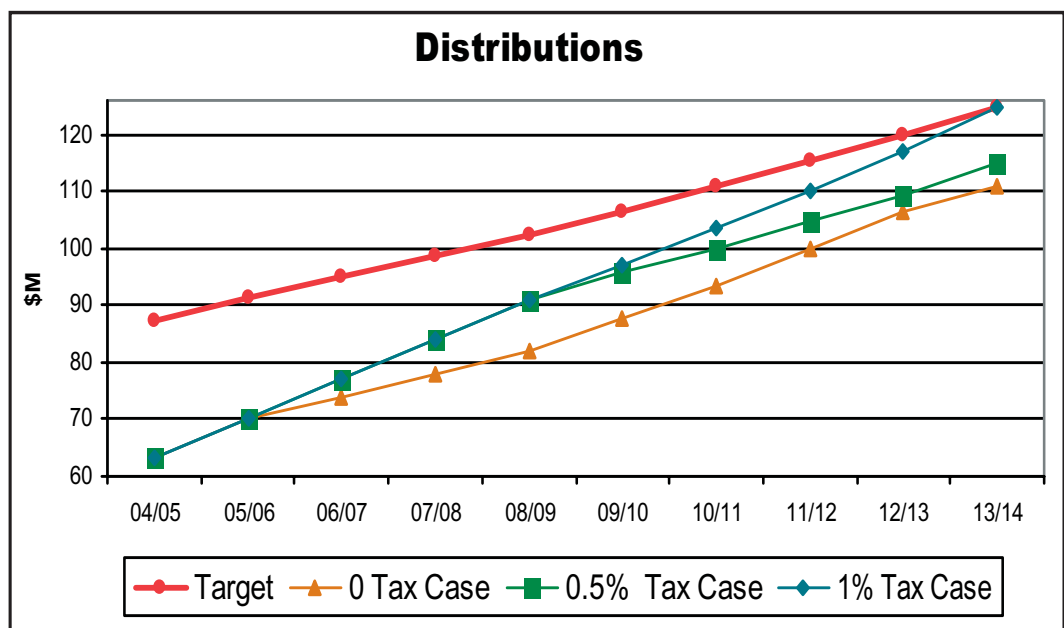
Club efficiency will be improved through:

Cost containment policy for club funding

- Venue Fees held
- Product Fee 4.5% growth
- Training Fees 4.5% growth

Clubs to mobilise community support and alternative funding.

RWWA to support clubs in marketing, promotions and on-course yield.



# STRATEGIES

## **OPERATIONAL EFFICIENCIES**

The efficiency of the industry will be improved through:

The use of a simple franchise-style business model and introduction of a standardised financial accounting and reporting systems and common business processes.

Increased industry collaboration and encouragement for sharing ideas. RWWA will assist in developing a framework by which information can be gathered and disseminated. This includes the development and use of an intra-industry website "knowledge centre".

Development of a comprehensive training package for all participants. This is already underway with RWWA instigating a review of industry needs, current and best practice across all three codes ranging from apprentice jockeys to administrative tasks at tracks.

Centralised racing services, registration and licensing of the three codes.

Industry-wide roles for integrity have been established and will be enhanced, e.g. investigators and veterinarian.

Establish industry-wide buying processes, e.g. laboratory analysis.

## **INDUSTRY MARKETING**

### **NEW PRODUCT DEVELOPMENT**

The greatest growth of elite sports has only occurred through re-invention of the product. Racing product has not changed during the sport's long history. By contrast, motor racing, AFL, cricket and rugby have all embraced innovation and developed a product more suited to modern consumers.

### **BRAND MARKETING**

Positive industry image is paramount to attract wagering, on-course attendance and sponsorship etc.

### **ON-COURSE**

Improved returns through increasing customer spend, better utilisation of facilities and improving patron satisfaction. We need to better understand the on-course yields and develop industry benchmarks.

### **MEDIA RELATIONS**

Establishment of a media services bureau to gather, generate, disseminate and deliver racing media. The opportunity to develop a free-to-air magazine style racing show pitched at extending its appeal to a broader audience. Lastly, the development of personalities to represent racing in the media.

### **PROMOTIONAL CAPABILITIES**

Developing with the clubs and participants the ability for all sectors of the industry to effectively promote industry events. The establishment of an industry promotions officer to assist clubs in skills development and promotions.

### **SPONSORSHIP**

Use of industry synergies to attract additional sponsorship. Appointment of a sponsorship officer to assist in developing skills, making contacts and securing industry-wide sponsorships.

# INDUSTRY FUNDING

## INDUSTRY FUNDING PLAN

To fund the industry development plan:

1. TAB to achieve turnover growth - budgeted at 4.5%.
2. Utilisation of TAB accumulated reserves, which are budgeted to decrease from \$63m now to \$39m in 2009.
3. RWWA's cost containment through operation efficiency - budgeted at \$2m p.a.
4. RWWA's deferment of wagering projects - bet engine and terminal replacement.
5. Increased club efficiencies through shared services and improved on-course yields. Budgeted to contain venue payments to clubs at current levels.
6. Achievement of sponsorship targets - budgeted net income of \$500,000.

But RWWA alone cannot deliver the returns to the owners nor project grants at the target levels.

## TAXATION REFORM IS NECESSARY

RWWA and Western Australian racing clubs are unable to generate the financial resources necessary to implement the required industry development programmes.

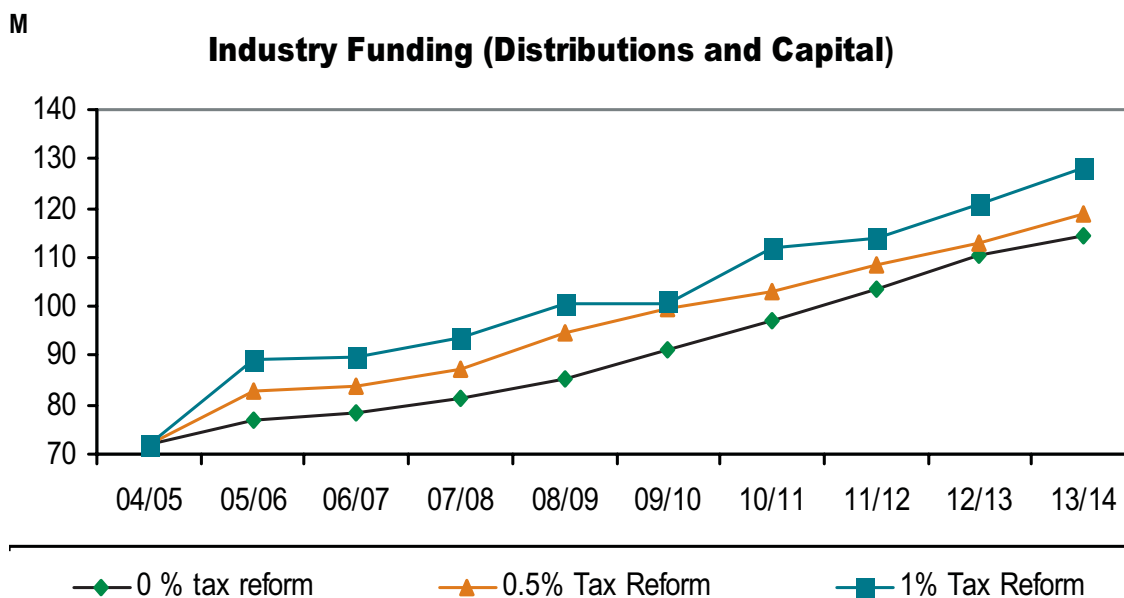
In order to provide the financial resources for investment in the racing industry, RWWA is seeing a reduction in the rate of betting tax of 1%.

RWWA is also proposing a change in the tax base. At present, the value of betting tax payable is determined as a percentage of wagering turnover. RWWA proposes that the tax base be changed so the value of betting tax payable is determined as a percentage of wagering revenue.

The assistance provided to the racing industry through taxation reform is necessary for long term industry development and sustainability.

Commensurate with the projected expansion in the industry as a result of reforms and investment, taxation revenues to the Government are expected to recover over time.

## TAX REFORM OPTIONS



Over 10 years, a 1% reduction in tax will allow RWWA to return an additional \$117m to the racing industry.

# TAXATION REFORMS

## THE CASE FOR TAX REFORM

RWWA's wagering business is taxed at a relatively high rate in comparison with wagering service providers in the ACT and Tasmania that, like RWWA, do not have or potentially have, the benefit of revenues from gaming activities.

Governments in other states have assisted the restructuring of their respective industries by providing financial assistance or "kick starts" to secure support for reforms and to enable industry participants to finance the reforms. Examples of the financial assistance provided in other states are as follows.

- In 1998, the NSW Government provided \$25 million from the sale proceeds of TAB Limited to the NSW racing industry, and \$19.4 million in early reductions in the rate of betting tax.
- In 1999, the Queensland Government provided a \$10 million grant to the racing industry, provided loans of \$30 million when TABQ was privatised and reduced the rate of betting tax.
- In 2000, as part of the restructuring of the Tasmanian racing industry, the Tasmanian Government waived the \$2 million licence fee payable by Tote Tasmania for an initial period of three years to assist with restructuring costs, and the waiver has subsequently continued. The betting tax was abolished.
- In 2001, the South Australian Government provided a one-off grant of \$11.15m to the SA racing industry during the sale of the SA TAB. The government also provided guarantees and interest-rate subsidies to enable the racing industry to borrow up to \$20 million.

Economic modelling undertaken for RWWA indicate that the economic activity of direct participants in the racing industry (RWWA, animal breeders, animal owners, trainers, racing clubs, jockeys and drivers) accounts for 0.21% of gross state product (including indirect taxes) with a gross value of industry production of \$275m and an industry "valued added" amount of \$175m.

Direct Employment in the industry is estimated at 2,300 full-time positions.

In addition to these values of direct participation in the industry, there is a substantial economic value to related industries. This includes livestock feed suppliers, providers of veterinary services, property and transport services.

The WA Racing Industry also produces substantial community social benefits. Some key indicators of the racing industry's role in building inclusive and welcoming communities and powerful collaborative community partnerships are:

Participation in the racing industry as a hobby owner, trainer or breeder, customer attending the races or other race club events.

Major racing events of regional racing clubs and annual race days at community clubs play a significant role in regional tourism and are a key part of the community fabric at a time many regional centres are struggling to develop regionally based activities and events.

A study in 2001 found that the introduction of the GST has resulted in additional costs of approx \$8.4 million in owning, breeding, training and racing to WA horse owners who are not registered for the GST,

This is a substantial increase in the costs to this class of owners and an impediment to continued participation.

## TAX REFORM OPTIONS

RWWA has considered a range of possible schemes of government assistance involving a reduction in the tax rate, including:

A one percentage point reduction in the effective rate of turnover tax from 4.5% to 3.5%, consistent with the financial requirements of the industry for investment in infrastructure and the meeting of target levels of stakes.

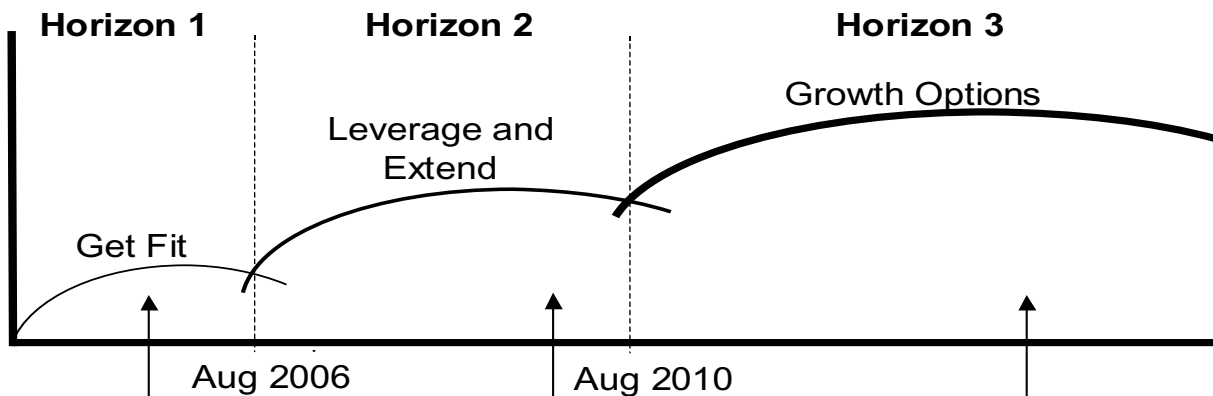
A half percentage point reduction in the effective rate of turnover tax and a government development grant of \$29.5 million in infrastructure grants to assist with industry development. This would enable investment in major regional infrastructure projects at Albany, Bunbury, Kalgoorlie, Geraldton and Lark Hill and in the Peel region, but would not enable the target level of stakes to be achieved.

A half percentage point reduction in the effective rate of turnover tax, which will not be sufficient to meet major regional infrastructure requirements nor enable the target level of stakes in the industry to be achieved.

TAX REFORM	DISTRIBUTION - STAKES TARGETS	GRANTS - CAPITAL PROJECTS
1% cut	By year 10 achieve 90% of national benchmark	\$81.5m
0.5% cut + specific grants assistance	By year 10 achieve 83% of national benchmark	\$81.5m
0.5% cut	By year 10 achieve 83% of national benchmark	\$52.0m
No change	By year 10 achieve 80% of national benchmark	\$45m

# VISION & STRATEGY

## STRATEGY DEVELOPMENT OVER TIME



### **HORIZON 1**

- Stakes;
- Urgent maintenance;
- Shared services;
- Media relations, branding, promotion and on-course yield.

### **HORIZON 2**

- Increased on course yields;
- Image and promotional capabilities increases attendance at feature days;
- New products trialled.

### **HORIZON 3**

- New products
- Expanded media coverage, wider audience and sponsorship;
- Export opportunities identified and developed.

## CALL TO ACTION

The degree to which we are able to implement industry reform is dependent upon:

- Widespread industry support;
- Taxation reform by the state government;
- Successful implementation of the industry strategies.

## WINDOW OF OPPORTUNITY

The racing industry in WA has a window of opportunity to restructure itself and provide a firm basis for future prosperity. All sections of the industry will need to accept change. We must move from a semi welfare industry towards a commercial structure that is both resilient and self sufficient. The future will be what we make of it.

You can contribute by:

- Lobbying your local MLA & MLC for a 1% tax reduction and a change of basis to commission not turnover.
- Provide feedback to RWWA by mid December 2004.

## FEEDBACK

The complete "A Plan to Get Back on Track - Findings of the Racing Industry Economic Review" can be found on the RWWA website [www.rwwa.com.au](http://www.rwwa.com.au) along with other supporting documents.

The industry plan as detailed in this document is the culmination of extensive consultation with racing industry participants over the last 12 months. RWWA appreciates that many participants will wish to comment on the plan, and therefore urges you to provide feedback either in writing or via email at the following addresses:

Racing Industry Economic Review  
RWWA  
14 Hasler Road  
OSBORNE PARK WA 6017  
[info@rwwa.com.au](mailto:info@rwwa.com.au)



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