



**Racing
Victoria**



HARNESS RACING VICTORIA



GREYHOUND RACING VICTORIA

Victorian Racing Industry

Submission to Office of Liquor, Gaming and Racing's Wagering and Betting Discussion Paper

21 September 2018



ABOUT US



**Racing
Victoria**

Racing Victoria is a public company which was established in 2001 to provide independent governance of the Victorian thoroughbred racing industry.

Our objectives are to develop, encourage, promote and manage the conduct of thoroughbred racing by encouraging broad participation and sustainably growing the industry's economic and social value.



HARNESS RACING VICTORIA

Harness Racing Victoria is a statutory body for which the Victorian Minister for Racing is responsible.

Harness Racing Victoria's function is to administer, develop and promote the sport of Harness Racing in Victoria.

Our mission is "to develop a vibrant Harness Racing industry that promotes participation, integrity and racing excellence, grows wagering and other revenue streams and maximises returns to its stakeholders."



GREYHOUND RACING VICTORIA

Greyhound Racing Victoria is a statutory body established to control and develop greyhound racing in Victoria.

Our mission is to professionally regulate, conduct and promote greyhound racing and welfare in Victoria with integrity and care, and to ensure an engaging, ethical and sustainable sport.

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EXECUTIVE SUMMARY

VRI appreciates the opportunity to contribute to this important process on behalf of its members (Racing Victoria, Harness Racing Victoria, and Greyhound Racing Victoria). Our guiding objective is to maintain the primacy of Victorian racing and to secure a vibrant future for the industry.

The Victorian racing industry is a world leader, and a key driver of economic benefit and enjoyment throughout the state and country. It is rightly a beneficiary of all Victorian wagering through long standing arrangements since privatisation of the Victorian totalisator in 1994. The funds derived from the licence are used to sustain a viable and growing Victorian racing industry, and the associated economic and social benefits that it delivers. This contribution to the Victorian economy is substantial, and is estimated in 2018 to include:

- Employment of c.33,600 FTE when flow-on employment attributable to the Victorian racing industry are included (c.15,300 direct FTEs)
- Value-added contribution of c.\$4.3 billion when flow-on impacts are included (c.\$1.4 billion direct)
- Total taxation generation of c.\$551.3 million to both State and Federal governments, and
- Support of over c.147,000 jobs and participants and 120 racing clubs.¹

However, since 2015, there has been a downward trend in VRI funding from the licence, from c.\$335m in 2015 to c.\$303m in 2018 (-3.3% CAGR). In VRI’s view, the central issue (requiring resolution through the review) is that the current funding construct is at risk of becoming increasingly suboptimal if left alone in the face of trends impacting the industry.

The timing of this wagering licence review provides the state with a unique opportunity to future-proof its VRI funding model against the continuing change in the sector. It is particularly critical in light of the important role the licence plays in Government’s ‘no less favourable’ funding commitment to VRI.

VRI supports careful consideration by Government of structural options for the licence, in pursuit of the following imperatives:

- Pre-eminence of the Victorian racing industry, and each individual code, versus the racing industries of different states (and NSW, in particular)
- Funding security through a model that ensures a vibrant, sustainable future with growth for the sector in the face of material and ongoing structural change in wagering patterns
- Funding for each racing code, and for the codes collectively, that is consistent with the intention of the ‘no less favourable’ principle
- Competitive wagering offerings and customer experiences for punters across different channels and WSPs

¹ IER Limited, *Size and Scope of the Victorian Racing Industry*, 2018.

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- Investment in innovative racing products, safer race track infrastructure, and leading integrity and welfare measures
- A licensing model enabling operator planning, innovation and investment over the long term, and
- Appropriate incentives for the licensee and the industry.

We look forward to engaging with the Victorian Government throughout all stages of the licence review process to ensure a mutually beneficial outcome for both the State and the Victorian racing industry.

RESPONSES TO DISCUSSION PAPER QUESTIONS

Question 1: Reducing harm through the Victorian wagering and betting licence framework

Is the existing regulatory framework for the wagering and betting licence appropriate with respect to reducing harm associated with wagering and betting and why? If not, what changes could be made to the regulatory framework to further reduce harm associated with wagering and betting?

VRI supports Government’s commitment to promoting responsible wagering and betting in Victoria and the shared objectives of fostering responsible wagering and minimising harm arising from problem gambling behaviour. In particular, VRI is committed to working with the relevant approved wagering service providers (WSPs), racing clubs, and other business partners to promote responsible gambling messages and practices in the course of the racing industry’s interactions with the Victorian community.

VRI does not propose any changes to the existing regulatory framework, and considers that consistency with national approaches is important.

These requirements should be applied consistently to all WSPs operating in Victoria and all non-Victorian providers that transact with Victorian residents so the public is appropriately protected and the Victorian licensee does not face a competitive disadvantage.

Question 2: Regulatory requirements for the Victorian wagering and betting licence

Are the regulatory requirements for the wagering and betting licensee appropriate and why? If not, what changes could be made to the regulatory requirements for the wagering and betting licensee and why?

Purpose and objectives for licence

VRI supports a regulatory framework that protects the community and instils confidence in the integrity of the industry through appropriate compliance and enforcement measures.

VRI considers that the existing regulatory requirements are appropriate and have ensured that Tabcorp has met Victorian gambling regulatory standards since first being awarded the licence in 1994.

These requirements should be applied consistently to all WSPs operating in Victoria and all non-Victorian providers that transact with Victorian residents.

In VRI's view, the licence framework needs to:

- (i) deliver funding surety for the industry through Government direction, and
- (ii) incorporate mechanisms which future proof the industry's funding as the wagering market continues to evolve.

Achieving these objectives will enable the industry to continue to deliver strong benefits to the Victorian economy and to address the significant threats it faces (including a decline in competitiveness versus other racing jurisdictions and sports). For further information about these trends and threats, refer to the response to Question 8.

Application of the 'no less favourable' principle

It is important that the legislative obligation for VRI's funding to be on no less favourable terms ('no less favourable' principle) is retained irrespective of any change in the structure of the licence contemplated. Ensuring that industry funding is based upon flexible, diverse, and growing sources should assist in meeting this principle and safeguarding the viability of the industry.

It is also important that the 'no less favourable principle' is applied in a manner that is consistent with its historical spirit and intent:

- the 'no less favourable' principle should be applied to licence funding for each code, as well as the collective VRI, and
- it should be reviewed on an ongoing basis to ensure that it is upheld over time as the wagering landscape changes.

The licensee should face a level regulatory playing field

The regulatory requirements for the Victorian wagering and betting licence should provide a level playing field for the licensee with other WSPs and with other Australian jurisdictions:

- It should be no more onerous in compliance terms than prevailing national regulatory standards
- It should be no more onerous to obtain approvals for new events, access to products, offer bet types / betting contingencies provided by other WSPs than prevailing national regulatory standards
- It should consistently consider and apply harm minimisation restrictions attaching to other WSPs (e.g. offering of inducements, such as free or bonus bets) in line with prevailing national regulatory standards, and
- It should not impose additional system (IT or other technology) costs that are not borne by other WSPs.

This also means that the licence should not hinder the competitiveness of other WSPs so as to enable a diverse range of options for the wagering public and to support a healthy total Victorian wagering ecosystem.

Question 3: Structure of the Victorian wagering and betting licence

Is the structure of the Victorian wagering and betting licence appropriate and why? If not, what changes could be made to the structure of the Victorian wagering and betting licence and why? Your response may include, but not be limited to, the: a. term of the licence; b. number of licences; c. products authorised under the licence; d. exclusivity of totalisator betting; e. exclusivity of a retail network. Your response may also consider the impact of any changes with respect to reducing harm associated with wagering and betting.

The Victorian racing industry is an important asset for the state of Victoria that requires flexible, diversified and growing funding in order to maximise its value and economic contribution to the state.

VRI supports careful consideration by Government of a range of possible structural options and innovative approaches for the licence, in pursuit of the following imperatives:

- Pre-eminence of the Victorian racing industry (and each code) versus the racing industries of different states (and NSW, in particular)
- Funding security through a model that ensures a vibrant, sustainable future with growth for the sector in the face of material and ongoing structural change in wagering patterns
- Funding for each racing code, and for the codes collectively, that is consistent with the intention of the 'no less favourable' principle to maintain the level of this critical funding source for industry
- A level of influence for VRI that is consistent with its leadership in industry and overall importance to the Victorian economy
- Competitive wagering offerings and customer experiences for punters across different channels and WSPs
- Investment in innovative racing products, safer race track infrastructure, and leading integrity and welfare measures
- A licensing model enabling operator planning, innovation and investment over longer horizons, and
- Appropriate incentives for the licensee and the industry.

Significant work is required to evaluate which potential models best facilitate these objectives, and VRI looks forward to the opportunity to engage with Government and provide assistance.

Incentives providing benefits to the industry and Victoria

Licence structures should be preferred where they provide appropriate governance and commercial incentives for the licensee and industry, including:

- Providing VRI earnings on all wagering revenue, as has been the case since 1994
- Growing the Victorian business (both in turnover and revenue terms)

- Competing in the whole Australian market to maintain Victorian industry pre-eminence and deliver value to the Victorian industry from out-of-state residents
- Optimising race programming and broadcast arrangements
- Ensuring representation and promotion of all three racing codes
- Investing in technology and innovation
- Providing broad geographic access to wagering products, and
- Enabling information flow and assistance to controlling bodies for wagering integrity purposes.

Question 4: Licensing process for the Victorian wagering and betting licence

Is the licensing process set out in the GRA for the wagering and betting licence appropriate and why? If not, what changes could be made to the licensing process for the next wagering and betting licence and why?

The licensing process will need to address a number of important matters:

- (i) It is important for the 'no less favourable' principle to be applied through the process in an appropriate manner.
- (ii) It is important for the VRI to be involved and consulted at all stages of the process given its special status as beneficiary of the licence arrangements so that its interests and needs are directly addressed.
- (iii) The process adopted should minimise the period of uncertainty for licence arrangements that may otherwise adversely impact investment and consequent returns for the industry and the state.
- (iv) The process will need to provide sufficient time after the awarding of the licence for the negotiation of detailed terms with VRI and implementation.

Question 5: Linkage between Victorian racing industry funding and the wagering and betting licence

Is the link between racing industry funding and the wagering and betting licence (including racing, simulated racing and sports betting) appropriate? Why or why not?

The very existence of the racing industry and its relationship with wagering are fundamentally linked. The racing industry is highly reliant on funding linked to wagering and betting activity in a manner that is different to other activities on which wagering occurs (e.g. sports) due to its limited opportunities to generate ancillary revenues to fund the underlying activity.

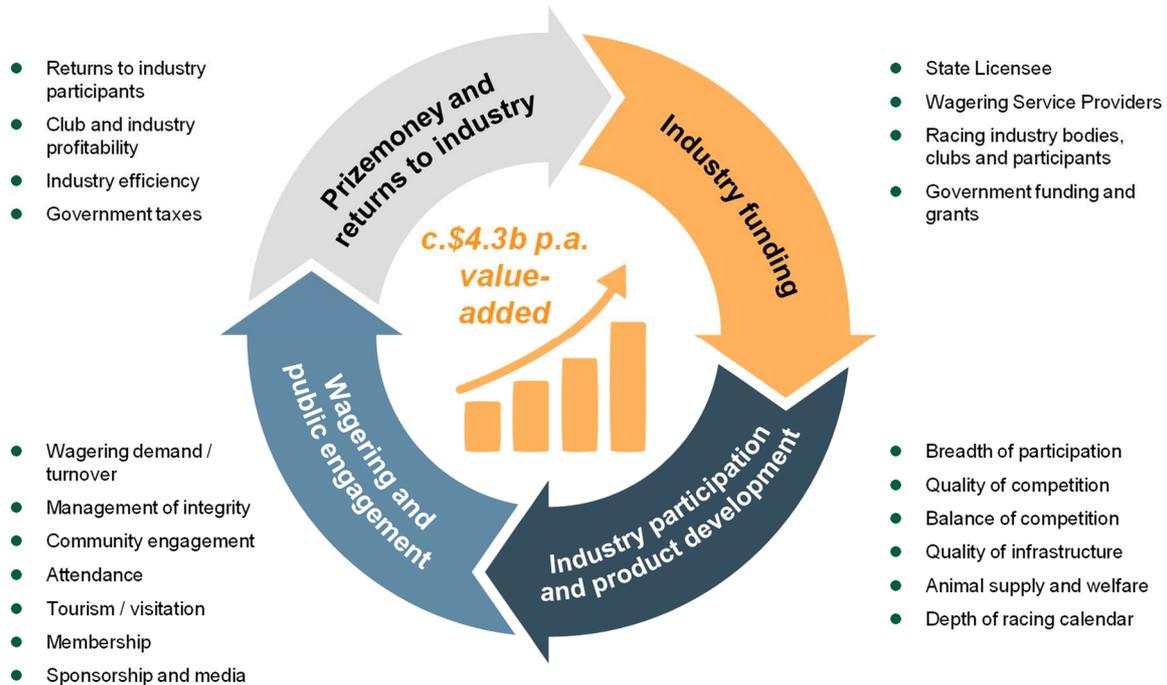
The wagering-funding linkage is long standing and fundamental to the viability of the racing industry and its ability to contribute economic and social benefits to the state. The Victorian racing industry's contribution to the state economy is substantial and is estimated in 2018 to include:

- Employment of c.33,600 FTE when flow-on employment attributable to the Victorian racing industry are included (c.15,300 direct FTEs)
- Value-added contribution of c.\$4.3 billion when flow-on impacts are included (c.\$1.4 billion direct)
- Total taxation generation of c.\$551.3 million to both State and Federal governments, and
- Support of over c.147,000 jobs and participants and 120 racing clubs.²

The strength of the racing industry, and the scale of its associated contribution, is fundamentally underpinned by the virtuous relationship between the funding that it receives, the depth and quality of industry participation, the strength and integrity of the wagering product, customer confidence and public engagement, and the prizemoney and returns available to reward and encourage industry participants, as illustrated in **Figure 1**.

² IER Limited, *Size and Scope of the Victorian Racing Industry*, 2018.

Figure 1: The funding, product and wagering interdependencies within the racing industry



It is appropriate for the racing industry to continue to be a beneficiary of all forms of wagering in the state. This reflects the historical primacy of the industry within the state’s wagering and betting landscape (providing the vast majority of customers to licensee retail stores), and the long standing industry funding structure that relies on wagering flows from all sources of wagering as its key funding source.

Irrespective of whether the link between the licence and industry funding model continues, it is important that:

- VRI continues to benefit from all forms of wagering in line with long standing arrangements which recognise that the Victorian racing industry is a vital part of the state economy and society generally, and that the licence value flows from the success of a growing and well-funded Victorian racing industry
- the ‘no less favourable’ principle is maintained as outlined in the response to Question 2, and
- the broader value of the racing industry as an asset generating c.\$4.3b economic value-add (in 2018) for the state of Victoria is considered in addition to the revenue generated for Government from a licence fee or fees.

Question 6: Commission and taxation arrangements under the Victorian wagering and betting licence

Are the current commission and taxation arrangements under the wagering and betting licence appropriate and why? If not, what changes could be made to the commission and taxation arrangements and why?

Given the national scope of the wagering market, it is important that commission and taxation arrangements in Victoria are consistent with national norms so those licensed in Victoria are not at a competitive disadvantage which can lead to loss of business to other operators.

Given the significant competitive pressure the Victorian racing industry faces from other racing jurisdictions and sports, VRI is naturally concerned that the introduction of any change to existing tax arrangements does not have an adverse financial impact on the industry.

The Victorian Government has consulted with VRI throughout the course of introducing the new point of consumption wagering tax (POCT). Government has committed to ensuring that VRI, both collectively and at individual code level, will be no worse off as a result of the introduction of the Victorian POCT on wagering.³ It is proposed that this outcome be safeguarded through a legislated review process, potentially leading to adjustments in the VRI compensation mechanism as necessary.

Following the release of details about the proposed POCT in Victoria, it has become apparent that the NSW Government intends to divert a greater share of POCT proceeds toward the NSW racing industry than we expect to occur in Victoria.

Any material deficit in the share of POCT received by VRI (versus other state arrangements) will challenge the pre-eminence of Victorian racing and its ability to continue to deliver strong economic returns for the state.

VRI looks to the proposed review process to address any such discrepancy should it emerge. VRI notes that the second reading speeches for the bill to implement POCT refers to the principles of maintaining the pre-eminence of the Victorian racing industry and addressing interstate competitiveness.⁴

Provided there remains a bi-partisan commitment to maintaining the pre-eminence and national competitiveness of the Victorian racing industry (as set out in the second reading speeches), on a joint and individual basis, and to ensuring the future review of the POCT gives effect to that approach, VRI will remain supportive of the new taxation regime.

³ The Hon Tim Pallas MP, 'Making Online Betting Companies Pay Their Fair Share' (Media Release, 14 May 2018), <https://www.premier.vic.gov.au/wp-content/uploads/2018/05/180514-Making-Online-Betting-Companies-Pay-Their-Fair-Share.pdf>

⁴ Victoria, *Parliamentary Debates*, Legislative Assembly, 23 August 2018, 3046-56, https://www.parliament.vic.gov.au/images/stories/daily-hansard/Assembly_2018/Assembly_Daily_Extract_Thursday_23_August_2018_from_Book_11.pdf

Question 7: Revenue distribution arrangements under the wagering and betting licence

Are the revenue distribution arrangements under the wagering and betting licence appropriate and why? If not, what changes could be made to the revenue distribution and why? Your response may include, but not be limited to, the: a. joint venture arrangements between the wagering and betting licensee and the VRI; b. alternative models that provide industry funding and returns to the licensee

It is important that any change to revenue distribution arrangements under the wagering and betting licence is consistent with the intent of the 'no less favourable' principle (as outlined in the response to Question 2). Funding that is based upon flexible, diverse, and growing sources should assist in meeting this principle and safeguarding the viability of the industry.

As set out in the response to Question 5, funding for the racing industry (and the associated economic and social benefits it delivers to the state, e.g. c.\$4.3b value-add, c.33.6k FTE employment and c.\$0.6b taxes in 2018) is fundamentally linked to wagering returns. In order to ensure that this substantial contribution to the Victorian industry is sustained, VRI believes it is appropriate for funding arrangements to include exposure to all wagering in the state.

Given the ongoing evolution of the wagering market, VRI supports Government's careful consideration of a range of possible revenue distribution arrangements under the wagering and betting licence to support the delivery of a viable and growing industry and its associated economic benefits for Victoria over the licence term and beyond. VRI recognises that evolution of the licence arrangements has resulted in some complexity in the current industry funding model, and is supportive of investigating opportunities to simplify the arrangements.

At its core, there needs to be alignment of financial incentives between any licensee and VRI to deliver a healthy, productive outcome for all parties over the term of the licence.

It is also important that the licence funding is tied to drivers aligned with a growing and viable racing industry, and that regulatory requirements attaching to the licence, as discussed in the response to Question 2, are in line with prevailing national standards and do not adversely impact its attractiveness to bidders.

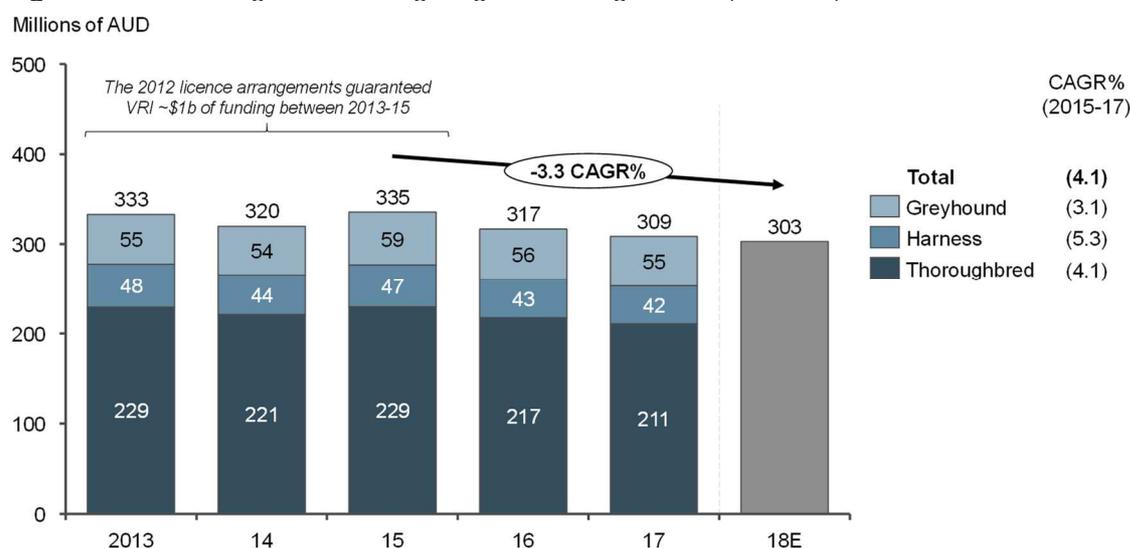
As is the case with other matters considered in this issues paper, significant work is required to evaluate whether changes benefit the industry and Victoria more broadly, and VRI looks forward to the opportunity to collaborate with Government in undertaking this evaluation.

Question 8: Impact of trends in the Victorian wagering and betting landscape

What are the trends, or likely future trends, in the Victorian wagering and betting landscape and how will these impact on the next wagering and betting licence?

The wagering market has evolved significantly since the last licensing process, featuring greater competition from WSPs, changes in customer wagering behaviour and increased competitiveness from other racing jurisdictions. These trends have had a strong negative impact on the underlying drivers of VRI funding from the wagering and betting licence, which has been on a strong downward trajectory since 2015 (**Figure 2**). Estimates of funding received by VRI from the wagering and betting licence in FY18 shows that this downward trend is continuing.

Figure 2: VRI funding from the wagering and betting licence (2013-18)



Note: Excludes non-code specific income and PGI income. Includes JV race fields fees
 Source: VRI data

With the pace of change in the wagering industry unlikely to slow, it likely that VRI’s funding base will continue to erode. It is evident that the current funding arrangements face an increasingly difficult task in delivering the intended level of VRI funding consistent with the intent of the ‘no less favourable’ principle (as outlined in the response to Question 2). In VRI’s view, the central issue (requiring resolution through the review) is that the current funding construct is at risk of becoming increasingly suboptimal if left alone in the face of trends impacting the industry.

As the wagering market continues to evolve, funding surety to VRI from the licence and its related agreements is of paramount importance to ensure that Victoria is able to remain the pre-eminent racing state in Australia. This is fundamental for the Victorian racing industry to continue delivering the broader economic benefits to the state (e.g. c.\$4.3b value-add, c.33.6k FTE employment and c.\$0.6b taxes in 2018) that are outlined in the response to Question 5.

The trends impacting the Victorian wagering and betting landscape, and racing industry overall, are explored further in this section.

Key trends impacting the wagering industry

A number of important structural trends are shifting wagering turnover (and returns) away from the exclusively licensed channels which deliver the majority of VRI’s funding.

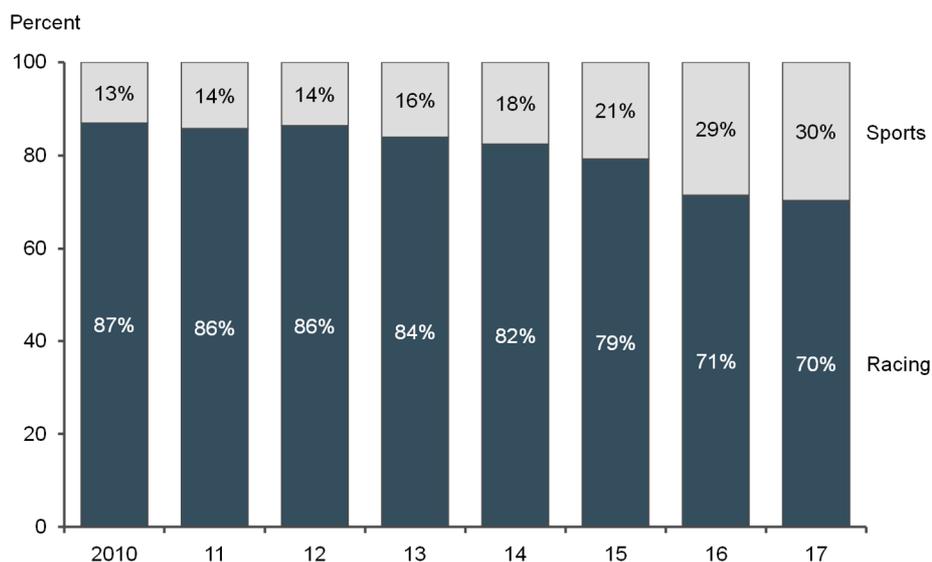
a. Competition from corporate bookmakers and betting exchanges in a national market

Traditional WSPs, such as TABs, are facing more intense competition from corporate bookmakers and betting exchanges, which have almost doubled their share of wagering on VRI product in recent years.

b. Changes in consumer wagering behaviour and preferences

Competition from corporate bookmakers and betting exchanges has underpinned the growth and prominence of sports betting, which has shifted wagering activity away from racing (**Figure 3**).

Figure 3: Wagering activity in Australia, by industry (2010-17)



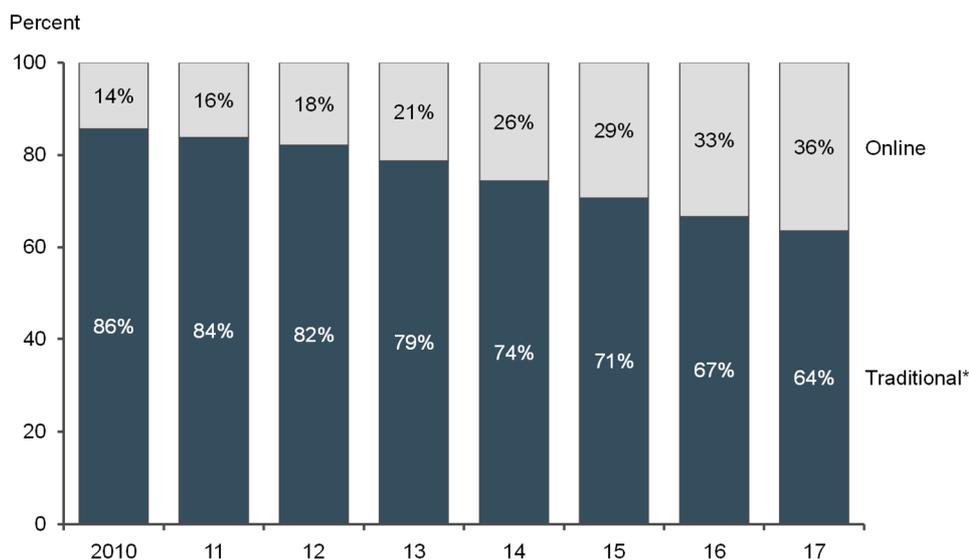
Source: Wagering and Betting Discussion Paper, Department of Justice & Regulation VIC

This trend towards sports betting is likely to continue to erode wagering on VRI product, particularly if in-play betting is permitted. Globalisation of the wagering industry exacerbates this trend through greater access and prominence of international sports, which are often a more profitable betting product for WSPs as they typically do not incur product fees.

Technological change and innovation continues to enhance access to convenient wagering services, with customers increasingly moving activity online. This trend is evident within VicTAB’s customer base

as shown in **Figure 4**. VicTAB’s customers have moved from the licensee’s exclusive traditional retail channel to online, where there is fierce competition with other WSPs.

Figure 4: VicTAB pari-mutuel wagering, by channel (2010-17)



Note: * Traditional includes on-course, retail and phone betting

Source: Wagering and Betting Discussion Paper, Department of Justice & Regulation VIC; Racing Australia Fact Book 2010-17

Online pari-mutuel wagering has doubled over the last 5 years, which exposes the product to greater competition. VRI believes that online wagering accounts for an even greater share of other forms of wagering beyond pari-mutuel (e.g. through other WSPs, fixed odds wagering and sports betting). This trend is observable in Tabcorp’s FY2018 results, where digital wagering (e.g. online and mobile) turnover grew by 16.3% to c.\$6.3b turnover, while retail wagering fell by 3.9% to c.\$8b turnover.⁵

As this shift continues, VRI is exposed to rapid revenue decline under current funding arrangements, despite the health of the wagering and betting market. This raises the question of whether there may be options available through licensing that could reinvigorate the retail channel.

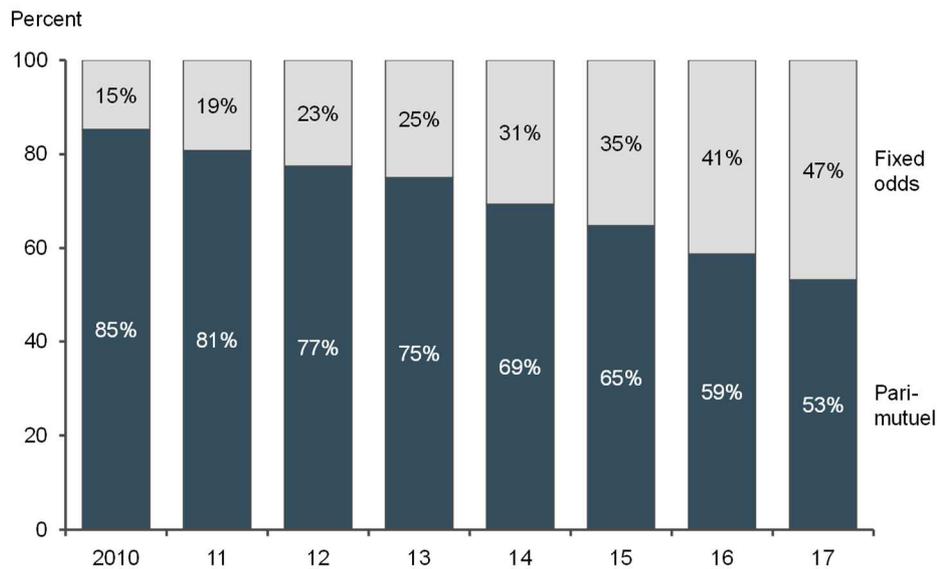
Technological advances pose further risks to both VRI and the wagering market by enabling greater access to illegal offshore wagering, which does not contribute to the industry or government, nor provide the required consumer safeguards.

Greater competition for the ‘wagering dollar’ has driven corporate bookmakers and betting exchanges to offer fixed odds alternatives to and derivatives from pari-mutuel for Victorian wagering with more attractive prices and provide greater levels of customer generosity (e.g. incentives and bonuses), which has diverted customers from VicTAB. The shift to fixed odds products is aided by more favourable tax

⁵ Tabcorp, 2017/18 Full year results presentation, 2018.

rates versus pari-mutuel as well as customer preferences. VicTAB wagering activity by bet type shows the significant growth of fixed odds betting at the expense of totalisator pools (**Figure 5**).

Figure 5: Total VicTAB wagering activity, by bet type (2010-17)



Source: Racing Australia Fact Book 2010-17

This trend is also observed in Tabcorp’s performance nationally, with revenue from totalisator wagering declining by 5.5% in FY2018, while revenue from fixed odds (racing and sports) grew by 11.5%.⁶

Improved consumer access to wagering and the development of innovative services, such as odds comparators, will also underpin greater levels of price competition. Other innovations facilitated by technology include the creation of global pools, which would reduce the value available to the VRI.

Combined, these changes in consumer behaviour and preferences have had a strong negative impact on the underlying drivers of VRI funding from the wagering and betting licence.

Overall, these trends (set out above) are likely to result in a further erosion of VRI funding under the current licensing structure. With the pace of change in the wagering industry unlikely to slow, it will be increasingly difficult for current funding arrangements to deliver the intended level of funding consistent with the intent of the ‘no less favourable’ principle.

⁶ Tabcorp, 2017/18 Full year results presentation, 2018.