

A STUDY FOR THE FUTURE OF THE SOUTH AUSTRALIAN RACING INDUSTRY

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1: INTRODUCTION

1.1 The Terms of Reference of this Study

In November 2006 I was engaged by the Minister for Recreation, Sport and Racing to undertake a study of certain aspects of the three racing codes in South Australia.

The original terms of reference for this study were set out as follows:

“The Study will:

- *Examine and report on each Code’s strategic business planning processes, and how they are equipped to deal with current and future operating environments.*
- *Identify opportunities to strengthen the industry’s capacity to respond effectively to new and existing challenges.*
- *Assess the three existing code constitutions against comparable industry governance structures.*
- *If appropriate, recommend options for alternative governance structures, and how they may be implemented.*
- *Undertake a concise financial analysis of the performance of each of the three codes for the five-year period post corporatisation (2000 – 2005).*
- *Undertake a concise balance sheet analysis of each of the three codes, and member clubs, having particular regard to movements in assets and liabilities.*
- *Recommend any other measures that may arise from or be identified by this review.*

A Report to the Minister for Recreation, Sport and Racing from this Study is due by no later than 31 March 2007.”

In early February the terms of reference and timing of the report were reassessed by the author and the client because of greater than expected consultation requirements; the longer time taken by the harness and thoroughbred codes to supply the data requested; and the limited ability of the relevant parties to supply the author with much of the financial data in electronic form. As a result of this the second-last and third-last of these terms of reference were made less demanding and I was asked to focus upon relevant financial data which would provide the Government with a clear view on the best way forward for the Industry. It was also agreed to extend the time period until 18 May 2007.

1.2 What this Study Will Not Do

It is important to put this study in perspective. Essentially it is a focus upon the financial performance and governing arrangements that have occurred since the corporatisation of the three race controlling authorities in 2000 and the privatisation of SATAB that took place in 2001. It is also an assessment of how the three codes are placed to respond to new and existing challenges. Notwithstanding the fact that the three bodies signed the Racing Distribution Agreement in August 2001, their criticism of a clawback of funding arrangement that they had agreed to became stronger as the day of its implementation approached. This study will not go back over whether the privatisation decision was correct or not because it is irrelevant to the future progress of the Industry. Legally and financially I believe that it is not an option that any Government would pursue even if it felt inclined to do so. The then Government, and the three controlling authorities determined the fate of SATAB in 2001.

The Industry has been saying increasingly that it has insufficient funds to run its affairs. Requests have been made to the Government to ignore or forgive the clawback agreement or to provide support in some other way. The clawback agreement, contained in the documents setting out the conditions of sale of SA TAB, was introduced by the then Government and agreed to by the racing industry. The clawback allegedly represented an amount by which the Government recovered some of the up-front benefits provided to the racing industry. The agreement involved the successful purchaser of SA TAB deducting an amount of \$2m from the amount paid to the racing industry for the first two years commencing 2004-05 and \$3m per year for the next 10 years until 2015-16. Thus, after the first three years of the sale the clawback agreement involves a payment of \$34 million over 12 years.

	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
DISTRIBUTIONS (\$)							
THOROUGHBRED	26,255,600	26,961,689	30,909,350	31,028,440	31,853,820	28,043,437	27,474,603
HARNESS	6,252,946	7,539,716	7,212,794	7,596,960	7,102,188	6,238,513	5,709,578
GREYHOUND	2,350,000	3,683,000	4,785,000	5,247,000	6,597,000	5,939,000	5,954,000
TOTAL	34,858,546	38,184,405	42,907,144	43,872,400	45,553,008	40,220,950	39,138,181
SHARES (%)							
THOROUGHBRED	75.32	70.61	72.04	70.72	69.93	69.72	70.20
HARNESS	17.94	19.75	16.81	17.32	15.59	15.51	14.59
GREYHOUND	6.74	9.65	11.15	11.96	14.48	14.77	15.21
	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Table 1 sets out the amounts received by three racing codes over the last seven years. The last year prior to privatisation was 2000-01. In this year a number of transactions took place related to the forthcoming sale and the figures shown for that year have been agreed upon by the three racing controlling authorities as the correct basis upon which to make comparisons. In the first three years the payments were substantially fixed between the codes and adjusted for inflation. In 2004-05 the payments made to the industry as a whole were based upon 39% of the net wagering revenue in the year minus the first instalment of the clawback payment. It will be noticed that the TAB distribution income dropped by \$5.33m, some \$3.33m in excess of clawback. This was not an intended effect at the time of the original sale; it merely reflects the fact that the original projections for TAB distribution income at the time of the sale significantly over estimated what would happen. The further

fall in distribution income in 2005-06 is almost certainly due to the impact of the Sky/TVN TV dispute, an event that was outside the control of this state. The TAB wagering figures are rebounding this year and it is anticipated that the amount received will exceed the amount in 2004-05, notwithstanding the increase in clawback from \$2m to \$3m.

This study was prompted in part by the belief of the Racing Minister that the Industry was not doing enough to help itself. Thus this study focuses largely upon financial performance, asset management and governance arrangements. Some of the key questions to be asked are:

- Are the three racing codes managing their affairs in a way that returns the highest dividends to their stake-holders?
- Are the assets within the racing codes being best utilised to yield the highest returns?
- Have the racing codes devised strategies and put plans in place to address the major challenges facing them?
- Are the corporate structures of the three racing codes conducive to providing good financial management practices?
- Are the governance structures in need of change?

It is important to bear in mind that whilst it is not feasible to revisit the privatisation issue there would seem to be nothing to prevent a revisit of the corporatisation issue. Section 6 of the Authorised Betting Operations Act 2000 provides:

“(1) The Governor may, by proclamation-
(a) designate a body as the racing controlling authority for horse racing;
(b) designate a body as the racing controlling authority for harness racing;
(c) designate a body as the racing controlling authority for greyhound racing;
(2) The Governor may, by subsequent proclamation, substitute the body designated as a racing controlling authority.”

Section 79 of the Act provides:

“A decision by the Governor under this Act is not subject to review or appeal in any court”

Thus it would appear that the Government could designate a different body to the present one as the racing control authority in each code and that it is within the power of the Government to have either code specific authorities as it has now or one authority for all three codes. Although as we shall see there are limitations on the way in which the Government may bring this about.

This study will attempt to put forward some options for consideration that may assist in making improvements to the racing industry. It is important to remember that it is not:

- An exhaustive and detailed study of the financial accounts of the three racing codes
- An attempt to conduct full and proper due diligence of the Industry and of each of the racing codes
- An attempt to provide a solution to all of the challenges that the industry faces
- An attempt to critically analyse and pass judgement on decisions made six years ago.

1.3 An Outline of the Methodology

Following the announcement of my appointment to undertake this study on 20 November I met with Racing South Australia Pty Ltd, a body that has as Directors, the Chairs and CEOs of the three racing codes. I then wrote to the CEO of each racing controlling authority on 22 November and asked for a range of financial data, asset data, race date programmes, business plans, strategic plans and copies of documents relating to governance matters. In addition I invited them or their board to make a submission. I informed them of my office arrangements and provided them with contact numbers, email contacts and addresses. In subsequent discussions I made it clear that they could pass on the details to whichever code stakeholders they believed was appropriate.

The responses I received from the three racing codes were quite different. Greyhound Racing SA was very prompt in responding to my request. I met with senior officials on 13 December and they provided me with hard copy material. They were cautious but very professional in their approach to the study. Apart from my contact with GRSA my contact with greyhound participants was minimal. In subsequent contact with GRSA they have been very responsive to my requests and have been able to supply me with most information electronically.

Harness Racing SA understandably sought extra time because of the planning and administrative work that was going into the running of the Inter Dominion Championships in early January. They subsequently provided me with most of the information by the end of January.

HRSA informed their member clubs about this study and contact with different club officials occurred very quickly. The harness people I met with welcomed the conducting of this study. Every person from the harness code with whom I met believed that the code had a serious financial problem. There were however significant differences of opinion as to the solutions.

With respect to the thoroughbred code key stakeholders from breeders, trainers, jockeys, bookmakers and some critics of Thoroughbred Racing SA made contact with me in the first few weeks. TRSA made contact with me in January and I was supplied with almost all of the material in hard copy form during the following weeks. TRSA also indicated that they wished me to consider their strategic plan which they commenced at around the time of my appointment and indicated that it would not be ready until the end of March. I was surprised at the inability of TRSA (and HRSA) to provide all of the financial data electronically, especially given their role as a controlling authority.

During the many meetings that took place I was asked on many occasions "How are you finding it?" I chose on each occasion to say that the study was a work in progress; to explain where I was up to; and to make comment about the problems that I had detected to that point. This interactive approach was used purposely because it is transparent and because it prompts people to think about issues and give responses they might otherwise not make. Thus some comments in this report will not be new to some readers, some matters I raise may have already been taken up, whilst other readers might detect that on some issues my initial judgement has been refined, changed or qualified.

The majority of people and organisations I had contact with were by means of one or more meetings. At these meetings summary notes were taken. Some of the issues raised by some

people were of a personal nature and some related to past political matters that had cropped up within the thoroughbred or harness codes. Some of the parties who spoke with me did not want their opinions publicised. Other parties sent me written submissions and arguments. The views expressed were varied, but they all had one thing in common and that is they were concerned about the current plight of the racing industry and what its future might look like.

Many people asked me what the hidden agenda was and I told them there wasn't one. I assured people at the time that neither the Minister nor his office, nor the Office for Racing has influenced this report other than through the establishment of the terms of reference as made available to the Industry. That comment has remained true since the period of consultation has been completed. The responsibility for the contents of this report is entirely mine.

2. RELEVANT BACKGROUND

2.1. The Three Racing Codes in South Australia

South Australia has three codes of racing upon which adults may place bets, primarily at the TAB. This is a similar arrangement to the one that exists in other States. What differs between the States are the arrangements that are in place to finance and govern the three codes of racing. Up until 1 October 2000 South Australia had an arrangement in place whereby the harness and greyhound codes had statutory boards of government as their controlling authority with their five members appointed by the Governor, whilst the thoroughbred code had a statutory body with its five members appointed by the code's principal club, the South Australian Jockey Club.

After detailed discussion with participants in each code, the then South Australian Government passed legislation which enables the Governor to proclaim a body as a racing controlling authority for horse racing; a racing controlling authority for harness racing; and a racing controlling authority for greyhound racing. The body may be one and the same body for all three codes or it may be a different body for each code. As it turned out the three bodies that were proclaimed as racing controlling authorities, with effect from 1 October 2000 were:

- Greyhound Racing South Australia Ltd.
- Harness Racing South Australia Ltd.
- Thoroughbred Racing South Australia Ltd.

This decision meant that the racing industry had been corporatised and the powers and functions of these companies meant that Government was not involved in appointing their Directors and had no control over the affairs of racing.

Prior to privatisation most of the revenue for racing had been financed by the Government owned Totalizator Agency Board (SATAB). In August 2001 the sale of SATAB was announced. On 15 August 2001 UNITAB Pty Ltd, Racing SA Pty Ltd, TRSA Ltd, HRSA Ltd and GRSA Ltd signed a Racing Distribution Agreement. This agreement was a part of the privatisation of SATAB and set out the terms and conditions under which UNITAB would distribute the wagering entitlements to each of the three codes. Financial dependence on the Government was severed and the three racing codes became predominantly reliant on the revenue stream in accordance with the Agreement they had signed.

2.2. The Scope of the Industry and Each Code

In June 2004, the consultants IER completed a study titled 'Size and Scope of South Australian Racing Industry – Economic, Social and Environmental Benefits'. This study was commissioned by the three racing codes with the costs being substantially paid by the South Australian government. The study sought to describe and quantify the key economic, social and environmental impacts of the South Australian racing industry.

IER estimated that more than 24,900 people were involved in some capacity in supporting the racing industry in South Australia. These people were involved in the breeding, training and racing of animals, as well as the running of race clubs in both administrative and

operational roles and peak body operations. Approximately three quarters of the people were involved in the production of racing animals, including breeding and training operations. The people comprised of breeders; breeders' staff; individual owners and syndicates of owners; trainers; stablehands; farriers; and float operators. The remaining quarter of the people were found to be involved in race club, raceday and TAB operations in both paid and voluntary capacities. Of the more than 5,500 people involved in these roles, approximately 17% or over 900 people were found to be volunteers.

IER obtained from race clubs, estimates of their on-course attendances during the racing season. From this data they estimated that there were 538,000 attendances at race meetings across all codes and that this comprised as many as 240,000 individuals attending a race meeting in South Australia each year.

IER estimated the employment impact of the racing industry and concluded that 2,250 full-time equivalent jobs were engaged by the racing industry each year. As well as the direct employment impacts, IER also estimated the indirect employment impact when flow-on to other industries is taken into account. They estimated that the indirect employment impact was over 1,200 jobs. The total employment impact was therefore estimated to be 3,457 jobs and \$96,111,511 in salaries and wages.

The IER study also sought to quantify the total contribution of the South Australian industry to South Australia's Gross State Product. They estimated that the industry directly generates more than \$112 million in Value Added contribution to Gross State Product. This represents 0.23% of the Gross State Product. They also estimated the flow-on impact and concluded that the total contribution of the racing industry is more that \$272 million or just over 0.56% of GSP.

The IER estimates, in this writer's view probably represent upper estimates. Since the time of the IER work the harness industry has experienced some decline, the thoroughbred industry has probably experienced some marginal decline, whilst the greyhound industry has probably grown. Overall the racing industry is a small industry in South Australia, which creates many part-time jobs and a lesser number of full-time jobs, scattered around many parts of the State. Small employers engage almost all the people employed. Unfortunately, this dispersion of employment does not give the industry the employment impact or visibility that a large employer like Mitsubishi might attract when its employees are in one or two locations.

2.3. South Australia as a Wagering State

Many participants in the South Australian racing industry believe that the current financial difficulties facing the three racing codes are due almost entirely or mainly to the decision to privatise the SA TAB and the form of that privatisation. Whilst it is not possible to unravel that financial arrangement and it is not directly a part of the terms of reference of this study to look at this matter, it is useful to look at recent betting trends in their historical context. Such an examination does in part test the veracity of these widely held views.

Each year statistics are updated on the different gambling expenditures made on all legalised forms of betting in each State of Australia. This body of evidence enables a number of conclusions to be drawn about South Australia as a betting state, both on racing and on other forms of gambling. It also provides a backdrop against which judgements can be made

about the racing betting trends over the last few years and how the South Australian racing industry has fared compared with other States.

Appendix A reproduces a series of Tables for the period 1979-80 to 2004-05, that were published in Australian Gambling Statistics 2006. This report was prepared by the Office of Economic and Statistical Research, Queensland Treasury and is updated each year in cooperation with all States and Territories. From these tables a number of conclusions can be drawn about South Australia as a racing and betting State and they are these:

1. Table A1 shows that **racing betting expenditure as a percentage of household disposable income** over the last 25 years has been declining in every state, except the Northern Territory. It is clear that betting on racing is a small priority within the average household in every state of Australia and **in South Australia it has been a lower priority than in the Australian average household**. At the beginning of the period betting on racing in South Australian households took up 0.39 of 1% of average household income, the lowest of any state, but slightly higher than the two Territories. At the end of the period the SA figure was 0.29 of 1% of household income, but the degree to which it was lower than the Australian average had lessened. In 2004-05 the difference between the states had been reduced. Outside the Northern Territory, Victorian households spent the largest percentage of household income (0.43 of 1%). South Australia was the third lowest with 0.29 of 1%, slightly ahead of Tasmania and markedly ahead of the ACT.
2. The major form of household racing expenditure in each state is made with the TAB in that state and the figures are shown in Table A2. In the late 1970's South Australia grew from a low base and its growth through the period was above average. However the growth was not even and this is reflected in the fluctuating movements in the percentage of each state as shown in Table A3. South Australia's share of the Australian market grew during the 1980's and reached an all-time high in 1989-1990. During the 1990's its percentage share drifted down and then peaked again in 1997-98 and 1998-99: just prior to the preparation for the sale of SA TAB. Since the sale the percentage share has experienced some decline and in the last year for which statistics are available was at the same level as in 1995-96.
3. The statistics for the average spending at the TAB per adult are set out in Table A4 and they show that the growth in South Australia over the 25 year period has been higher than in other states: again highlighting the effect of coming off a low base. Over time the real value of money has changed and the effect of discounting for price changes is shown in Table A5, with all expenditure being expressed in constant 2004-05 value terms. This Table shows that the two peak years in terms of the average spend per adult at the SA TAB were 1989-90 and 1998-99. These statistics also show that expenditure was declining in real terms as the new TAB arrangements were being put in place (1999-2000 and 2000-01). The expenditure dropped further in the first year; and in the last three years there was a modest increase. In 2004-05 the level of expenditure in real terms was at the same level as it was in the mid-1990's. However, the experiences of the other states during this ten year period are worth noting. The same comparison over the last 10 years shows that NSW, Queensland, Tasmania and the Northern Territory all had lower expenditure in real terms; whilst in Victoria, Western Australia and the ACT expenditure was higher.

4. There are two features of South Australia's recent TAB betting trends which are worth noting. Table A6 has been derived from Table A2 and it shows the percentage growth of TAB turnover in any one year over the last four years. This 4 year moving average growth rate is used for two reasons. It helps remove the volatility caused by unexplained movements in one year and 4 years is the period after privatisation for which these figures have been available. Thus by the end of 2004-05 TAB turnover in SA was 8.49% higher than it was four years previously, that is in 2000-01, the base year from which to make any comparison about any effects of privatisation. What is notable about the post privatisation period is that the four year moving average growth rates dropped suddenly. Because of the importance I attach to these figures the last 4 years of Table A6 are reproduced here.

TABLE A6 (DERIVED FROM TABLE A2)									
TAB TURNOVER									
(Each year's figure shows the % growth that has taken place over the last four years)									
	NSW	Victoria	Queensland	SA	WA	Tasmania	ACT	NT	Australia
2001-02	26.18	18.82	18.24	5.38	20.92	12.04	11.95	3.90	20.57
2002-03	26.41	15.88	18.93	2.14	23.38	26.65	11.97	22.61	20.40
2003-04	15.14	19.32	18.51	7.71	26.79	40.37	36.33	34.68	18.18
2004-05	13.71	20.64	23.46	8.49	38.07	37.56	21.99	43.95	19.61

The SA experience during the first 4 years of a privatised TAB was not only so markedly lower than its experience prior to the TAB privatisation, its experience is markedly lower than the growth experience of any other state and territory within Australia. In the last 3 years the 4 year moving average growth rates were at least 10 percentage points lower than anywhere else. It is almost as if the figures are from a different country. In my view there is only one possible explanation for the South Australian TAB figures deviating in such a marked way from the growth experience in the rest of Australia. When the TAB was privatised the modest SA pool moved out of the largest pool in the country run by Tabcorp into the smallest pool run by Unitab. The smallness of the new SA pool poses bigger risks for large punters and thereby makes the pool less attractive to bet in. In addition to this Unitab has a smaller range of betting options than the Tabcorp pool and the more restricted Unitab operational hours is less attractive to all punters. Whilst evidence is not made publicly available, it is most likely that SA lost support of some punters, particularly larger ones and they transferred their business to one of the other pools interstate or to bookmakers interstate or overseas. **There is a strong prima facie case that the switch in betting pools that occurred with the privatisation decision has been a significant factor in explaining why the SA TAB turnover has not performed as well as in the other states during the same period of time.**

2.4. South Australia as a Gambling State

Gambling on the races is one of the more traditional forms of gambling and it had its origins in the early development of Australia. During the second half of the last century State Governments at differing times set up their own TAB networks as a means of assisting in their funding of the racing industry; as a means of reducing illegal off-course betting; and as a means of gaining some revenue. At the same time as this was happening, and particularly

the last two decades, other forms of gambling have been legalised. The legislation varies between states. Some states have less options than others (for example Western Australia does not have gambling on gaming machines outside of the Perth casino); whilst other states have a longer history (for example NSW introduced gaming machines and large lotteries in the 1950's). What is clear is that expenditure on gaming machines has become a growth industry and the introduction of gaming machines in particular has caused many racing people to wonder whether some of the growth in gaming has been at the expense of gambling on the three codes of racing.

Table A7 sets out South Australian expenditure on all forms of legalised gambling, other than race industry wagering, in the period 1979-80 to 2004-05. The introduction of gaming machines had a major impact in boosting expenditure levels on gambling in South Australia and by the end of the period it dwarfed all other forms of gambling. Table 2 is derived from the same sources as the other tables and shows South Australia's gambling position in relation to other States in 2004-05.

TABLE 2									
PER CAPITA GAMBLING EXPENDITURE									
<i>2004-05</i>									
	NSW	Victoria	Q	SA	WA	Tas	ACT	NT	Australia
GAMBLING FROM	Value \$								
TAB	137.90	141.62	102.82	92.97	133.29	70.62	97.86	113.40	125.68
On-course totalisator	8.21	8.95	-	-	7.94	2.78	0.71	13.96	5.96
On-course bookmaker	6.70	7.54	-	2.97	4.65	0.65	3.08	363.41	8.22
Total Racing	152.82	158.10	102.82	95.95	145.89	74.05	101.64	490.77	139.86
Lottery	8.45	1.60	0.15	-	-	1.46	3.58	-	3.35
Lotto, Tatts lotto	76.22	90.46	87.37	73.09	129.31	55.14	58.73	85.60	86.16
Instant lottery	14.43	5.99	30.68	11.14	21.73	5.80	9.14	10.31	15.58
Pools	0.74	0.25	0.58	0.23	0.54	0.20	0.41	0.25	0.50
Casino	105.51	240.25	185.72	88.65	205.34	278.51	76.29	613.43	171.24
Minor Gaming	-	-	-	10.23	14.69	-	-	-	2.23
Keno	16.72	1.71	27.01	12.74	-	54.48	2.89	-	13.53
Gaming machines	953.49	623.86	567.02	628.67	-	343.14	745.51	351.44	655.20
Interactive gaming	-	-	-	-	-	-	-	99.30	0.92
Total Gaming	1,175.56	964.12	898.52	824.76	371.62	738.72	896.55	1,160.33	948.70
TAB Fixed Odds	6.25	4.06	1.96	1.70	2.62	1.58	-	0.36	3.91
TAB TOTE Odds	0.91	0.79	0.33	0.00	0.47	0.04	-	-	0.61
Bookmakers	0.68	6.81	-	(0.05)	0.14	0.060	-	266.92	4.40
Total Sports Betting	7.84	11.67	2.30	1.66	3.23	1.67	-	267.28	8.91
Total All Gambling	1,336.22	1,133.88	1,003.64	922.37	520.73	814.45	998.18	1,918.38	1,097.47

From this table a number of observations can be made about South Australian gambling and they are these:

- Overall, South Australian's spend less on gambling than the Australian average.
- South Australia is not only below average with respect to TAB wagering, it is also below average with respect to gambling on Lotto/Tatts lotto; instant lottery; keno; and gambling at the casino.

- With respect to gambling on gaming machines South Australia is below the Australian average; however its expenditure level per capita exceeds that of every State except NSW and the ACT where it is much higher.

There is a widely held belief within much of the SA racing industry that their recent financial difficulties can be attributed in part to the growth of gaming machines. The recently released TRSA document entitled, “Building the Foundations for Sustainability and Growth”, states “The ability to drive wagering growth has been limited by the proliferation of gaming activity in South Australia”. They use as their source for support a report prepared by Hudson Howell that TRSA commissioned. This report acknowledges that previous attempts to assess the impact of gaming machines on other forms of gambling have been mixed. However they use some limited statistical comparisons, primarily with WA, and conclude “There is some degree of displacement- the existence of poker machines has displaced expenditure on racing”.

The statistics in the tables enclosed in Appendix A, when examined closely across all states and territories, do not provide persuasive evidence that money has transferred from TAB wagering to spending on gaming machines, except for some displacement at the time of the introduction of gaming machines. A perusal of Table A2 shows that in Victoria in 1994-95 there was a drop in TAB wagering by 2.75%, the first time it had fallen. It took until 1997-98 to exceed the TAB wagering figure of 1993-94. In South Australia gaming machines were introduced in 1994-95 and in that year TAB wagering fell by 2.5%, the first time SA had experienced a fall. The wagering figure fell again the next year by 3.3% and it was not until 1997-98 that SA TAB wagering exceeded the figure for 1993-94. These two similar experiences are evidence of small displacement in the first few years of gaming, but it is difficult to read much more into the figures. Overall, it is difficult to see any pattern over the last 25 years to show that when gaming machine expenditure goes up wagering at the TAB goes down. They both have their own cycles of expenditure and do not seem to substitute for one another in any significant and substantial way. It has been noted above (see also Table A6) that in the four years prior to privatisation that growth in SA TAB wagering was exceeding that of the Australian average and in the four years up to 1999-2000 it grew at a faster rate than any state in Australia. This occurred at a time when the gaming machine sector in SA was growing at a rapid rate.

Table 3 sets out gaming turnover and gaming expenditure per capita for each of the years since gaming machines were introduced and TAB turnover and per capita expenditure figures for the same period and the five years prior to gaming being introduced. There can be little doubt that from the outset gaming turnover has dwarfed TAB turnover and increasingly so as time has passed. However, **in the five year period prior to the introduction of gaming machines TAB turnover grew by 13.6% and in the first five year period of gaming machines and TAB being both available TAB turnover grew by 20.4%.**

It is difficult to deny that when some form of expenditure accelerates it will not have any effect on another form of expenditure. However, the evidence available to date does not seem to provide any substantial pattern of one form of gambling substituting for another form of gambling in a dramatic way. In addition to this it needs to be noted that TAB wagering is undertaken almost exclusively by males, whilst any visit to gaming venues indicates that many (if not most) players of gaming machines are women. The demands for gaming machine restrictions have arisen because of reports about social distress caused in households, not because people are transferring their spending from racing to gaming

machines. This is not to say that gaming machines have had no effect whatsoever, simply to suggest it has not been significant. The Productivity Commission, an independent analyst, said: “While gaming machines’ share of total gambling expenditure has risen, its growth appears not to have displaced other gambling modes- which have largely maintained their previous growth trends- but rather has been at the expense of other consumption items...” The statistics in Table 3 and Appendix A are consistent with this interpretation.

Table 3: South Australia Gaming and TAB Gambling Turnovers and Expenditures

	Gaming Turnover		TAB Turnover		Gaming Expenditure		TAB Expenditure	
	\$ million	% change	\$ million	% change	\$ per capita	% change	\$ per capita	% change
1989-90			463.842				69.07	
1990-91			491.740	6.01			71.93	4.14
1991-92			494.491	0.56			71.31	(0.86)
1992-93			503.183	1.76			73.35	2.85
1993-94			526.852	4.70			74.38	1.41
1994-95	1,489.947		513.283	(2.58)	167.16		71.86	(3.38)
1995-96	2,621.657	75.96	496.392	(3.29)	286.63	71.46	69.45	(3.36)
1996-97	3,023.746	15.34	522.926	5.35	325.22	13.46	72.78	4.79
1997-98	3,291.676	8.86	590.304	12.88	349.82	7.56	81.25	11.64
1998-99	3,723.706	13.12	617.823	4.66	389.29	11.29	84.84	4.42
1999-00	4,123.067	10.72	616.363	(0.24)	424.42	9.02	84.32	(0.62)
2000-01	4,644.183	12.64	630.254	2.25	471.16	11.01	83.62	(0.83)
2001-02	5,225.052	12.51	622.050	(1.30)	522.03	10.80	81.90	(2.06)
2002-03	5,852.719	12.01	631.043	1.45	570.80	9.34	85.19	4.01
2003-04	6,501.871	11.09	663.895	5.21	612.32	7.27	88.53	3.93
2004-05	6,994.895	7.58	683.780	3.00	628.67	2.67	92.97	5.02

There is one final observation to make on the gaming issue. Even if it was proven beyond doubt that gaming machines had caused wagering turnover to grow at a slower rate, why should a Government protect one leisure pursuit or one sport from competition from another leisure pursuit or sport? It is true that the racing industry in Victoria benefits from the gaming machine profits of Tabcorp, but this benefit was extracted by the racing industry at the time of privatisation as a price that had to be paid to the racing industry to obtain the racing industry’s agreement to the privatisation taking place. The benefit that the Victorian racing codes receive each year from gaming comes from Tabcorp as part of its contractual obligation to the racing industry. The funds do not come from the Victorian Treasury. Unfortunately for the SA racing industry that practice was not followed in SA.

2.5. Summary

During the first five years of the SA TAB being privatised, South Australian wagering has increased in money terms but experienced decline in real terms. In 2005-06 the level of expenditure in real terms was at the same level it was 10 years previously. A statistical survey of the last 25 years shows that there tends to be stable periods and then other periods when there is some volatility in the movement of wagering expenditure. From a national perspective, South Australia has not been a major wagering state and its racing industry is not as large as it is in most other states.

It is doubtful in this writer's view that growth in gaming machine revenue has contributed in any significant way to the poor performance of SA wagering since privatisation of the TAB. The unexplained buoyant years of TAB wagering prior to privatisation may have raised unrealistic expectations about future growth of wagering, especially if the industry due diligence process did not take account of the history of fluctuations in wagering expenditure. It is highly probable that the detail of the privatisation decision has contributed to the recent experience. South Australia's wagering pool moved from being a part of Australia's largest pool run by Tabcorp to being a part of Australia's smallest pool managed by Unitab.

In terms of transferring the wagering outcomes into the distributions to each of the codes there is no doubt that the privatisation decision affected the amounts received by the codes. Prior to privatisation the codes received fixed shares and after the first three years of privatisation they have moved purely to market shares. If the industry had not been privatised and the wagering figures had occurred under the old formulas the industry would have received in 2004-05 an amount, which would have been around \$3.417m less than it actually received (assuming the SA Government still contributed \$2m on top of the revenue derived from TAB wagering turnover). **Contrary to what some industry racing observers believe, there is no doubt that the industry is receiving more money than they would have if the pre-privatisation arrangements had prevailed.**

However, **the industry is receiving less money than they expected to receive** (and geared up to receive) **based upon the government forecast made during the time of the privatisation process.** The Government forecast, which was agreed to at the time of privatisation by the racing codes, was that TAB wagering in 2004-05 would be \$737.076m. Given the formula in the Unitab contract this would have resulted in a distribution after clawback of \$43.512m. Thus the industry in 2004-05 received \$3.291m less than they expected at the time of the privatisation. **I believe there is only one explanation for the unusual behaviour of TAB wagering at that time and since: the deterioration in TAB wagering occurred because some punters transferred or reduced their business in the move from a relatively large wagering pool under Tabcorp to a small wagering pool under Unitab.**

If SA had remained in the Tabcorp pool it is very difficult to believe that SA in the first 4 years after privatisation would have experienced wagering growth so divergent from those experienced in **all of the other states.** An examination of wagering history as set out in Tables A2 and A6 suggests this is highly unlikely. Thus, if the average growth of TAB wagering in all other states is taken as a guide for what would have happened in SA in a privatised Tabcorp pool, then the wagering growth in SA would have been 20.5% higher than in 2000-01.

A second estimate of the growth of TAB wagering in the hypothetical case that SA had stayed in the Tabcorp pool is made by taking the average growth of wagering in the Tabcorp states: Victoria; WA; Tasmania; and the ACT. If this is done SA wagering would have grown by 25.4% and the industry would have received \$42.228m. I doubt whether this scenario is as realistic as the Australian average one, as WA has been experiencing very strong boom conditions generating significant amounts of discretionary spending money and Tasmanian TAB wagering was rebounding during this period from a previous poor performance, partly caused by inferior TV coverage.

Table 4 contains two estimates of the pool size impact and compares these outcomes with the actual outcome in 2004-05 and with the Government forecast at the time of the privatisation. I have used these estimates of possible scenarios on the basis that no privatisation occurred and the industry was funded in the same way as it was in 2000-01 and assuming that the privatisation did occur but under a Tabcorp pool. Under the no privatisation Tabcorp scenarios the industry in 2004-05 might have been just better off than they actually were. Using the formula that the SA TAB used it suggests that they may have received \$347k more; based on the Australian average and \$2.007m more if the Tabcorp average had occurred. However both amounts would have fallen short of the Government forecast.

Table 4: Estimates of Pool Size Impact Compared with Government Forecasts					
	TAB			Difference in Distribution	
	Wagering	Net Wag Rev	Distribution minus clawback	from Actual	from Govt Forecast
Actual Industry Position in 2000-01	630,254,000		38,184,405		
Actual Industry Position in 2004-05	683,780,000	108,258,785	40,220,950		(3,290,810)
No Privatisation Scenarios					
Unitab pool	683,780,000	108,258,785	36,804,402	(3,416,548)	(6,707,358)
Australian Average	757,714,000	119,964,311	40,567,643	346,693	(2,944,117)
Tabcorp Pool Average	790,339,000	125,129,632	42,228,255	2,007,305	(1,283,505)
Privatisation Scenarios					
Unitab pool	683,780,000	108,258,785	40,220,950	0	(3,290,810)
Australian Average	757,714,000	119,964,311	44,786,081	4,565,131	1,274,321
Tabcorp Pool Average	790,339,000	125,129,632	46,800,556	6,579,606	3,288,796
Government Forecast for Privatisation	737,076,000	116,696,821	43,511,760	3,290,810	

The figures in Table 4 for the privatisation scenarios indicate that the choice of TAB pool has had a substantial impact on the revenue received by the three codes of racing. I estimate that the difference is around \$4.565m, using the Australian average growth of TAB wagering. If the Tabcorp pool average is used the difference is as high as \$6.58m. It is interesting to note that my estimate of what revenues would have been like from a Tabcorp pool are higher than the SATAB forecast (\$737.076m) made by the previous Government. My lower estimate is based on TAB wagering of \$757.714m and my upper estimate is based on TAB wagering of \$790.339m. The difference in my calculations from the estimate made some years earlier can be explained by the fact that the economy has been growing faster than the forecasters might have anticipated. Unfortunately, the then Government and the racing industry did not appear to make any allowance for the fact that the future TAB revenue could be influenced by the size of the pool. Instead of selling SATAB to Unitab at a discount, it should have sold it to Unitab at a premium to make up for the risk of moving to a smaller pool.

Irrespective of what might have been, the fact remains that the racing industry as a whole is worse off in real terms than it was in 2000-01 and it is almost certain that this would not have occurred if the privatisation decision had been different. From figures provided to me by TRSA, HRSA and GRSA I have constructed Table 4A to show the position of the three codes prior to the year that the privatisation deal came into play.

Table 4A: TAB DISTRIBUTIONS: PRE-PRIVATISATION AND POST PRIVATISATION					
	2000-01	2004-05	2004-05	2004-05	% Change
DISTRIBUTIONS	(actual receipts)	(actual receipts)	(2000-01 prices)	(real terms change)	(real terms)
THOROUGHBRED TAB	26,961,689	28,043,437	29,989,284	(1,945,847)	(7.22)
HARNESS TAB	7,539,716	6,238,513	8,386,369	(2,147,856)	(28.49)
GREYHOUND TAB	3,683,000	5,939,000	4,096,573	1,842,427	50.03
TOTAL	38,184,405	40,220,950	42,472,226	2,251,276	-5.90
SHARES					
THOROUGHBRED TAB	70.61	70.20	70.20	(0.41)	(0.58)
HARNESS TAB	19.75	14.59	14.59	(5.16)	(26.11)
GREYHOUND TAB	9.65	15.21	15.21	5.56	57.69
	100.00	100.00	100.00		

The second column of Table 4A provides the amounts received by the three codes in 2004-05, the last year for which comparisons may be made with those in Appendix A. (It also happens to be the year before the effects of the TV dispute interstate.) The third column shows the 2000-01 receipts after being adjusted for inflation up to 2004-05, that is the amount each code would have had to receive in 2004-05 to be no worse off after inflation than compared with 2000-01. I estimate that the industry as a whole, by 2004-05 had declined in real terms by 5.9%. The only winner has been the greyhound code and the major loser has been the harness code.

There has been some decline in the racing industry in terms of its relative position. The figures in Table A5, showing per capita TAB spending in real terms illustrate that the problem is across Australia in varying degrees, except in Western Australia. Future assessments of the racing industry by industry personnel need to accept the financial challenges that are before the industry in varying degrees in most states. Placing blame on external forces such as gaming machines and a past agreement to make clawback payments is tantamount to a denial of the challenges around the industry and the insufficient responses that are being made to meet those challenges. **It is unfortunate, however, that the previous government sold the SA TAB to Unitab as the move to their pool seems to have had a serious impact upon the growth of TAB wagering in SA.**

3. GREYHOUND RACING SA

3.1 The Greyhound Code

Greyhound racing has a presence in all States of Australia. The Australian Greyhound Racing Industry Annual Report for 2005 produced the figures contained in Table 5. These statistics show that in SA the number of starters in races (the same greyhound is counted each time it races) was 25,958 or 8.8% of the Australian total. There were 779 different owners in South Australia and their dogs raced for \$2,984,000 in prizemoney. The prizemoney in South Australia represented 5.8% of the total available in Australia.

	NSW	NT	SA	TAS	VIC	QLD	WA	TOTAL
No of Starters	112,083	1,920	25,958	11,940	76,296	43,237	23,831	295,265
Owners (incl syndicates)	2,343	43	779	211	4,180	551	1,228	9,335
Stakemoney Paid (\$'s)	15,500,000	148,839	2,984,000	1,944,725	18,456,000	7,659,360	5,230,250	51,923,174

The controlling authority for greyhound racing in South Australia is Greyhound Racing SA Ltd. The Company conducts all race meetings at its headquarters at Angle Park and at the Gawler race course. The other race meetings are conducted by local clubs at their courses. The number of race meetings and their locations are shown in Table 6.

RACE TRACK	2001	2002	2003	2004	2005	2006
Angle Park	109	107	125	120	121	103
Angle Park Day	0	0	0	0	46	60
Baramera	23	25	22	23	22	20
Gawler	47	51	50	54	51	48
Kulpara	16	18	16	17	18	16
Mount Gambier	31	33	30	28	27	26
Port Augusta	16	15	16	21	14	14
Port Pirie	21	20	22	15	25	27
Strathalbyn	26	26	25	26	25	25
Whyalla	18	18	16	21	13	15
TOTAL	307	313	322	325	362	354
TAB MEETINGS	171	173	190	189	233	229

Greyhound racing has a competitive advantage over the other two racing codes in that the time taken to conduct a race is much shorter than a thoroughbred race and significantly shorter than a harness race. This time difference enables a greyhound race to be squeezed in on the TV station Sky Racing between races elsewhere. The TV exposure is crucial because it provides the vision for the punters in the TAB outlets. The SA greyhound racing industry, like their inter-state counterparts, has benefited in recent years from this competitive advantage. The TAB meetings grew during the six year period from 171 in 2000-01 to 229 in 2005-06. During last year all the Angle Park and Gawler meetings were TAB meetings on Sky, along with 6 of the Port Pirie meetings. The other 12 TAB meetings (4 at Port Pirie and 8 at Strathalbyn) were not on Sky Channel, but were broadcast on radio. This growth in TAB meetings has played an important part in the success of GRSA.

3.2 Financial Performance 2000-2006

The financial performance of Greyhound Racing SA Ltd., as published in their annual audited accounts, is set out in Table 7. The last three rows in this Table have been derived from the published figures.

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
REVENUES						
TAB Distribution	3,683,000	4,785,000	5,247,000	6,597,000	5,939,000	5,954,000
Sponsorships, Grants, Other Commissions	433,000	425,000	391,000	360,000	355,000	259,000
Profit from Food, Beverage & Gaming	99,000	102,000	286,000	297,000	534,000	650,000
Other	220,000	250,000	241,000	279,000	686,000	253,000
Total	4,435,000	5,562,000	6,165,000	7,533,000	7,514,000	7,116,000
EXPENSES						
Prizemoney & Rebate Distribution Expenses	2,171,000	2,433,000	2,679,000	2,893,000	2,984,000	3,094,000
Racing & Probity Expenses	1,515,000	1,505,000	1,925,000	2,184,000	2,392,000	2,382,000
Finance & Administration Expenses	993,000	1,114,000	1,151,000	1,101,000	1,297,000	1,292,000
Marketing Expenses	270,000	403,000	393,000	499,000	411,000	441,000
Borrowing Expenses	13,000	10,000	17,000	157,000	114,000	140,000
Total	4,962,000	5,465,000	6,165,000	6,834,000	7,198,000	7,349,000
PROFIT	(527,000)	97,000	0	699,000	316,000	(233,000)
Stakemoney/TAB Distribution (%)	58.95	50.85	51.06	43.85	50.24	51.97
Stakemoney/Expenses (%)	43.75	44.52	43.45	42.33	41.46	42.10
TAB Dist./Total Revenue (%)	83.04	86.03	85.11	87.57	79.04	83.67

In the negotiations over the detail of the privatisation of SATAB, GRSA insisted on its share of TAB Distribution being immediately increased from the previously legislated 9% promulgated in the Racing Act 1976, and the movement to market share of off-course wagering after 2003-04. The benefits of these negotiations can be seen from the growth in revenue received from the TAB Distribution. The amount received in 2005-06 represents an increase on the figure of 2000-01, the year prior to the privatisation figures flowing through, of 61.7% or 46.5% in real terms. At the end of the fifth year after privatisation the market share of the TAB Distribution had grown from 9.65% to 15.21%. This represents more than a 50% increase in their market share.

The decline in TAB Distribution in 2004-05 is due in part to the implementation of the clawback payment arrangement, which the three codes agreed to when they signed the Racing Distribution Agreement in 2001. The impact of this effect on the bottom line result has been tempered, in the case of the greyhound code, by the growth of their market share of TAB wagering and also by the growth in their profits made through their gaming investment. Profit reported from food beverage and gaming in the last two years has more than doubled.

On the expense side GRSA has a cautious policy of paying prizemoney in the range of 47-52% of the TAB Distribution. The experience in 2004-05 suggests this is more than achievable. However in the next year all three codes were significantly affected by lower wagering because of a broadcast dispute between Sky Channel and TVN (a company set up by Victorian thoroughbred clubs and the two Sydney thoroughbred clubs). The figures to hand at the end of March 2007 would suggest that the Distribution will rebound and provide revenue for GRSA superior to the last two years. The percentage of expenses going to prizemoney is an outcome of two policies: the 47-52% prizemoney target; and the resources GRSA allocates to other activities. In the last two years the Company has been successful in reducing its revenue dependence on the TAB Distribution.

The main criticism of GRSA made to this writer is that insufficient money is allocated to race prizemoney and too much is allocated to overheads. Figures made available by GRSA on interstate controlling bodies indicate why, at first glance, it is easy to sustain the criticism being made. The figures in Table 5 can be converted into prizemoney paid per starter and this interstate comparison shows that SA, with \$115 prizemoney paid per starter, has the second lowest in Australia. The Australian average in 2005 was \$175. Ownership figures between states can be affected by different concentrations of ownership mix. However the position is much the same and SA paid \$3,831 per owner compared with the Australian average of \$5,553.

Table 8 shows the main expenses by each state body on administration, racing & probity, and marketing taken as a percentage of prizemoney. It is acknowledged that the practices in each state are very different; that such comparisons are fraught with difficulty in reaching definitive conclusions; and that the figures for Victoria are for 2005 whereas the other states are for 2006. South Australia's figures are impacted significantly by economies of scale: it is much smaller than NSW, Victoria and Queensland. For example in discussions with GRSA officials they indicated that if they received as much as Queensland in their TAB Distribution they could put virtually all the extra money into prizemoney. I agree with that statement, but it illustrates that there is nothing inviolate about their 47-52% rule, because tipping such an excess into prizemoney would result in the 52% limit being exceeded by a significant margin. The 47-52% rule has been in operation for a while and it would seem appropriate to review it. The differences between South Australia on the one hand and the other states on the other are so significant that the onus should be on GRSA to establish that they are not allocating too many resources to administration, racing & probity and marketing; and insufficient resources to prizemoney when SA is compared with other states.

Table 8: EXPENSES AS % PRIZEMONEY EXPENSE			
STATE	ADMINISTRATION	RACING & PROBITY	MARKETING
SA	41.41	76.37	14.07
WA	26.52	30.41	6.60
QLD	13.50	1.22	0.26
NSW	17.90	18.20	1.31
VIC	15.10	38.26	8.42

A defence against the current prizemoney payment practice is that the differences between the states are so marked that increasing prizemoney to a level that is affordable and could be achieved without making a loss would only reduce the degree of the inter-state discrepancy. For example, raising the stake money target to 55%, a target that in my view would be affordable, in 2004-05 would have raised the stake money per starter to \$127.

Although this change would amount to just over a 10% increase, South Australia would still have been significantly below the Australian average and such an action would have reduced the capacity of GRSA to allocate money for capital expense and thereby reduce its capacity to grow alternative sources of revenue. In addition, it is true that SA currently has more than enough greyhounds to conduct its business and there is no evidence that prizemoney levels are affecting the viability of the greyhound business. The industry operates at a level where it is essentially a successful industry for hobbyists with a small number of people aspiring to be professionals. Many of the trainers and owners with professional ambitions will probably need to move interstate as SA is essentially a well run industry for hobbyists. If this is what the industry wants then there is really no case for changing it. **It is recommended that GRSA commission an independent review of their cost structure compared with the greyhound code in other states and that the current returns to owners' policy of paying 47- 52% of TAB Distribution be reviewed in the light of the findings of that study.**

3.3 Financial Assets and Liabilities 2000-2006

The assets and liabilities reported in the annual GRSA balance sheets are set out in Table 9.

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Current Assets						
Cash	31,000	487,000	242,000	481,000	645,000	559,000
Receivables	1,847,000	520,000	584,000	659,000	625,000	600,000
Inventories	20,000	25,000	25,000	34,000	46,000	55,000
Other	68,000	56,000	82,000	126,000	107,000	314,000
Total Current Assets	1,966,000	1,088,000	933,000	1,300,000	1,423,000	1,528,000
Receivables	2,000	16,000	39,000	40,000	15,000	7,000
Property, Plant & Equipment	4,450,000	4,723,000	6,116,000	8,289,000	7,929,000	7,639,000
Total Non-Current Assets	4,452,000	4,739,000	6,155,000	8,329,000	7,944,000	7,646,000
Total Assets	6,418,000	5,827,000	7,088,000	9,629,000	9,367,000	9,174,000
Current Liabilities						
Payables	350,000	209,000	382,000	418,000	581,000	500,000
Borrowings	550,000	0	1,079,000	234,000	188,000	206,000
Provisions	281,000	245,000	235,000	304,000	339,000	353,000
Other	7,000	34,000	57,000	15,000	0	19,000
Total Current Liabilities	1,188,000	488,000	1,753,000	971,000	1,108,000	1,078,000
Non-Current Liabilities						
Provisions	54,000	66,000	62,000	52,000	54,000	87
Borrowings	0	0	0	2,157,000	1,440,000	1,297,000
Other Non-Current	0	0	0	0	0	180,000
Total Non-Current Liabilities	54,000	66,000	62,000	2,209,000	1,494,000	1,297,087
Total Liabilities	1,242,000	554,000	1,815,000	3,180,000	2,602,000	2,375,087
Net Assets	5,176,000	5,273,000	5,273,000	6,449,000	6,765,000	6,798,913

The net assets of the Company have grown since corporatisation and the privatisation of SATAB. The growth in net assets illustrates that GRSA is in a sound financial position. The Company's foresight in developing its gaming/catering investment placed it in good shape to absorb the impact of the clawback on its Distribution from the TAB.

GRSA do not show any asset value for their gaming machines entitlements following Government changes in 2005. The Board received advice from Clubs SA and was informed it was optional to include an asset value of \$50,000 per machine or \$37,500 after the forfeiture rule. GRSA determined that as they were not interested in selling their machines they would pursue their policy of showing them at cost. It will be seen later on that this policy is different to the one adopted by SAHRC and SAJC, both of whom include a value for machines as a non-current asset. Therefore in comparing the Net Asset value of these two organisations with GRSA allowance needs to be made for the different asset treatment.

3.4 Greyhound Country Clubs

GRSA were able to supply me with electronic copies of each club's profit and loss statements for the last two years. A snapshot view of the latest year is enclosed in Table 10.

CLUB	SOUTHERN		KULPARA		PT AUGUSTA		MT GAMBIER		RIVERLAND	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
INCOME	-	-	-	-	-	-	-	-	-	-
GRANTS & SUBSIDIES	147,675	140,059	81,068	80,343	49,135	54,254	119,800	121,804	63,786	69,902
MINOR WORKS GRANT	19,764	13,490	12,379	11,672	6,126	8,202	9,997	12,493	11,661	2,990
OTHER INCOME	78,408	74,808	47,124	35,645	14,916	16,716	48,583	51,100	27,587	70,184
TOTAL INCOME	245,847	228,357	140,571	127,660	70,177	79,172	178,380	185,397	103,034	143,076
EXPENDITURE	-	-	-	-	-	-	-	-	-	-
WAGES & EMPLOYMENT	27,825	27,170	10,916	10,965	4,391	5,433	11,467	11,173	9,544	33,358
PRIZEMONEY	141,900	137,240	78,570	80,395	45,360	53,145	118,500	119,510	59,630	58,225
OTHER EXPENSES	58,328	57,219	32,726	34,778	18,361	17,657	45,610	58,483	37,137	54,700
TOTAL EXPENSES	228,053	221,629	122,212	126,138	68,112	76,235	175,577	189,166	106,311	146,283
NET PROFIT/LOSS	17,794	6,728	18,359	1,522	2,065	2,937	2,803	(3,769)	(3,277)	(3,207)
CLUB	PT PIRIE		WHYALLA		GAWLER		GOTBA		AGRC	
	2006	2005	2006	2005	2006	2005	2005	2004	2006	2005
INCOME	-	-	-	-	-	-	-	-	-	-
GRANTS & SUBSIDIES	139,717	119,776	51,099	50,037	0	0	25,707	23,585	0	0
MINOR WORKS GRANT	13,602	11,442	8,985	10,768	0	0	3,882	5,349	0	0
OTHER INCOME	34,360	32,390	19,437	17,702	34,064	31,919	21,864	15,978	10,743	13,881
TOTAL INCOME	187,679	163,608	79,521	78,507	34,064	31,919	51,453	44,912	10,743	13,881
EXPENDITURE	-	-	-	-	-	-	-	-	-	-
WAGES & EMPLOYMENT	9,492	8,404	4,575	3,867	0	0	0	0	0	0
PRIZEMONEY	133,425	118,075	51,432	47,065	16,881	14,471	36,209	22,838	0	0
OTHER INCOME	35,828	32,916	21,182	19,281	7,965	6,487	21,103	21,848	10,392	10,894
TOTAL INCOME	178,745	159,395	77,189	70,213	24,846	20,958	57,312	44,686	10,392	10,894
NET PROFIT/LOSS	8,934	4,213	2,332	8,294	9,218	10,961	(5,859)	226	351	2,987

TABLE 11: GREYHOUND RACING SA - COUNTRY CLUB FINANCIAL SNAPSHOT AT 30/6/06												
CLUB	SOUTHERN	KULPARA	PT AUGUSTA	MT GAMBER	RIVERLAND	PT PIRE	WHYALLA	GAWLER	GOTBA	AGRC	TOTAL	
CURRENT ASSETS												
CASH & CASH EQUIVALENTS	33,849	14,885	44,073	24,355	424	4,487	41,185	34,439	7,405	48,825	253,927	
RECEIVABLES	5,495	5,458	573	5,095	102	2,919	355	0	84	0	20,081	
INVENTORIES	1,255	1,323	725	2,014	1,181	171	211	0	0	0	6,880	
OTHER CURRENT ASSETS	1,821	1,395	4,939	430	3,799	867	0	0	0	0	13,251	
TOTAL CURRENT ASSETS	42,420	23,061	50,310	31,894	5,506	8,444	41,751	34,439	7,489	48,825	294,139	
NON-CURRENT ASSETS												
PROPERTY PLANT & EQUIPMENT	201,157	144,125	68,378	617,760	218,473	40,445	139,964	0	62,120	0	1,492,422	
ACCUM DEPRECIATION	(72,727)	(103,098)	(26,519)	(421,097)	(109,901)	(19,089)	(87,376)	0	(30,921)	0	(870,728)	
TOTAL NON-CURRENT ASSETS	128,430	41,027	41,859	196,663	108,572	21,356	52,588	0	31,199	0	621,694	
TOTAL ASSETS	170,850	64,088	92,169	228,557	114,078	29,800	94,339	34,439	38,688	48,825	915,833	
CURRENT LIABILITIES												
PAYABLES	27,601	3,671	12,765	1,566	5,781	4,469	319	0	0	0	56,374	
BORROWINGS	0	1,400	0	7,800	1,200	0	0	0	0	0	10,400	
NON-CURRENT LIABILITIES												
BORROWINGS	10,000	1,100	0	5,575	23,791	0	0	0	0	0	40,466	
TOTAL LIABILITIES	37,601	6,371	12,765	14,943	30,772	4,469	319	0	0	0	107,240	
NET ASSETS	133,249	57,717	79,404	213,614	83,306	25,331	94,020	34,439	38,688	48,825	808,593	

The profit and loss results for these clubs show that they clearly constitute small businesses, but they do not seem to have any difficulties coping with their situation. The figures for the previous year are very similar. A summary of their balance sheets is provided in Table 11. All Clubs have positive net assets. Their position does not change markedly from one year to the next and the 2005 figures are very similar to the 2006 figures shown in Table 11. Each of the venues is located on land that is leased or rented from another body, except in the case of Mount Gambier. The Mount Gambier Greyhound Racing & Coursing Club owns the freehold title of their course. The land has a nil value in the balance sheet and therefore Table 8 understates the net asset position of this Club. However, this does not alter the fact that GRSA controls and manages nearly all of the assets of the code.

These clubs conduct non-TAB meetings and trials for industry participants and these events play an important role in the training of greyhounds and assisting in their preparation for races at TAB meetings. They also assist the greyhound code build and maintain its support base in centres outside of Adelaide.

3.5 Strategic Business Planning Processes 2000-2006

Six months after the formation of GRSA as the controlling authority for greyhound racing, a group of industry participants, Club representatives, GRSA Board Directors and GRSA staff met to formulate an industry Strategic Plan and this was released in July 2001 by the inaugural Chairman, Bob Kennedy. This document said in its preamble: "...the commercial realities of our shift into the corporate sector has made it imperative to plan and budget wisely now that the "umbilical cord" attaching us to government funding has been severed. Our business operates in a competitive market and we therefore need to position ourselves to secure external, ongoing income for our industry".

The Plan contained goals and strategies and these were divided into four areas: wagering; racing; industry control; and returns to industry participants. The document had a sense of purpose and outlined a range of specific goals to be achieved. The fifteen goals were:

1. Increase off-course turnover by 0.5% over the next 3 years.
2. Increase on-course non-professional turnover by 0.5% over the next 3 years.
3. Increase attendance at Angle Park by 5% over the next 3 years.
4. Ensure Tavern redevelopment is fully investigated by December 2001.
5. Encourage and develop 500 new wagering customers by December 2003.
6. Encourage the breeding of higher quality litters to % of dogs named to pups whelped by December 2003.
7. Develop an industry wide marketing plan by October 2001.
8. Encourage TAFE to offer a basic competency program for stakeholders in their curriculum by December 2003.
9. Develop and implement a comprehensive training and seminar program by December 2002.
10. Conduct a preliminary statewide risk assessment by December 2001.
11. Review the current grading system by March 2002.
12. Increase swabs in regional and rural SA by 50% by June 2002.
13. Review prizemoney levels by May 2002.
14. Identify, acknowledge and recognise the volunteer contribution to greyhound racing by August 2001.

15. Improve and maintain industry communication.

Some of these goals were more challenging than others; however the range of them demonstrated an understanding of the variables impinging on the business. The Plan was disseminated to the industry by direct mail, on the GRSA Website and by personal presentations by GRSA in regional and rural South Australia. Following this, the Strategic Plan was reviewed in April 2002 “to ensure that the needs of our changing business environment were still being met and to build upon initiatives that had been completed in the first year of the plan”. This review resulted in the Plan being extended to cover matters not mentioned in the first plan; it reported on progress on each item previously identified; and it set out “fairly simply the direction for the next three years for GRSA”.

The GRSA Strategic Plan 2004 was adopted on 30 September 2004. This document essentially builds upon the work of the previous plans, but recasts the industry plan into four sections:

1. Racing product provided by GRSA.
2. Racing product supplied to GRSA.
3. Other Income.
4. Industry Administration.

At the time of writing this report GRSA was undergoing their next stage of industry planning in consultation with Clubs and industry participants. I understand that the issue of prizemoney levels featured significantly in the consultations and the GRSA management and Board are in the process of preparing a position for further consultation.

In discussions with management they expressed particular concern with the challenges ahead in spending money on redeveloping the facilities at Angle Park in order to protect and enhance their ability to improve returns from their non-raceday function activities. This objective is important to enhance financial strength of the Company and make it less vulnerable to the fluctuations that occur from time to time in wagering revenue. However, the pursuit of this goal will need to be carefully weighed against the objective of providing adequate returns to owners – an objective that is being pursued less in South Australia than in most other states.

3.6 Present Governance Structures

GRSA Ltd is a Company limited by guarantee. The number of members is unlimited and the liability of members is limited. The members of the Company are ten clubs that are incorporated bodies and these are treated as “having agreed to be bound by this Constitution”. The objects of the Company are clearly stated under section 2 of the Constitution and 17 powers are specifically identified in section 3.

The Company has a Board of 5 Directors and the first five were named in the Constitution. At all times the Board must be comprised of 4 Directors nominated by the Directors’ Selection Panel (one must have qualifications and experience in financial management; one in marketing; one in carrying on a business; and one must have experience as a legal practitioner) and “these Directors must be independent of the greyhound racing industry”. The fifth Director must have experience in the greyhound racing industry, may be a licensed person and is elected by Licensed Persons.

The Directors' Selection Panel must appoint, from time to time, a human resource consultant to provide to the Committee recommendations for each category of Directors. There are 4 members of the Director's Selection Panel: three must be appointed by the Member Clubs; and one member must be appointed by the Board. Terms are for 3 years and upon expiration of the term the Director is eligible for re-appointment. The Directors appoint the Chairman of the Board.

The Board has had a relatively stable membership. Bob Kennedy served as Chairman for the first 6 years and his place was taken by John Levy who has been on the Board from the outset. A Director, representing licensed persons, has been on the Board since September 2002. After the first six years, nine people had occupied the position of Director. The current CEO, Peter Ali has been in the position since August 2003.

The powers of the Board of GRSA do not seem to have presented any problems to GRSA in the management of its affairs. This may well be because of the dominant position held by the controlling authority and the fact that it conducts 92% of TAB meetings. This is in marked contrast to the other two controlling authorities who do not conduct any race meetings. In understanding the powers of GRSA it is important to read the Constitution of the Company along with Greyhound Racing Rules of GRSA. Read together it is clear that GRSA has strong powers. Clubs are required to provide a copy of audited accounts by 31 October each year. There is an expectation that clubs are financially responsible and that they comply with the extensive range of rules relating to financial management. Breaches of the rules by a member club can include a range of penalties, including suspension or withdrawal of payments by GRSA and suspension of the club's registration. GRSA provide the services of GRSA auditors to conduct club audits and clubs who utilise other services require a declaration of independence from their auditors. It would appear that GRSA does not have the power to send in an administrator to administer the affairs of a Club where it believes it has good cause to do so. This matter should be rectified. GRSA does not have a code of conduct for race club committees which makes it clear how certain matters should be dealt with, for example, conflict of interest matters; letting of contracts; arrangements with suppliers; dogs owned by committee persons with licensed trainers that operate at the club premises. GRSA acknowledged that they should look at this range of issues and there would appear to be no lack of power to prevent them doing so.

3.7 GRSA Summary

GRSA is an organisation, which has displayed a professional approach to managing its affairs. It has had a strong leader in Bob Kennedy as Chairman and he has been succeeded by John Levy, who has the advantage of having been a Director from the outset. The senior management are professional in their approach and in their demeanour. In this writer's view the greyhound code in almost every respect has been better managed than the other two racing codes. GRSA has a Constitution and set of rules which present less governance problems than the constitutions and rules of the other two codes in so far as ensuring that a Board is selected that is able to govern and manage the code as a business. Although no issues have been drawn to the attention of this writer there are some minor deficiencies in the scope of the Board's powers which it would be wise to address.

GRSA engages in on-going strategic planning and it has been reasonably successful in achieving its targets. Of the three codes they were the only one that saw the inherent uncertainties embedded within the TAB Distribution Agreement that all codes signed **and** at

the same time they restricted their increase in prizemoney during the first 3 years so that they could develop another income stream. This strategy enabled the greyhound code to withstand the impact of clawback much better than the other two codes.

GRSA was able to provide this writer with a large amount of financial information much quicker than the other two codes. They were also able to provide far more information in electronic form than the other two codes. This not only made my task easier but, more importantly, it demonstrated that they were monitoring the affairs of their code; they were in a position to be knowledgeable about the affairs of their code; and they were acting as a controlling authority in the truest sense.

4. HARNESS RACING SA

4.1 The Harness Code

At the time of corporatisation there were 12 harness clubs operating in South Australia and the industry had been having difficulty in stemming an industry decline and in slowing a drift to Victoria due to its higher prizemoney. In his initial annual report the Chairman of the newly created Harness Racing SA Ltd, said:

“The general state of the racing/wagering industries and, in particular Harness Racing in South Australia, requires successful and positive action to recover long term downward trends in participation, financial liability and public appeal”.

Unfortunately, as we shall see, the code received neither the action nor the results.

Table 12: HRSA RACE MEETING STATISTICS 2001-02 to 2006-07						
DISTRIBUTION OF TAB RACE MEETING BY RACE TRACK						
RACE TRACK	2002	2003	2004	2005	2006	2007
Globe Derby	94	101	104	96	100	117
Gawler	32	32	30	31	27	19
Port Pirie	31	29	30	31	26	17
Strathalbyn	3	0	2	0	0	0
Mount Gambier	7	2	4	2	0	0
Kapunda	5	1	0	1	0	0
Victor Harbor	0	0	0	0	0	2
Total	172	165	170	161	153	155
Percentage Share						
Globe Derby	54.65	61.21	61.18	59.63	65.36	75.48
Gawler	18.60	19.39	17.65	19.25	17.65	12.26
Port Pirie	18.02	17.58	17.65	19.25	16.99	10.97
Mount Gambier	4.07	1.21	2.35	1.24	0.00	0.00
The Rest	4.65	0.61	1.18	0.62	0.00	1.29
Total	100.00	100.00	100.00	100.00	100.00	100.00
DISTRIBUTION OF NON-TAB RACE MEETING BY RACE TRACK						
Port Augusta	0	0	0	0	1	0
Kadina	0	5	5	1	0	0
Strathalbyn	3	5	4	1	2	0
Mt Gambier	5	10	8	10	13	12
Whyalla	6	7	6	2	2	2
Franklin Harbour	2	2	1	0	1	1
Kimba	1	1	1	0	0	1
Kapunda	0	5	3	0	1	2
Victor Harbour	0	0	0	0	0	2
Total	17	35	28	14	20	20
TOTAL HRSA RACE MEETINGS: TAB & NON-TAB						
Total	189	200	198	175	173	175

Table 12 sets out the number of race meetings conducted since 2000-01 and the number of meetings programmed this year. Almost all of the TAB meetings during this period have been confined to Globe Derby, Gawler and Port Pirie and if the Victor Harbor Club had not recommenced racing this year, TAB racing elsewhere would have disappeared. TAB meetings are the only ones that enable harness racing to earn income through off-course

wagering. On the other hand, the non-TAB meetings provide opportunities for the clubs to provide racing opportunities for local horses, for horses with lesser ability to compete, and for harness racing to maintain a wider support base. The regional meetings in the past have been important amongst the rural community for farmers wishing to train a harness horse as a hobby. In recent years the decline in the regional meetings, the recent prolonged drought and the rise in fuel prices have all contributed to reducing the code's support base in rural areas.

In reading Table 12 it needs to be made clear that the TAB meetings are the ones allocated to the race track as in recent years not all clubs have raced at their local track. For example, the Port Augusta meetings in 2001-05 were conducted at Port Pirie. This year the Port Augusta Club has no meetings allocated to it. Other clubs and areas have also declined in importance. Table 11 illustrates that during the period there was an increased concentration of meetings at Globe Derby Park; there was a decline in the roles played by Gawler and Port Pirie; Mount Gambier appears to be struggling to survive; and the rest of the State has declined in relative importance, except for the unique case of Victor Harbor (see 4.5 below).

4.2 Financial Performance 2000-2006

The financial performance of Harness Racing SA Ltd., as published in their audited annual accounts, is set out in Table 13. The serious plight of the harness industry can be seen by noting the following facts from this table:

1. Harness Racing SA has made a loss in 4 of the last 6 years and the total financial performance over the last 6 years has been an accumulated loss of \$418k.
2. The major revenue item derived from off-course wagering on the TAB was lower in the last two years in monetary terms than it was in the last year prior to the sale of the TAB. For HRSA to have been no worse off in real terms in 2005-06, compared with 2000-01 it would have needed to receive \$2.974m more than it did. The decline in the real value of money received is 39.44%.
3. HRSA Revenue from other sources has been in decline and this has increased the harness code dependence on its declining off-course wagering revenue.
4. During this time the Company attempted to stem the decline in the industry (which had been occurring for some years) by sustaining prizemoney expenditure and cutting other costs. Thus as the total funds from the TAB as a percentage of total revenue increased, the percentage of total expenses allocated to stake money increased.
5. The effect of these differing forces meant that the percentage of TAB distribution returned to owners by way of stake money increased.

Essentially HRSA, in the way its business is presently structured, has been spending more money on stakes than it can afford. There are three obvious ways to reduce stake money expenditure: reduce prizemoney; reduce race meetings; and reduce the number of races at race meetings. None of these options are palatable to any racing body. What is apparent is that the strategy that has been pursued by HRSA essentially means it has been acting as a TAB post box. Money comes in from the TAB Distribution on the one hand and goes out to stakeholders on the other hand. Paying stakes at the level it has been provides no resources to do anything else. The difficult plight of the Company can be ascertained from their balance sheet.

Table 13: HARNESS RACING SA FINANCIAL PERFORMANCE 2000-2006						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
REVENUES						
TAB Distribution	7,539,716	7,212,794	7,596,960	7,102,188	6,238,513	5,709,578
General	947,660	435,541	431,190	397,351	368,533	323,500
Betting Auditorium	142,987	152,332	78,739	78,000	41,206	42,295
Southern Cross Series	101,550	88,654	83,086	71,786	77,272	99,382
Yearling Sale	58,443	47,843	55,686	59,248	70,777	81,229
Interest Revenue	166	0	6,580	10,364	8,264	5,820
Proceeds from Sales	12,065	60,311	0	0	0	0
Total	8,802,587	7,997,475	8,252,241	7,718,937	6,804,565	6,261,804
EXPENDITURE						
Stakemoney	4,484,538	4,453,832	4,664,961	4,470,892	4,035,469	3,899,205
Racing Expenses	1,974,014	2,481,079	2,324,803	2,025,971	1,725,758	1,442,923
Yearling Sale	30,836	25,233	27,539	37,118	37,121	40,002
Southern Cross Bonuses	261,820	195,812	198,878	154,150	207,650	172,050
Administration	1,612,871	1,223,346	886,157	962,240	812,054	716,236
Depreciation	114,027	85,216	72,748	47,649	43,971	35,386
Borrowing Cost	95,532	32,393	25,325	25,419	21,777	17,303
Written Down Value	0	54,689	0	65	0	0
Total	8,573,638	8,551,600	8,200,411	7,723,504	6,883,800	6,323,105
PROFIT/(LOSS)	228,949	(554,125)	51,830	(4,567)	(79,235)	(61,301)
RETURN TO OWNERS (%)	59.48	61.75	61.41	62.95	64.69	68.29
Stakemoney/Expenses (%)	52.31	52.08	56.89	57.89	58.62	61.67
TAB Dist./Total Revenue (%)	85.65	90.19	92.06	92.01	91.68	91.18

4.3 Financial Assets and Liabilities 2000-2006

Table 14 sets out the reported balance sheet results of HRSA for each of the last six years. At the end of the last financial year HRSA recorded negative net assets for the fifth year in a row and increasing negative net assets in each of the last four years. Normally when a company shows negative net assets, debt and it records a loss, the company would be regarded as insolvent. It would seem that HRSA has only avoided the plight of trading whilst insolvent because of its regular income stream from TAB Distribution guaranteed by contract and management "fine-tuning" of cash flows. In Table 14 it is noticeable that in 2005-06 there was a growth of nearly \$200,000 in cash assets; however this was more than matched by an increase in accounts payable of just less than \$270,000. Fortunately, the fortunes of harness racing have improved this year due to programming changes and the conduct of the Inter Dominion in SA. HRSA understands that the extra 1% market share earned this year will not all be retained in the following year.

In making any comparisons with GRSA it needs to be remembered that GRSA includes the old principal club of greyhound racing and its assets. In addition, GRSA inherited a healthy position, HRSA did not. The principal metropolitan club in harness racing is conducted by a separate legal entity, the South Australian Harness Racing Club and it is to this body's performance that I now turn.

Table 14: HARNESS RACING SA FINANCIAL POSITION 2000-2006						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Current Assets						
Cash Assets	700	1,291	700	700	700	266,195
Receivables	2,865,906	585,164	695,387	680,185	547,237	530,836
Other	157,199	69,365	136,893	97,513	77,200	3,588
Total Current Assets	3,023,805	655,820	832,980	778,398	625,137	800,619
Total Non-Current Assets	315,541	241,276	169,525	159,842	131,991	96,607
Total Assets	3,339,346	897,096	1,002,505	938,240	757,128	897,226
Current Liabilities						
Payables	1,778,503	622,584	677,932	655,631	617,047	885,556
Interest-bearing Liabilities	1,100,693	42,321	56,916	78,656	60,293	30,000
Provisions	72,560	51,355	64,626	68,351	44,377	44,377
Total Current Liabilities	2,951,756	716,260	799,474	802,638	721,717	959,933
Non-Current Liabilities						
Interest Bearing Liabilities	0	400,000	366,517	300,000	268,197	226,978
Provisions	96,918	44,289	48,137	51,792	62,639	67,040
Total Non-Current Liabilities	96,918	444,289	414,654	351,792	330,836	294,018
Total Liabilities	3,048,674	1,160,549	1,214,128	1,154,430	1,052,553	1,253,951
Net Assets	290,672	(263,453)	(211,623)	(216,190)	(295,425)	(356,725)

4.4 South Australian Harness Racing Club

Since the period of TAB privatisation the number and percentage of Industry TAB meetings conducted by SAHRC at Globe Derby Park has increased and this year just over two thirds of all harness meetings and 74% of all TAB meetings will be conducted at Globe Derby Park. The Club's financial performance during recent years as shown in their annual audited accounts is set out in Table 15.

Apart from the financial year ending June 2004, the Club has not made any progress in growing the profit of its business. It is acknowledged that returns from race meetings have been going down in recent years as a result of declining attendances. However Globe Derby had an increase in the number of race meetings and a growing gaming machine business in the six years shown in the table. It would seem to this writer that the major reason for the poor financial performance at Globe Derby is due to a lack of professional management.

The Committee of SAHRC during the last twenty months have discussed the poor returns from food and bar trade; inadequate food and beverage stock controls; allegations of theft by staff; meals being provided without payment; patrons being provided with free entry on race nights; inadequate control over staff rosters; lack of adequate receipting; and problems with cash register reconciliations. Tackling this inadequate system of management seems to be a work in progress. The Club is managed rather than governed by a Committee. Members of the Committee become involved in detailed matters that should be handled by professional

management. Furthermore, the way in which the accounts are reported does not, on the Club's admission (in a letter from the President to this writer) provide full disclosure to its members. The gaming tax and gaming revenue figures in their published accounts cannot be reconciled. The Club has confirmed that the reported tax figures are correct, but the gaming revenue line each year allegedly has added to it amounts derived from TAB commissions and sale of gaming machines less any promotions expenses on gaming. No notes to the accounts are provided indicating the revenue line has been netted against other items and the non-reported expense in the last two years amounted to around \$120,000 per annum.

Table 15: SA HARNESS RACING CLUB FINANCIAL PERFORMANCE 2000-06

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
REVENUES						
Catering	0	0	0	0	0	395,331
Admissions	99,703	93,773	81,500	71,633	78,901	83,490
Bookmakers	141,575	95,779	56,664	36,178	46,663	11,305
Catering Rights	34,558	33,859	32,567	32,622	35,045	36,575
Gaming	672,952	1,336,576	1,365,234	1,557,435	1,743,036	1,904,623
Hire of Facilities	58,170	64,312	52,741	38,484	50,375	44,330
Interest Received	5,817	2,421	1,635	6,664	20,119	19,441
Member's Subscriptions	34,741	32,111	31,582	28,332	31,500	32,495
Operation Subsidy Fees	184,000	176,000	152,000	161,050	145,084	91,724
Profit on Sale of Fixed Assets	(640)	0	0	1,182	725	318
Promotions and Grants	70,246	53,288	49,752	52,749	23,538	75,120
Racebook Sales	54,382	44,778	40,098	45,245	41,280	42,269
Sundries	12,078	11,198	7,005	6,267	6,609	5,139
Totalisator Receipts	587,744	553,327	532,214	552,396	564,108	491,757
Total Income	1,955,326	2,497,422	2,402,992	2,590,237	2,786,983	3,233,917
EXPENDITURES						
Catering- Repairs & Main., Cleaning	0	0	0	0	0	108,491
Catering- Wages, Super, Workcover	0	0	0	0	0	389,193
Advertising	10,196	9,317	10,740	9,555	10,968	11,618
Audit, Account & Legal	12,573	8,545	25,690	7,250	15,459	16,042
Depreciation	34,328	35,697	41,393	50,192	59,213	89,262
Entertainment, Promotion & Signage	132,197	121,313	112,249	122,849	153,175	191,633
Gaming- Repairs & Depreciation	262,858	449,397	449,411	455,825	485,539	463,171
Gaming- Tax	197,733	412,611	412,727	491,875	580,783	649,673
Gaming- Wages, Super, Workcover	123,624	214,299	235,278	254,630	262,247	300,677
Ground Expenses (incl. Cleaning)	302,034	271,340	277,104	249,381	321,214	340,984
Insurance	60,914	89,306	68,028	96,541	115,013	99,010
Interest Paid	6,443	1,869	1,159	1,141	0	1,425
Lighting and Amplification	105,103	123,312	116,167	101,720	107,560	111,579
Prizemoney	0	0	0	0	58,375	133,500
Racebook Printing	68,360	68,290	68,625	70,145	67,380	75,615
Telephone, Stationery and Office	72,130	52,216	52,093	48,929	50,810	55,749
Television- On Course	29,549	28,217	26,370	27,156	31,761	29,600
Trophies	7,768	6,563	2,465	3,292	5,012	5,337
Wages, Payroll Tax, Superannuation	429,029	422,443	405,193	377,100	393,782	420,555
Total Expenditure	1,854,839	2,314,735	2,304,692	2,367,581	2,718,291	3,493,114
PROFIT/(LOSS)	100,487	182,687	98,300	222,656	68,692	(259,197)

The poor performance of the SAHRC has been cushioned by gaming machine profits reported in the annual reports as set out in Table 16. The clear inference to be drawn from these figures when compared with the Club profits shown in Table 15 is that the Club during the last 5 years would have made serious losses and would not have been a viable concern.

Table 16: SA H R C REPORTED GAMING PROFITS 2000-06						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Gaming Revenue	672,952	1,336,576	1,365,234	1,557,435	1,743,036	1,904,623
Gaming- Repairs & Depreciation	262,858	449,397	449,411	455,825	485,539	463,171
Gaming- Tax	197,733	412,611	412,727	491,875	580,783	649,673
Gaming- Wages, Super, Workcover	123,624	214,299	235,278	254,630	262,247	300,677
NET GAMING PROFIT	88,737	260,269	267,818	355,105	414,467	491,102

The balance sheet position of SAHRC for each of the last six years as reported in their annual balance sheet is set out in Table 17. However, it should be noted that the balance sheet almost certainly understates the value of the land assets owned by the Club, either in terms of its intrinsic worth or in terms of foregone revenue opportunities. Irrespective of this, the movement in value of the Club's net assets as recorded in their annual balance sheets is a cause for concern because of the increased gaming profits and the increase in net value of the Club's assets by \$1.6m as a result of recent changes to gaming laws. However the amount included in the balance sheet is \$40,000 per machine and this overstates the amount by \$2,500 per machine or \$100k. The accounts over the last six years imply that profits would have been impacted by an accumulated \$1.87m if gaming machines were not in operation. When this effect is added to the \$1.6m the clear inference to be drawn is that the Club would have experienced a significant decline in the value of its net assets. I shall return to the issue of management at Globe Derby below (see p.81).

Table 17: SA HARNESS RACING CLUB FINANCIAL POSITION 2000-2006

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Current Assets						
Cash on Hand	38,724	32,789	45,832	51,919	47,366	77,729
Bank- Current A/c (Secured)	0	164,916	44,324	207,323	140,776	9,648
Investments	60,000	60,000	60,000	310,000	435,000	160,000
Debtors and Prepayments	160,075	112,582	90,739	109,632	87,229	102,756
Stock	9,694	10,277	12,599	13,541	14,132	48,009
Total	268,493	380,564	253,494	692,415	724,503	398,142
Non-Current Assets						
Water Licence	7,500	7,500	7,500	7,500	7,500	7,500
Land, Buildings & Improvements	2,000,000	2,000,000	2,000,000	2,000,000	1,734,743	1,678,333
Gaming Machine Entitlements	0	0	0	0	0	1,600,000
Plant Fixtures & Fittings	2,041,571	2,100,283	2,404,670	2,442,243	2,493,323	2,725,848
Less- Provision for Depreciation	1,268,980	1,414,296	1,554,799	1,679,438	1,784,277	1,924,004
Total	2,780,091	2,693,487	2,857,371	2,770,305	2,451,289	4,087,677
TOTAL ASSETS	3,048,584	3,074,051	3,110,865	3,462,720	3,175,792	4,485,819
Current Liabilities						
Bank- Current A/c (Secured)	58,850	0	0	0	0	0
Sundry Creditors and Accruals	213,876	191,124	193,010	176,529	223,710	227,670
Income in Advance	63,640	47,190	6,740	0	0	0
Provision for Leave & Salaries	41,156	38,491	41,037	49,361	66,072	34,225
Fully Drawn Advance	3,000	0	0	159,806	134,226	106,927
Total	377,522	276,805	240,787	385,696	424,008	368,822
Non-Current Liabilities						
Provision for L S Leave- Non Current	5,036	14,927	11,987	5,700	6,555	28,296
Total	5,036	14,927	11,987	5,700	6,555	28,296
TOTAL LIABILITIES	382,558	291,732	252,774	391,396	430,563	397,118
NET ASSETS	2,666,026	2,782,319	2,858,091	3,071,324	2,745,229	4,088,701

4.5 Harness Country Clubs

There is a widespread recognition by the harness clubs about the difficult plight their racing code is in. I received representations in some form or another from every club except Kadina and Kapunda. The financial position of the country clubs has been difficult to obtain due to lack of financial reporting by Clubs and monitoring by HRSA. Table 18 sets out a snapshot of the profit/loss outcomes for eight of the Clubs for the last financial year, based upon information provided by HRSA. The picture obtained is essentially more of the same bad news.

The two most important clubs from a TAB-wagering point of view both incurred losses. Gawler made a loss in each of the last two years; it has shown an outstanding loan from HRSA of \$50,000 in each of the last two years.. It will not be able to continue trading in this

way for much longer. (I was informed in April 2007 that the loan, which was not properly secured, had been forgiven by HRSA.) Port Pirie has also made a loss in each of the last two years; it had outstanding debt of more than \$80,000 at end of June 2006; however its current assets exceed liabilities and so its liquidity position is better than that of Gawler.

Clubs at Strathalbyn and Kapunda incurred smaller losses than Gawler and Port Pirie. The loss incurred by Victor Harbor is misleading from an on-going viability point of view as they did not race and they were gearing themselves up for the opening of their new racecourse. Kadina, Mount Gambier and Port Augusta made a modest surplus, whilst figures were not available for Whyalla, Kimba and Franklin Harbour.

Table 18: HARNESS RACING SA COUNTRY CLUBS P & L COMPARISONS 2005/2006								
INCOME	KADINA	KAPUNDA	MT GAMBIER	PT AUGUSTA	STRATHALBYN	VICTOR HBR	GAWLER	PORT PIRIE
Sponsorship, Advert & Racenames	0	5,639	22,916	10,968	3,623	0	4,474	27,789
Bookmaker Fees & T/Over Tax	0	271	882	0	382	0	2,638	779
Catering Net	63	3,893	31,779	0	(675)	0	90,153	14,330
Gate Takings Net	0	2,092	21,925	0	1,358	0	7,034	8,645
HRSA Grant	0	0	0	1,000	0	0	0	12,240
HRSA Operating Subsidy	0	700	6,132	0	1,551	0	25,762	23,828
Hire Facilities	4,024	1,475	0	0	19,569	0	21,640	8,814
Membership Subscriptions	330	2,318	3,800	575	185	847	3,904	2,082
Interest	108	0	2,998	280	0	35,385	0	0
Tote Commissions Net	0	201	23,807	0	5,160	0	72,566	21,804
Trials	0	0	0	0	0	0	16,348	0
Fundraising and Other Income	9,872	7,908	32,200	5,121	1,423	2,009	7,629	23,412
TOTAL INCOME	14,397	24,497	146,439	17,944	32,576	38,241	256,701	147,140
EXPENSES								
Advertising & Sponsorship	1,627	393	4,946	396	956	226	150	11,593
Bank Charges & Interest	172	1,408	312	160	1,952	26,852	1,494	949
Insurances (incl W/Cover)	500	10,634	7,879	1,000	4,748	1,883	24,370	15,028
Light & Power	1,160	8,876	2,156	1,071	1,194	148	26,932	6,421
Salaries, Wages & Super	0	1,605	30,785	2,700	5,834	0	90,024	42,054
Stakemonies	0	0	39,900	0	0	0	0	0
Telephone & Internet Charges	361	2,644	3,478	161	971	0	3,899	2,130
Track, Course & Bld. Maint.	1,006	3,861	14,276	848	4,325	6,806	36,162	20,311
Depreciation	0	0	7,407	7,407	2,926	0	33,892	42,841
Other Expenses	1,702	6,695	32,519	202	16,916	32,365	92,018	27,833
TOTAL EXPENSES	6,528	36,116	143,658	13,945	39,822	68,280	308,941	169,160
NET PROFIT/(LOSS)	7,869	(11,619)	2,781	3,999	(7,246)	(30,039)	(52,240)	(22,020)

The balance sheet position as supplied to me by HRSA does, however, provide a more positive picture and the summary position for 9 of the 11 country clubs are set out in Table 19. The strong net asset position arises because Gawler, Strathalbyn and Victor Harbor Clubs own the freehold title for their racecourse land and in each of the three cases the values are probably understated. Each of these three clubs is in a different position.

Gawler is one of the TAB racecourses and the State Government proposes to put a new highway through it. The Club wants to use the money received from compensation to build a new track somewhere else in Gawler. This desire is understandable from the point of view of the current harness trainers who live nearby as it provides them with a very convenient place

to train their horses. However from the point of view of the harness industry it is very short sighted as when the new road goes through the travelling time to train at Globe Derby will be 15 to 20 minutes; there is no guarantee that over time the Gawler trainers will continue either at all or at Gawler; and the industry is in great need of utilising its one strength – its land assets – to assist it in devising a business strategy to improve its position. One harness club even suggested that the Government should only compensate the Club for its loss of land on the condition that the funds are used in accordance with an agreement with the controlling authority. I have very strong sympathy with this view. Racing clubs are a part of a wider industry and when an industry is in trouble it needs every bit of help it can get. Funds from the forced acquisition should be put to effective use to improve the industry and not be used to satisfy the needs of the current occupants of positions in a particular club.

Table 19: HARNESS COUNTRY CLUB ASSETS AND LIABILITIES AS AT 30/06/2006										
	GAWLER	PORT PIRIE	MT GAMBIER	STRATHALBYN	VICTOR HARBOR	KADINA	KAPUNDA	PORT AUGUSTA	WHYALLA (2005)	TOTALS
CASH	2,993	100	12,203	0	33,631	25,094	715	0	28,907	103,643
INVESTMENTS	0	112,772	36,920	0	1,314,695	0	0	27,177	0	1,491,564
DEBTORS	1,251	5,034	0	3,162	43,277	0	0	0	2,738	55,462
OTHER	6,937	1,804	8,701	300	0	0	550	0	0	18,292
ASSETS	2,155,919	1,363,935	116,422	1,819,372	553,235	455,842	690,103	0	259,943	7,414,771
TOTAL ASSETS	2,167,100	1,483,645	174,246	1,822,834	1,944,838	480,936	691,368	27,177	291,588	9,083,732
CREDITORS	31,318	11,900	3,112	0	3,054	0	0	0	745	50,129
LOANS	50,000	81,995	0	13,884	0	0	26,962	0	0	172,841
PROVS for LEAVE	6,025	0	0	0	0	0	0	0	0	6,025
TOTAL LIABILITIES	87,343	93,895	3,112	13,884	3,054	0	26,962	0	745	228,995
NET ASSETS	2,079,757	1,389,750	171,134	1,808,950	1,941,784	480,936	664,406	27,177	290,843	8,854,737

Strathalbyn in recent years has not utilised its race track for racing purposes on many occasions and in more recent years it has conducted many of its meetings at Globe Derby. The President at Strathalbyn claims that he has had interest from a business party to buy the Strathalbyn harness racing club land and he has indicated that the club would receive an amount significantly more than the amount in the balance sheet. He has been actively searching for better ways of using the resources that are tied up in the ownership of the track. He has had discussions with the owners of the Wayville Showgrounds about investing the proceeds from any sale there. HRSA, the controlling authority would like Strathalbyn to merge with Victor Harbor, but this suggestion has not been favourably received. Another alternative to consider would be a merger of Strathalbyn assets with Globe Derby assets and the creation of a fund to improve prizemoney.

A recent matter that has been discussed is most disturbing from a point of view of financial prudence and the future interest of the harness industry. It has been proposed that the Strathalbyn harness club sell their racecourse where amongst other things they have a lease with the Strathalbyn Greyhound Club who also race there. It is then proposed that the proceeds from the sale be applied to build a new track at the Strathalbyn thoroughbred racecourse; build a new track for the Strathalbyn Greyhound Club; and pay off the debt of the thoroughbred club. The Chairman of HRSA has been in contact with the club President in order to stress the lack of wisdom of adopting this approach. I agree with this and believe that such an action would fritter away an amount as high as \$3m in assets and there would be no gain to the harness industry.

The recent history of the Victor Harbor Harness Racing Club is one of those rare financial success stories that occur in Australian racing. Victor Harbor raced during this racing season for the first time in almost 10 years. In the interim a small, dedicated group of Club members had sold their previous racecourse and acquired in its place a large parcel of land; some cash with which they bought adjoining land; and had a new 1000 metre track built for them. The adjoining land was sold after the club members subdivided it. The Club still owns some land which is valued in the balance sheet; it owns the track and the racing facilities upon it, although the freehold value of the track is not in the balance sheet; and the Club has approximately \$1.5m invested from which it intends to draw an income each year to assist it in conducting race meetings. The major difficulty the Club faces is that there are almost no horses in the immediate vicinity and Sky Channel access (essential for TAB meetings) is not assured.

The Northern Clubs (Whyalla, Franklin Harbour (at Cowell) and Kimba) have had their declining number of meetings conducted at Whyalla. The people that are left in these Clubs appear to be very passionate supporters. They acknowledge that the loss of meetings in their area, the lowering of harness prizemoney, increased travel costs and the drought over the last few years have all contributed to a decline in harness breeding by farmers, a decline in harness horse ownership and a decline in the quality of stock owned. In their presentations to me they requested that more meetings should be allocated to their area to arrest the decline. They correctly pointed out that with the economic developments in the pipe line that Whyalla is going to experience significant growth over the next decade and that the region would have an increase in well paid people who would provide opportunities to grow the industry. They acknowledged that HRSA had a policy of allocating scarce resources to TAB meetings in order to earn any TAB Distribution income and as such any meetings allocated to Whyalla would need to be TAB meetings.

Whilst it is beyond the ambit of this study to assess the long term viability of this idea, it would seem to this writer that it may be too late to recover in this area. HRSA is already allocating more funds to prizemoney than it can afford; the redistribution of race meetings essentially away from Globe Derby would cause a loss of income to the code; and there would be extra expense involved in conducting TAB meetings at Whyalla, even if Sky Channel cooperated which they almost certainly would not. Conducting non-TAB meetings at Club expense is probably the only option the industry can afford, but in the case of the northern clubs the Clubs cannot afford it. It is doubtful that the difficult circumstances that have arisen can be reversed and it would seem to this writer that the position of the code is so serious that the code needs to develop a plan to ensure that Port Pirie is not the next domino to fall.

4.6 Strategic Business Planning Processes 2000-2006

HRSA management provided me with copies of five documents as evidence of their involvement in business and strategic planning. The documents were:

1. Three Year Business Plan 2002-03 to 2004-05 (dated May 2002). This document outlined the range of matters that would affect harness receipts from the TAB Distribution once market share and clawback came into operation and said: "The complex challenge that faces HRSA Ltd is to continue to increase our market share and future funding. The national statistics clearly demonstrate that we race too often in this State." Potential company losses were envisaged. It was acknowledged that

harness racing in SA was over-capitalised with tracks and on-course facilities and said: "The number of venues needs to be reduced over time. If industry is to be self-sustainable, the asset base must be reviewed on a continuous basis." Notwithstanding this demonstration of some of the parameters ahead the document is essentially a detailed outline of race dates, an allocation of race meetings between tracks and the costs that will be incurred arising from the decisions made.

2. Business Plan 2003-04 (May 2003). This document acknowledged that turnover on harness racing was down and in order to reverse the trend race programming was re-arranged and prizemoney was reduced. "In summary, HRSA's aim is to conduct as many TAB/Sky meetings at a minimal cost so as to provide the best financial return from races. For this to be achieved, it is essential Member Clubs recognise that racing must be located at venues where the demographics indicate that they can be commercially viable." The document sets out the racing structure, the stakemoney structure, Club race dates and budgetary implications.
3. Business Plan 2004-05 (November 2004). This document said it sought to arrest the decline in track attendees, trainers, owners and other participants and a lot of detail was provided about the downward trends. It is not all apparent from the document what the strategy was to arrest the declines and it focuses on the same issues as the previous document.
4. Business Plan 2005-06 (May 2005). The content of this document is similar in nature to the previous one
5. Harness Racing SA Ltd Industry Strategic Plan 2006-07 (May 2006). This document distinguishes itself from the previous ones by setting out a vision, purpose, values, strategic framework, challenges and key performance indicators and then addresses the similar issues as in previous years.

The above documents assisted the CEO in his presentations to meetings with the Member Clubs. They seemed to be driven by the perception at the time of the best way to try and limit the haemorrhaging of the industry that was occurring. There was a natural and proper focus on the factors affecting the harness share of the TAB Distribution. As the agreed TAB Distribution was based upon market share the focus was on adjusting race times, race dates and race locations to enhance the harness share. This year the harness code is benefiting from an improved market share because extra races have been programmed at Globe Derby on Saturday nights, starting times have been moved forward and there has been better alignment with other states racing times. This improvement in market share will feed into the payments to harness racing in 2007-08.

The 2002 document did not acknowledge that the number of race meetings planned was in excess of the legal obligation with Unitab. This agreement, as amended on 20 February 2001, requires HRSA to annually conduct 52 metropolitan race meetings at Globe Derby; 69 country race meetings at Globe Derby, Port Pirie, Gawler; and 16 country race meetings at any venue. In each year since that agreement for 137 race meetings has been in place HRSA has conducted as many as 172 meetings (2001-02) and as few as 153 meetings (2005-06). In this current year 155 meetings are planned. None of the above documents sets out or refers to any cost benefit justification for the course of action pursued.

There is little doubt that the harness code has been prepared to alter their traditional arrangements more than the other two codes. The increased allocation of race meetings to Globe Derby was an appropriate short term response to maximise TAB Distribution given that the Distribution is based solely on market share and a Globe Derby meeting attracts

more betting turnover than at other harness tracks. However this correct short term response has created a long term challenge. It has narrowed the support base of harness racing. In addition **nothing has been done to utilise the heavily under-utilised assets of harness racing as no attempt has been made to address the structural imbalance of having a controlling authority striving to avoid trading whilst insolvent, while on the other hand harness clubs own assets that are under utilised and in most cases providing no return.**

There is a need for the harness industry to stabilise its affairs by arresting, or even substantially slowing down the downward trends that have been evident for some time. The industry cannot afford to allow Port Pirie to lose any more significance as a racing centre. The assets of the industry need to be put to best use for the benefit of the industry and this whole process needs to be professionally managed. The current Chairman of HRSA and one of his colleagues on the Board recognise this. A few people connected with some of the Clubs recognise this. The majority do not. This reality automatically leads us into the question of governance of the harness racing code.

4.7 Present Governance Structures

The Constitution of HRSA Ltd is identical to that of GRSA, except with respect to some minor matters and the clauses dealing with the appointment of the Board of Directors. HRSA Ltd is a Company limited by guarantee. The number of members is unlimited and the liability of members is limited. The initial members of the Company are twelve clubs that are incorporated bodies and these are treated as “having agreed to be bound by this Constitution”. The objects of the Company are clearly stated under section 2 of the Constitution and 17 powers are specifically identified in section 3.

The Constitution provides for there to be 5 Directors of HRSA. The clauses dealing with selection of Directors have been amended on two occasions, in April 2002 and April 2004. The clauses were always different to the GRSA emphasis on having a business Board. Part of clause 17.3 of the GRSA Constitution says: “The Director’s Selection Panel must appoint...a human resource consultant to provide to that committee recommendations for each category of directors...”. HRSA has never attempted to pursue the best people for the job in this way. **The HRSA emphasis has now become much more of a numbers game between some key players in the industry.** The current clauses of the HRSA Constitution mean that the nature of the board has moved further away from being a business board to a board heavily influenced by the wishes of whoever is occupying a position of power within a member club at the time of the appointment. HRSA does have the GRSA equivalent of a Directors’ Selection Panel, called a Special Industry Committee. However it is comprised of two members appointed by SAHRC; two members appointed by the South Australian Country Harness Racing Club’s Association (SACHRC); and one member appointed by the Board who shall act as Chairman and be independent of the Board. Two Directors must have experience in the harness racing industry and one each is effectively appointed by SAHRC and SACHRC. The other three Directors “must be independent of the harness racing industry”: one must have qualifications and experience in financial management; one in marketing; and one in law. Each decision of the Special Industry Committee is by a majority of Members of the Committee. Unlike GRSA there is no involvement of a human resource consultant to provide recommendations to the Committee.

Two of the five Directors, including the Chairman, have indicated that they have a Board in which three of their colleagues are not independent of the Industry and this has contributed to a restriction of decision-making by the Board. The CEO also has indicated to me that it would be better for the Industry to have a business Board. Some of the Member Clubs for their part complain of Board detachment from the industry and some of them believe there should be more control exerted by Club Members. **The tragic irony is that passionate harness believers are fighting to more directly control a resource that is in need of dispassionate business acumen.**

In the first six years of their operation there has been much greater instability within HRSA than in GRSA. Fourteen people have at various times been a Director of HRSA compared with nine in the case of GRSA. Two of the current Directors, including the Director who is currently Chairman are in their fourth year. Given the differences in viewpoint and attitude between some of the current Directors it is anyone's guess how long the current position will last. The current CEO has been there from the outset. His term of appointment has expired and the Board is considering its position pending this study and what may flow from it.

It is well known that over many years there have been less than amicable relations between SAHRC at Globe Derby and the controlling authority of harness racing. The nature of the tension has varied depending upon who has been occupying positions of influence in the two bodies. What have remained as a constant throughout are the following facts:

- The HRSA Board has not displayed strong leadership as a corporate body.
- The HRSA Board has not attempted to have its powers broadened so that it may be a controlling authority in more than name and address the problems the harness industry faces.
- The HRSA Board has not attempted to change the asset structure of the industry and it remains heavily under-utilised.
- SAHRC, the principal club at Globe Derby, is poorly managed and should be making significantly more money than it currently does and there is no sign of the current Committee bringing about substantial change.

The HRSA Board powers are deficient because it would appear that HRSA does not have the following powers:

- The power to regulate clubs and the establishment of codes of conduct to govern the way Club Committees conduct their affairs.
- The power to audit the accounts of Clubs.
- The power to limit the way, or amounts that Clubs may borrow money.
- The power to send in an administrator to administer the affairs of a Club where the controlling authority believes it has good cause to so.

4.8 Summary

Harness racing is the code of racing that has the biggest financial challenge. The controlling authority is literally struggling to keep its financial head above water. The principal club, Globe Derby is not professionally managed and it under performs financially. If managed better, it would be able to play a more productive role and assist the industry to achieve better outcomes. Across the country clubs there are assets that are under-utilised and nothing is being done to address this issue. The industry has lacked strong purposeful leadership for many years. Unfortunately, the Constitution of the controlling authority is flawed. It has insufficient powers to address the challenges ahead. The method of selection of the Board of the controlling authority creates a climate of not “rocking the boat” and it may on occasion cause Directors to feel beholden to certain Member Clubs or occupants of positions in Member Clubs. **This dysfunctional state needs to be addressed as a matter of urgency if the industry is to improve its position.** It is difficult to imagine that the industry, as it is constituted, is in a position to dispassionately recognise the range of challenges ahead or do anything about it. I believe that some radical changes are required in order for the code to improve its chances of prospering. The current Chairman and one of his colleagues on the Board have recognised the serious governance issues that HRSA is faced with and they recommended that a firm course of action was required. I concur with their view.

5. THOROUGHBRED RACING SA

5.1 The Thoroughbred Code

In all states of Australia the thoroughbred industry is the largest racing code. Table 1 illustrated that in 2000-01 the thoroughbred code was responsible for 70.61% of the TAB Distribution. Last year the percentage share had dropped marginally to 70.20%. The amount of money received last year (a year significantly affected by the Sky/TVN dispute) was \$27.475m, only slightly larger than the amount received in 2000-01. However after allowance is made for inflation the thoroughbred code decline in TAB Distribution was 13.26%.

The controlling authority for the thoroughbred code is Thoroughbred Racing SA Ltd. The code in South Australia has the South Australian Jockey Club, to conduct metropolitan races at three venues: Morphettville; Cheltenham; and Victoria Park. This year the SAJC has been scheduled to conduct 64 race meetings at these venues. In country and provincial centres there are 24 clubs that conduct race meetings and this year they have been scheduled to conduct 101 TAB meetings and 14 non-TAB meetings. These country and provincial clubs fall into three groups: Oakbank which conducts 2 TAB meetings and occupies a unique position in the industry; 6 major racing centres at Port Lincoln, Balaklava, Gawler, Murray Bridge, Strathalbyn and Mount Gambier which conduct 74 TAB meetings; and 17 country clubs that conduct 27 TAB meetings and 14 non-TAB meetings.

Table 20: INTERSTATE THOROUGHBRED COMPARISONS

	NSW	VIC	QLD	SA	WA	TAS	NT	AUST
TAB Meetings	625	513	399	169	229	76	73	2,084
% Share	29.99	24.62	19.15	8.11	10.99	3.65	3.50	100
TAB Races	4,789	4,295	3,091	1,358	1,794	619	394	16,340
% Share	29.31	26.29	18.92	8.31	10.98	3.79	2.41	100
TAB Starters	48,479	44,350	33,413	14,165	18,517	6,101	2,950	167,975
% Share	28.86	26.40	19.89	8.43	11.02	3.63	1.76	100
Trainers	1,216	1,284	1,331	356	682	105	45	5,019
% Share	24.23	25.58	26.52	7.09	13.59	2.09	0.90	100
Riders	260	187	261	57	103	43	26	937
% Share	27.75	19.96	27.85	6.08	10.99	4.59	2.77	100
Returns to Owners(\$)	121,255,222	129,887,753	82,687,124	21,842,090	43,481,329	8,419,083	4,363,434	411,936,035
% Share	29.44	31.53	20.07	5.30	10.56	2.04	1.06	100
Returns per Starter	2,501	2,929	2,475	1,542	2,348	1,380	1,479	2,452

Table 20 has been compiled from Australian Racing Fact Book, 2005-06 in order to provide a picture of the relative size of South Australia within the Australian thoroughbred racing industry. (The ACT figures are available for some measures and not for others, so ACT has been left out.) In terms of number of TAB meetings, the number of races conducted at those meetings and the number of starters South Australia is just over 8% of the industry. The state manages to conduct these meetings with 7% of Australia's trainers and 6% of its riders. The most important yardstick used in the thoroughbred industry is the returns provided to owners less any expenses. The level of these returns affects the attractiveness of horses to potential owners and thus the level of investment that is made in the industry. South Australia provides 5.3% of returns made to owners in Australia. However, SA supplies 8.43% of the number of starters which means that SA pays returns per starter lower than the

Australian average and this is shown by the last row of the table. In 2005-06 SA paid \$1,542 per starter compared with the Australian average of \$2,452. Unfortunately for SA the gap in returns to owners between it and its nearest neighbour, Victoria has been growing and this is due in part to the fact that the racing industry in Victoria negotiated a better deal for the industry than SA did when their TAB was privatised.

5.2 Financial Performance 2000-2006

The financial performance of TRSA as published in their annual accounts is set out in Table 21. The items in Table 21 reflect the ones used in the latest year and allowance needs to be made for changing presentation over time when attempts are made to assess trends.

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
TAB Product Fees	24,297,382	30,909,355	31,028,436	31,853,820	28,043,437	27,474,603
Other Revenue	1,698,099	9,394,858	2,878,171	2,506,155	1,412,897	2,166,689
Plant & Equipment Disposal	0	0	0	0	(493)	(3,318)
Employee Expenses	(1,587,464)	(1,960,708)	(2,039,605)	(2,142,746)	(2,152,981)	(2,249,176)
Depreciation Expenses	(123,008)	(156,153)	(206,702)	(266,328)	(246,717)	(270,635)
Distribution to Clubs	(20,422,237)	(26,526,964)	(25,850,111)	(26,253,395)	(24,805,778)	(24,588,467)
Sky Channel Rev to Clubs	0	0	(1,000,000)	0	(157,186)	0
SABIS Bonus Payments	(1,132,400)	(1,083,975)	(1,180,500)	(1,724,725)	(1,589,675)	(1,448,900)
Insurance	0	(310,098)	(427,087)	(442,900)	(464,915)	(431,414)
Financial Income	0	0	0	0	705,556	589,578
Financial Expenses	(3,374)	(5,456)	(2,966)	(1,257)	(47,823)	(38,283)
Advertising	(62,300)	0	0	0	(250,153)	(934,121)
Other Expenses	(3,955,769)	(2,000,899)	(2,599,266)	(2,650,158)	(2,132,012)	(2,082,889)
Net Profit/(Loss)	(1,291,071)	8,259,960	600,370	878,466	(1,685,843)	(1,816,333)

The ways in which these accounts are presented each year are not friendly towards readers who do not possess some knowledge of accounting. For example, in order for Member Clubs to gain an understanding of the distributions made to clubs it is necessary to go to the notes to the financial statements and this will show that the total distribution is made up of amounts for operating purposes; for promotional purposes; and for capital purposes. What the notes to the accounts do not say is that the total made for operating purposes for a number of clubs includes money to be distributed as prizemoney, training grants and operating subsidies. These latter two totals across the code in each year have often been around the same size as those shown for promotions and capital. Whilst in no way criticising the accounts from an accounting standpoint, the accounts are not helpful for most club members to gain an understanding about what is happening in the industry.

During the course of consultation with country clubs it was arranged for me to speak with the members of the South Australian Racing Clubs Council, a body which represents the interests of provincial and country racing clubs. At this meeting I tabled some sets of financial data that I had compiled based upon information provided to me by TRSA. The tables which summarise the TRSA capital grants to clubs; training subsidies made to clubs; and operational subsidies made to clubs are each enclosed in Appendix B. The capital grants are broadly in line with the relative importance of the three major groupings (SAJC; Provincial and Oakbank; and Country) contributions to generating off-course TAB

Distribution. The training subsidies, which are not dissimilar in nature to those in other states are based upon the range of facilities offered to trainers and the number of horses and starters trained at the course. The basis of the operational subsidies is not at all obvious. The fact that a number of the Directors of SARCC indicated that they had not seen the figures or that they thought the figures were not correct is disturbing. I am unable to say why this communication problem has occurred. I have since verified these tables with TRSA and they assure me that they represent an accurate statement of what has been transmitted to clubs. I was also informed by TRSA that:

“The accounts are very much formulated with the ASIC and AASB requirements (in mind). The accounts are not particularly widely distributed. As we only have the 2 shareholders...Clubs tend to only be interested in what they receive and they are obviously each aware of their own distributions.”

The large amount shown as Other Revenue in 2001-02 in Table 21 is mainly monies associated with payment from the Government for the sale of the TAB. Overall the Table illustrates that the code has gone through two phases since privatisation. The first three years up to 2003-04 provided the thoroughbred code with a higher indexed amount than the code had received before. This period was characterised by higher prizemoney than before, a healthy profit in each year and a priority to meet some capital expenditure needs. In this period \$7.757m of the money distributed to clubs was for capital purposes and 71% of this was to meet SAJC needs. In the last two years as the lack of growth in wagering and clawback have had their impact, TRSA has understandably attempted to resist cutting back on prizemoney. It has cut back significantly on capital spending and only \$638k was spent in the last two years. It has increased its spending allocation to clubs for promotional purposes from \$1.753m in the first three years to \$1.935m in the last two years. The overall net effect of these decisions has led to losses in each of the last two years and a depletion of cash reserves of approximately \$3.5m. I understand that the loss this financial year will be lower. At the time of writing TRSA estimate it will be between \$1.1m and \$700k. I also understand that TRSA is planning to budget for a loss in the next financial year of up to \$1m, but this would be significantly lower if this year finishes better than budgeted. This strategy is both understandable and high risk. It is understandable because there is a well-founded fear that any further cut in prizemoney would contract the industry. It is high risk because if TAB wagering does not grow sufficiently, losses will continue and the cash reserves will continue to empty. Even if every thing happens smoothly with the SAJC sale of Cheltenham and the redevelopment of Victoria Park, the boost to prizemoney from their strategy is at least 3 years away. However, in the absence of any change in Government tax there are no obvious alternative strategies. For most racing people’s sake it is to be hoped that the risk is rewarded.

5.3 Financial Assets and Liabilities 2000-2006

The financial positions as printed in the annual accounts of TRSA are set out in Table 22. The net assets at the end of 2005-06 were \$8.294m, approximately \$3.5m lower than two years previously. This year will witness a further run down in assets due to the anticipated loss of around \$1m. This reduction in the size of the loss is due primarily to the fact that the TV dispute between Sky Channel and TVN has been settled and off-course wagering has improved. However it needs to be noted that at the end of last year there was \$695k showing

as non-current asset receivables by way of loans to Clubs and there must be doubt as to whether all (or any) of this is collectable. Gawler at the end of last financial year owed TRSA \$373,430 and owed around \$56K to other parties. Mount Gambier owed TRSA \$358,600, had a bank loan of \$129k and owed just over \$90k to other parties. Murray Bridge owed TRSA \$40,900 and just under \$21k to other parties. As long as Murray Bridge does not commit too much of its cash reserves to the redevelopment proposal they are currently investigating, their loan should be capable of being collected. It is not apparent how the other two clubs will be capable of paying TRSA without their racecourse being sold.

Table 22: THOROUGHBRED RACING SA FINANCIAL POSITION: 2000-2006

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
CURRENT ASSETS						
Cash	3,009,846	8,229,219	8,367,848	8,663,708	8,369,756	4,801,225
Receivables	7,191,080	3,392,820	3,730,300	4,453,230	3,714,836	3,160,129
Other	883,671	1,031,949	1,190,205	688,435	631,620	573,207
TOTAL	11,084,597	12,653,988	13,288,353	13,805,373	12,716,212	8,534,561
NON-CURRENT ASSETS						
Plant & equipment	457,257	456,731	597,662	676,958	862,936	610,096
Receivables	0	0	936,730	483,150	316,900	695,600
Other Financial Assets	0	0	128,500	1,047,392	1,269,675	1,239,618
TOTAL	457,257	456,731	1,662,892	2,207,500	2,449,511	2,545,314
TOTAL ASSETS	11,541,854	13,110,719	14,951,245	16,012,873	15,165,723	11,079,875
CURRENT LIABILITIES						
Payables	6,622,422	1,543,659	2,675,122	2,958,918	3,249,849	1,670,832
Interest-bearing Liabilities	15,874	25,905	26,921	0	0	0
Provisions	280,714	222,714	273,976	234,004	273,296	260,538
Other	2,859,689	1,133,634	956,641	413,022	884,340	357,706
TOTAL	9,778,699	2,925,912	3,932,660	3,605,944	4,407,485	2,289,076
NON-CURRENT LIABILITIES						
Interest-bearing Liabilities	52,890	26,886	0	0	0	0
Provisions	18,834	26,279	28,676	33,664	34,593	21,343
Other	187,467	252,967	222,000	621,624	619,524	475,505
TOTAL	259,191	306,132	250,676	655,288	654,117	496,848
TOTAL LIABILITIES	10,037,890	3,232,044	4,183,336	4,261,232	5,061,602	2,785,924
NET ASSETS	1,503,964	9,878,675	10,767,909	11,751,641	10,104,121	8,293,951

In addition to this TRSA is attempting to keep Strathalbyn functional for the time being. At the end of last year the club had a bank loan of \$300k and other borrowings of \$38k. The Strathalbyn auditor said:

“Notwithstanding the deficiency of net current assets, the financial statements have been prepared on a going concern basis as committee members rely on the continued financial support of TRSA. The Committee members believe that such financial support will continue to be made available.”

Whether this audit note raises issues as to whether any TRSA contingent liabilities have arisen is not for me to judge. However with this difficult position among some of the major

provincial clubs, the likely outcome of this year's budget, and the proposed budget for next year, it would seem that at the end of 2007-08 the real net asset position of TRSA will be down towards \$6.5m, the worst position since the commencement of privatisation.

TRSA is not like GRSA and more like HRSA in that it does not conduct race meetings and it does not have any income earning assets apart from cash reserves. The thoroughbred code has a major part of its assets owned by Clubs and the report will now turn to their position.

5.4 South Australian Jockey Club

The South Australian Jockey Club is the most well known racing body in South Australia. It has the responsibility of conducting all metropolitan thoroughbred racing in South Australia. It is head quartered at Morphettville racecourse and it also conducts race meetings at Cheltenham and Victoria Park. This year it has programmed to conduct 64 race meetings: 31 at Morphettville; 23 at Cheltenham; and 10 at Victoria Park. The financial performance of the Club in each of the last six years, as printed in their annual accounts is set out in Table 23.

The figures in Table 23 show that in five of the last six years the club made a modest operating surplus before allowance for any abnormal items. A close examination of the club's operations and after making allowance for changes in accounting practice indicates that the club's performance declined in 2002-03 and 2003-04 and has picked up in the last two years. The SAJC has been under similar pressures to those being experienced by almost all metropolitan race clubs in Australia. Traditional racing revenue from the totalisator, sponsorship and TV rights, bookmakers fees, race book sales and nomination fees are in decline. There has been a modest increase from membership and admissions revenues through the promotion of event days, whilst the major growth has occurred through gaming revenue and catering primarily outside of race days and on feature race days. On the expense side there have been OH&S pressures with respect to track training and track maintenance. Prizemoney has been dropping back due to the lack of growth in TAB funding and many racing people are concerned that if this continues it will lead to declining owner interest and investment in horses and thereby lead to a further decline in the position of the industry.

There are two common themes that come through from the racing people critical of the SAJC and these relate to staffing levels and transparency of accounts. With respect to staffing levels the comments usually come from racegoers who believe that the ordinary race days are over-staffed. Whilst it has not been my task to conduct operational audits of racing venues it may be appropriate from the point of view of good risk management for the SAJC to consider having an independent review conducted by an administrative "toe-cutter" to see whether the organisation can strip away some expenses without causing any adverse reactions from consumers.

Table 23: SAJC FINANCIAL PERFORMANCE: 2000-2006

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
REVENUES						
Prizemoney & Administration Grants	14,353,000	15,211,000	15,646,000	15,796,000	15,639,000	15,281,000
Catering Turnover	2,891,000	3,147,000	4,138,000	5,755,000	6,443,000	6,894,000
Totalisator Turnover	2,186,000	2,101,000	2,258,000	2,050,000	2,248,000	2,397,000
Gaming	0	0	2,409,000	4,148,000	4,498,000	5,911,000
Sponsorship & TV Rights	2,324,000	2,437,000	2,115,000	2,615,000	1,853,000	2,012,000
Members Subscriptions & Admissions	687,000	643,000	680,000	777,000	939,000	969,000
Bookmaker's Commissions & Fees	810,000	710,000	492,000	502,000	709,000	429,000
Nominations & Acceptance Fees	933,000	1,027,000	1,058,000	1,074,000	1,025,000	1,028,000
Racebook Revenue	112,000	101,000	99,000	99,000	63,000	52,000
Training Fees	200,000	190,000	274,000	310,000	301,000	261,000
Interest Received	85,000	100,000	118,000	82,000	111,000	33,000
Betting Auditorium	155,000	136,000	1,241,000	857,000	1,032,000	742,000
Sundry Revenue	368,000	365,000	398,000	511,000	503,000	512,000
Promotional Grants	205,000	305,000	390,000	505,000	430,000	745,000
Revenue/Gain from Norwood	0	0	0	0	410,000	0
Profit on Disposal of Assets	7,000	0	1,138,000	(282,000)	20,000	0
TOTAL REVENUE	25,316,000	26,473,000	32,454,000	34,799,000	36,224,000	37,266,000
EXPENDITURES						
Prizemoney	12,979,000	14,173,000	14,616,000	15,045,000	14,918,000	14,679,000
Cost of Goods Sold	1,018,000	948,000	1,329,000	1,880,000	2,139,000	2,033,000
Catering Expenditure	1,891,000	1,984,000	2,351,000	3,242,000	3,798,000	3,828,000
Gaming Expenditure	0	0	1,697,000	2,917,000	2,969,000	3,796,000
Auditorium Wagering Activities	0	0	1,166,000	913,000	884,000	772,000
Salaries, Superannuation & Taxes	997,000	863,000	969,000	1,143,000	1,232,000	1,367,000
Tote Operation & Maintenance	932,000	847,000	940,000	840,000	862,000	831,000
Raceday Expenditure	1,539,000	1,591,000	1,697,000	1,813,000	1,669,000	1,912,000
Tracks, Training & Maintenance	2,536,000	2,720,000	3,023,000	3,132,000	3,387,000	3,572,000
Promotion & Sponsorship	913,000	975,000	1,041,000	1,134,000	858,000	859,000
Racebook Costs	176,000	199,000	196,000	196,000	163,000	87,000
Depreciation Building & Improvements	496,000	640,000	935,000	1,135,000	1,211,000	1,174,000
Depreciation Property Plant & Equipment	310,000	300,000	298,000	271,000	255,000	273,000
Borrowing Costs	381,000	322,000	310,000	652,000	658,000	635,000
Insurance and Professional Fees	341,000	341,000	518,000	534,000	501,000	580,000
Postage Stationary & Telephone	115,000	105,000	101,000	121,000	93,000	100,000
Travel & Conferences	53,000	61,000	58,000	42,000	58,000	36,000
Sundries	336,000	185,000	194,000	290,000	161,000	184,000
Expenditure at Norwood Club	0	0	0	0	301,000	3,000
TOTAL EXPENDITURE	25,013,000	26,254,000	31,439,000	35,300,000	36,117,000	36,721,000
OPERATING SURPLUS/(LOSS)	303,000	219,000	1,015,000	(501,000)	107,000	545,000
ABNORMALS						
GAMING MACHINE ENTITLEMENTS	645,000	3,782,000	(42,000)	(1,107,000)	(901,000)	(856,000)
	0	0	0	0	3,975,000	0
OPERATING SURPLUS AFTER ABNORMALS	948,000	4,001,000	973,000	(1,608,000)	3,181,000	(311,000)

With respect to the transparency of the accounts, I have some sympathy with this viewpoint as it is not easy for people without an operational knowledge of race clubs to glean what has

been going on. In making this observation I am not in any way suggesting or implying anything untoward about management or accounting practices I am simply indicating that an annual report which was illustrated with graphs showing the main drivers of SAJC performance (for example, raceday profitability; tracks and grounds maintenance; property and asset management; non-raceday catering; and net gaming) would be most helpful as it would make it easier for members to understand the differing pressures on SAJC financial performance. It is acknowledged that last years annual report produced some of this information in graphical form and this could be further enhanced by the production of a few additional graphs so that there can be no excuse for any misunderstanding.

Table 24: SAJC FINANCIAL POSITION: 2000-2006

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
CURRENT ASSETS						
Cash and Cash Equivalents	400,000	139,000	552,000	594,000	891,000	754,000
Investments-Interest bearing Deposits	1,611,000	1,715,000	980,000	980,000	980,000	5,000
Inventories	123,000	145,000	155,000	174,000	160,000	181,000
Trade and Other Receivables	2,000,000	1,688,000	2,344,000	1,900,000	1,930,000	1,457,000
Prepayments	164,000	238,000	388,000	322,000	245,000	369,000
TOTAL	4,298,000	3,925,000	4,419,000	3,970,000	4,206,000	2,766,000
NON-CURRENT ASSETS						
Property plant & equipment	20,765,000	25,306,000	31,567,000	30,168,000	28,816,000	28,896,000
Licences & Entitlements	0	0	0	0	3,975,000	3,975,000
TOTAL	20,765,000	25,306,000	31,567,000	30,168,000	32,791,000	32,871,000
TOTAL ASSETS	25,063,000	29,231,000	35,986,000	34,138,000	36,997,000	35,637,000
CURRENT LIABILITIES						
Trade and Other Payables	1,406,000	1,451,000	2,897,000	2,217,000	1,880,000	1,584,000
Interest Bearing Liabilities	0	602,000	410,000	816,000	165,000	0
Employee Benefits	703,000	534,000	482,000	510,000	575,000	495,000
Other	519,000	265,000	205,000	489,000	557,000	735,000
TOTAL	2,628,000	2,852,000	3,994,000	4,032,000	3,177,000	2,814,000
NON-CURRENT LIABILITIES						
Interest Bearing Liabilities	5,308,000	5,303,000	9,940,000	9,665,000	10,200,000	9,500,000
Employee Benefits	54,000	46,000	50,000	47,000	47,000	80,000
Other	45,000	0	0	0	0	0
TOTAL	5,407,000	5,349,000	9,990,000	9,712,000	10,247,000	9,580,000
TOTAL LIABILITIES	8,035,000	8,201,000	13,984,000	13,744,000	13,424,000	12,394,000
NET ASSETS	17,028,000	21,030,000	22,002,000	20,394,000	23,573,000	23,243,000

Table 24 shows the balance sheet results for the SAJC over the last six years. The movement in some of the balance sheet items in Table 24 highlights the mature nature of the business that the SAJC is in and the financial pressures that it is operating under. On the surface the figures show a modest growth in net assets from \$17.028m to \$23.243m. However in 2004-05 an amount of \$3.975m was brought to account to reflect the changes made to gaming machine laws. Inclusion of this amount is optional from an accounting standard point of view. If the effect of this inclusion is removed total assets would be lower

than 2002-03 and net assets would be \$19.268m, lower than 2001-02 and lower in real terms than 2000-01. The net assets of \$17.028m in 2000-01 were equivalent to \$20.649m 2005-06 after allowing for the declining value due to inflation. Furthermore, at the beginning of the period the Club had significantly more cash assets and less debt than at the end of the period. This is shown by movements in current assets and in interest bearing liabilities.

The SAJC Board has been conscious of the need to increase prizemoney in order to arrest decline within the industry. It is also conscious of the fact that the TRSA subsidy (see Appendix B) is being phased out. In order to simultaneously address these two matters the Board has had cause to examine the efficiency of their balance sheet. This examination has been taking place for some time. It is important to note that Table 23 has the land value of the two racecourses that the Club owns in their books at cost. This means that the net asset position has always been significantly understated, and increasingly so. It also means, given the small returns the club is generating that the balance sheet is very lazy and the club could rearrange its affairs and improve its financial position. I have had the opportunity to examine two reports which the SAJC had prepared in July 2003 and April 2005. The analysis in both reports leads to the same inescapable conclusion that from a purely financial point of view: selling Cheltenham racecourse at a reasonable price is the correct financial decision. It is recognised that this decision has raised passionate opposition from a range of quarters, however that passion does not solve the problem that the business as it is, is over capitalised. It is this writer's view that it would be financially irresponsible for the club not to sell Cheltenham at a reasonable price.

The plan is to utilise the net proceeds from the sale of Cheltenham to establish a fund to provide an income stream that will enable prizemoney each year to be topped up by \$3m; upgrade the inner track at Morphettville; invest in a significant upgrade at Victoria Park; and pay back debt owing (currently around \$9.5m). This strategy is, from a business sense, a bold one that could enhance the industry for years to come. However it is coming under extreme pressure because the expected returns from Cheltenham may be lower than expected because of the need to meet the government's greenfield requirements at Cheltenham and the cost of contributing to Victoria Park may be higher than was originally expected.

The much discussed investment by the SAJC in Victoria Park has not only caused dissension in the community at large, but also within sections of the racing community. This latter concern, which is all this writer is concerned with, is based upon two issues; the fact that the club will only be a tenant at Victoria Park; and a concern that the surplus left over from the sale of Cheltenham will be utilised too much and this will prevent the SAJC from investing its money to provide an income stream to top up prizemoney and cause an arrest in the decline of SA racing. The first of these concerns is easiest to put at rest. The Victorian Racing Club located at Flemington is easily the most successful racing club in Australia. It has invested and continues to invest large amounts of money in improving racing facilities at their course and the land it conducts its business on is almost entirely Crown land (save for a car park area outside the course). In the SAJC case selling Cheltenham creates funds for investment. The SAJC expect to have a lengthy lease at Victoria Park.

The second area of concern emanates from all the political dealing and conditional approvals that have been spoken about. There is a concern that the Government imposition of a 40% green field requirement at Cheltenham (which has become 35%) will provide insufficient funds to both make a capital contribution at Victoria Park and invest sufficient funds to boost

prizemoney to the levels that have been spoken about. The proponents of this view would argue that the SAJC should conduct its “second track races” either on a synthetic track inside the Morphettville grass track or at a revamped Gawler or Murray Bridge track, or some combination of the two. The SAJC are aware of these views and have understandably refrained from engaging in too much public debate because of the politically delicate nature of the negotiations over Cheltenham and Victoria Park.

The SAJC desire to develop a modern racing facility at Victoria Park is based upon a number of considerations and they are these:

1. They believe that it would be highly desirable, although not essential, to race at two tracks. Three tracks are judged to be too expensive and one track (through the construction of an inner track) creates a higher risk and it reduces the profit of the business by reducing their ability to conduct non-raceday functions.
2. Notwithstanding, the much higher capital expense required at Victoria Park than at Cheltenham, Victoria Park is seen as adding value to the business. Cheltenham is regarded as a venue that will not assist in arresting the decline in the traditional business of racing.
3. They reject the second track option at either Gawler or Murray Bridge because both venues would reduce income to the industry through lower off-course wagering and they would not offer any of the benefits of Victoria Park and would be less preferable than the one-track option.
4. Victoria Park has a location that in Australian racing circles would be second to none. It is virtually in the centre of Adelaide and it is easily accessible. It is in the southeastern area of the parklands where the demographics fit neatly with the thoroughbred industry. It offers high potential for the SAJC to market their business to young people, especially with summer twilight meetings after work. Victoria Park is seen as making a real contribution to the growth and visibility of the racing industry.

In my discussions with the SAJC it was made clear that they are doing everything they can to make the Victoria Park option work financially. However they are concerned about the difficult position they are faced with. At the time of writing this report this problem of determining the future direction was still being addressed. It is both possible and financially feasible for the SAJC to remove the objective of paying back the \$9.5m debt straight away. With the level of asset backing the club has and the cash flows of the business it is not a large debt to service. However, at the time of writing it is a real concern that the potential problem that may need to be solved to implement the original strategy may be greater than the current \$9.5m debt.

In summary most independent observers would see the attempt of the SAJC to restructure its balance sheet in a very positive light. Properly executed, the strategy will provide an opportunity to expand prizemoney and attempt to arrest the decline in racing. It will provide a new venue that has significant potential to widen the support base of race attendees. This writer is not aware of any other purposeful strategies that have been put forward. That is not to say that the strategy is not without some significant risks. However the SAJC seems to be aware of those risks and is doing what it can to address them.

5.5 Thoroughbred Country Racing Clubs

There are 24 country racing clubs and these essentially fall into three groups: Oakbank Racing Club which conducts two metropolitan class meetings every year at Easter; the 6 major regional or provincial clubs that were programmed to conduct 74 TAB meetings this year; and the 17 smaller country clubs that were programmed to conduct 25 TAB meetings and 14 non-TAB meetings as country event days. The importance and financial circumstances of these three groups are quite different.

The Oakbank meetings conducted on Easter Saturday and Easter Monday have iconic status within the South Australian and Australian racing calendars. The time of the year, the mixture of feature jumping races and flat races with good prizemoney on offer ensures that the races attract some interstate and New Zealand starters. The event is widely marketed and large numbers of people attend, well in excess of the Industry norm. Discussions have occurred about Oakbank conducting more than two race meetings per year. However, the racecourse facilities are not up to modern day standards in a number of respects and much of the facilities have to be hired in at considerable expense. This much higher overhead cost than occurs with other clubs makes it very risky to experiment with conducting more race meetings and the Club, very understandably has been reluctant to go down this path.

A high level summary of the position of the 6 provincial clubs and Oakbank has been compiled from hard copy data and agreed as correct by TRSA. Table 25 illustrates the financial robustness of Oakbank and the financial fragility of the other 6 clubs. As a group the clubs have been experiencing:

- Increased debt
- Declining cash reserves
- Declining net assets
- Inability in most cases of making a profit

The problems in this area should have been apparent for some time. With the number of race meetings the clubs are allocated they have insufficient opportunities to fund their overhead staffing costs and some of the clubs have not been managed very well. When I presented this table and others to a meeting of Directors of the South Australian Racing Clubs Council (SARCC) on 9 February there was some surprise at the seriousness of the situation.

Table 25: HIGH LEVEL SUMMARY OF LATEST FINANCIAL PERFORMANCE

CLUB	TAB MEETS 2006-07	P & L 2006	P & L 2005	2006 NET Assets	2005 NET Assets	2006 CASH Assets	2005 CASH Assets	DEBT 2006	DEBT 2005
BALAKLAVA	12	(49,899)	(109,719)	750,919	946,558	323,684	392,390	0	0
GAWLER	12	(199,337)	(182,188)	633,354	619,656	316	316	429,459	519,110
MOUNT GAMBIER	10	(66,036)	(247,190)	984,334	1,050,370	15,530	115,474	565,122	463,107
MURRAY BRIDGE	14	14,806	(20,989)	2,700,687	2,712,543	165,489	204,608	61,525	0
PORT LINCOLN	14	(59,903)	(22,478)	4,076,978	4,116,881	(93,384)	(102,270)	298,151	291,621
STRATHALBYN	12	(274,043)	(43,416)	1,493,710	1,771,970	69,005	200	338,104	211,170
TOTAL	74	(634,412)	(625,980)	10,639,982	11,217,978	480,640	610,718	1,692,361	1,485,008
OAK BANK	2	69,695	65,447	2,310,191	2,129,982	815,606	626,560	0	0
OVERALL TOTAL	76	(564,717)	(560,533)	12,950,173	13,347,960	1,296,246	1,237,278	1,692,361	1,485,008

In terms of net assets shown in Table 25 there is a significant underestimation of the position because the market value of the freehold land has not been included in the club balance sheets. The clubs have a practice of including the value of the land at cost and this is not an unusual practice with many sporting clubs. TRSA informed me that the most recent land values they had been provided with were: Balaklava \$415k; Gawler \$2.6m; Mount Gambier \$1.85m; Oakbank \$2.515m; and Port Lincoln \$5.3m. No figure was provided in the case of Strathalbyn and a figure of \$530k for Murray Bridge was provided and this is clearly a gross under estimate. Balaklava's figures for 2006 are for 11 months and so this may understate their on-going loss problem. Gawler's loss for 2006 is an operational one. They actually showed a profit because they sold off some land at a profit in order to deal with their situation. This had not been in the balance sheet and is not reflected in their movement of net assets.

The deterioration in the financial performance of the six provincial clubs is a reflection of the fact that the clubs employ more people than they can afford. Their problems will not disappear until this issue is addressed. The financial plight of these clubs means that they are not well equipped to adapt to changing circumstances, including playing an active role in assisting TRSA to bring about the structural change implied in its new strategic directions document. The fact that this problem has been apparent for the last few years is a reflection upon the lack of governance standards applied by the controlling authority, TRSA.

The 17 smaller race clubs do not always provide TRSA with an audited set of accounts and a precise, up to date financial appraisal of their affairs has not proved possible. From the sets of accounts that I have seen they substantiated the indications I received from TRSA and from SARCC that the clubs are not causing any significant drain on racing industry resources and many of them have had some success in promoting and expanding their feature race day. Outside of training support and prizemoney distribution, the statistics contained in Appendix B show that these clubs cost \$424k during the last six years and only \$35k in 2005-06. TRSA, early in the course of conducting this study emphasised the important role these clubs played in providing training opportunities for apprentice jockeys, promoting the industry and offering racing opportunities for slower horses. In addition to this I was informed by TRSA that 8 of the clubs operated on land owned either by the Crown or Council and 7 clubs owned the freehold title for their racecourse and the latest valuations indicated that their market values totalled around \$1.5m.

5.6 Strategic Business Planning Processes 2000-2006

TRSA initially provided me with copies of five documents relating to strategic planning and these were:

1. Strategic Plan, February 2000 – A paradigm shift for the future of South Australian racing. This document provided a comprehensive position of the range of issues before the industry. Its executive summary said:

“KEY RECOMMENDATIONS

South Australia must be restored to a competitive position through the initiation of a number of critical industry objectives. Policies must be implemented in conjunction with,

the increased then stabilised, revenue flows coming to the Industry through the sale of the SA TAB.

1. Commercial management of capital investments while sustaining industry cash flow relative to the industry's ability to pay ratios.
2. Restructuring of Industry management costs to improve returns from the club activities.
3. Benchmarking returns and improving asset utilisation.
4. Improve returns to thoroughbred owners to ensure the viability of long term product.
5. Increasing the attractiveness of racing in South Australia with the consequent benefit of increased revenue from on-course attendance and on and off-course betting.
6. Continuing to improve and create value to stakeholders within the Racing Industry.
7. Creating an awareness and commitment to meet stakeholders' expectations.
8. Creating a financially viable breeding industry in South Australia.
9. Increased promotion of the Industry, not only to attract the public to attend race meetings, but also to educate as to the significant economic impact that the racing has on this state."

This document is useful in that it recognised at the outset that SA needed to improve its position with respect to other states and that the industry would experience increased TAB income and then stable income. Unfortunately the stability turned into a decline and after 7 years I think it can only be said that there was substantial achievement of objective 5 and partial achievement of objectives 1 and 9. There was initial progress with 4, but the amount has declined in real terms, as the expected cash flows were not achieved.

2. October 2000 – A directional Document for the future 2001-2005. This document indicated that it was not a formal plan. "It points towards a number of issues and options that have been raised by clubs... in their quest to create more customers and more profit over the next five years. It isto help clubs work through their way through the issues involved at a series of regional planning workshops." This document borrowing from similar exercises in Victoria stressed the importance of clubs creating event days and attracting more people to the course and at the same time looking at a range of ways to create or obtain higher yields from the range of offerings at the course. It emphasised a range of considerations relevant to regional marketing.
3. Strategic Overview, February 2002 – February 2003 update. Growing revenues beyond wagering revenues. This document restated the same nine objectives contained in the first document and spoke cautiously of the progress. For example, it said: "If the industry is to sustain itself into the future it must objectively assess the value of the existing asset base and liquidate those assets that are not required. The funds from these sales should be considered in conjunction with industry debt reduction." There are many other examples in the report of how it is critical of the lack of progress. One interesting observation that was made without any supporting argument was: "The actual TRSA Constitution has proved to be well-structured and possibly the best operating constitution throughout Australia."
4. Prosperity 2005 – A five year marketing plan for the industry. This document carries on the themes and ideas of the second document and reports on the progress made during

the first two years of the initiative. Various achievements are noted such as creation of theme days; the improvement in net gate revenue by placing security at the gates; and increased revenues through clubs conducting their own bars. The consultants recommended that TRSA allocate resources for regional management and marketing personnel; they recommended ways in which clubs could improve their product and its range; their infrastructure; promotion techniques; sales management; distribution of packages; skills development; funding; and obtaining customer feedback. There is little dispute within the industry about the fact that these interventions caused some improvements. Some clubs clearly improved their performance more than others.

5. Prosperity 2010 – Strategic Marketing Plan. This document dated 17 November 2006 starts off by saying: “Prosperity 2005 was about harvesting low-hanging fruit – developing theme meetings; setting minimum paid gate prices; gate security; ownership of bars; and offering gourmet food. Prosperity 2010 is about climbing higher up the tree.” The document sets targets to aim for and its form is that of a power point presentation that is meant to inspire the audience.

The SAJC undertake their own strategic planning and given the size of their business this is only to be expected. In addition to the documents prepared to analyse their track options, the SAJC provided me with copies of their Strategic Policy, dated June 2005. This document contains a Catering Strategic Plan; a Marketing Strategic Plan; a Facilities & Operations Strategic Plan; and a Commercial Operations Strategic Plan. Each of these plans is quite detailed and put forward ways to grow the business. They reflect a consciousness that there are important improvements to be made with respect to increasing customers and customer returns on race days and non-race days. It would appear that in recent years that the SAJC has focussed on its own business and that TRSA has focussed more heavily on strategic issues relating to its other shareholder, SARCC. SARCC and its members have been reliant to a large degree on the strategic planning efforts of TRSA. During my consultations with some of the Directors of SARCC I detected growing disenchantment with TRSA as a controlling body because it was alleged to be indecisive, to show no sense of direction and because it would not make hard decisions. It is ironic these comments were made to me in the two months prior to the release of the latest TRSA strategic document, given the reaction from many of the clubs to it.

At about the same time as this study was announced TRSA announced that it was undertaking an exercise in formulating an industry strategic plan. TRSA informed me that they would like to present this to me as part of their submission outlining their view of the way forward. This request was one of the reasons for extending the time taken for this study and I received a copy of the report in the first week of April.

The April 2007 Strategic Direction document represents a notable departure from the past positions in that it is acknowledged that there is a problem with the current governance structure and it attempts to address the fact that the industry is over capitalised and it puts forward a strategic direction that the industry should head towards. The governance issues will be looked at later. The attempt to address the provincial club problem, which was one of the topics of my discussions with TRSA and SARCC, is based upon:

- Supporting the redevelopment proposal that Murray Bridge is looking at and TRSA says the new track facilities will have the ability to conduct 40-50 meetings per year.
- Supporting the redevelopment of the existing Gawler race track or the development of a new facility at another site and the conduct of at least 20 race meetings.

- Indicating that more meetings (up from 15 to 20) could be held at Port Lincoln by non-TAB clubs on the Eyre Peninsula racing their meetings at Port Lincoln.
- Considering whether to install a synthetic surface at Mount Gambier for training and possibly racing.
- Suggesting that Balaklava merge with Gawler club at an enhanced Gawler based venue or attempt to survive with its own resources.
- Reducing the number of race meetings at Strathalbyn to 4 and urging them to merge with Murray Bridge.

However, the document cautions “in implementing strategies in this plan, the ability of TRSA...to effect significant change... is limited to providing the foundation to grow our customer revenues supported via the industry Marketing Plan – Prosperity 2010.” **This limited view of power and influence of a racing controlling authority highlights a part of the problem that the industry faces.**

The document does not address the problem of why provincial clubs on most occasions have an inability to make a profit during the course of the year. An almost endemic propensity to make an annual loss will not simply be transformed and solved by making clubs bigger and hoping that through the magic of economies of scale they will suddenly make a profit. The lack of any attention to the current state of finances among the 6 provincial clubs is a matter for concern. In addition I would stress two other major problems with the document. The first major problem is that the governance structure required to deliver the strategy is not in place and given the way it has been released and the reaction it has caused it will be more difficult to put the necessary arrangements in place. The second major problem is that the strategic direction lacks any financial underpinnings to make it work, it does not recognise the parlous financial state that the industry’s finances are in and when account is taken of the “art of the possible” the direction might be quite different. For example, it is well known that there are limits to the number of race days that can be converted into marketable event days. The rest of the days are akin to the racing venue being run as a TV studio and costs should be pruned back to a minimum on these days, while the industry relies for a return from the TAB through off-course wagering. If Gawler has not got the money to fund the necessary improvements to its track to provide punters with greater confidence to bet on their races, then the strategic choice between Gawler and Balaklava is not quite so obvious. The Gawler Club is in a rapidly growing area; it has valuable land which it owns; but it has no cash reserves to improve its track. Balaklava has small cash reserves which have declined with losses in each of the last 4 years; it is further away than Gawler for industry participants; it has had some management issues; but it has developed a large Cup Day crowd which helps profile the industry; and the track (on the industry’s figures) generates \$3,898 per meeting more in TAB Distribution earnings than Gawler is currently able to do. If the industry remains short of money the Gawler option may not be possible to pursue.

The support for the Murray Bridge redevelopment proposal in a document of this kind is more puzzling. The Murray Bridge proposal has not been properly costed and no evaluations have taken place. From the plans I saw I indicated to all of the parties that I spoke to that the racing club costs would be at least \$40m. Murray Bridge might at best yield \$7m for their current race course. Murray Bridge at the end of last financial year had \$165k in the bank. TRSA had cash reserves of just under \$5m that they were depleting through budgeted losses. Where is the money coming from? It is a big expectation to imagine that Murray Bridge can make at least \$35m through this initiative. How can a controlling authority of

racing advocate a direction when a modicum of mathematics suggests it is pursuing the impossible dream?

The embryonic nature of the Gawler and Murray Bridge proposals and other consequential changes that hang upon their carriage, contrasts markedly with the far more advanced nature of the SAJC proposed involvement in Victoria Park. On the latter proposal the TRSA document said:

“Detailed financial analysis of the proposed investment by the SAJC in Victoria Park is required in order to evaluate the industry’s level of support for this venue.”

It is therefore curious as to why the TRSA has felt emboldened to put out a strategic direction document, not in draft form, when two major initiatives that will cost far more than the industry is likely to be able to afford have not been costed or evaluated.

In making these comments it is not to be suggested that, in the absence of financial considerations, the TRSA directions as enunciated are necessarily incorrect directions in which to head. It is suggested that the TRSA document is inadequate and it is very much a draft idea of some directions to head in. It is inadequate because the strategy relies for its success upon substantial development works and the industry has not demonstrated how it can fund the package of proposals. A TRSA document of this nature should have been properly produced some years ago because the problem was identified by TRSA 7 years ago and acknowledged again 5 years ago. The document is also too late to prevent the money that has been wasted by unsuccessful management at most provincial clubs and no changes are recommended or announced to address how race club losses and a run down of assets will be avoided in the future.

It is important to contrast the TRSA approach towards strategic planning this year with its past more consultative approach and that of GRSA this year. The latter Company has had its first round of consultation with greyhound stakeholders and the issue of too many tracks and insufficient prizemoney are two of the issues that have been raised. At the time of writing they were preparing a set of proposals with the intention of going back to the stakeholders with their prepared position; to explain to them why they had chosen that path; and to listen to their reactions to assess whether they had missed anything and whether they needed to modify their position. In the past TRSA seemed to adopt a consultative approach with respect to strategic planning; however on this occasion it chose not to. It is not suggested that consensus would have been possible on the issues that needed to be dealt with and it is not suggested that it would have been desirable to attempt to achieve a consensus because then the outcome would have appealed to the lowest common denominator. A prudent approach would have at least indicated that the major shareholder affected by the proposal, SARCC, would have received an opportunity to comment. The Directors of SARCC were not provided with this opportunity. I was informed by the Chairman of SARCC that he asked to see the document a few days prior to the press launch and that he was not afforded the opportunity to do so.

The process adopted by TRSA has brought into focus the governance structure of TRSA. At a meeting of SARCC motions of no confidence were passed in the two Directors who are chosen by/selected by SARCC and who are regarded by SARCC as representing their interests. The carriage of these resolutions has lead to questions being asked about the relevance of SARCC; the leadership of TRSA; and speculation about whether the SAJC will exercise their veto rights when SARCC attempt to change the Directors. There is an expectation by some Committee members of SARCC that Directors of TRSA should be able

to be removed if a shareholder does not like a Board decision or the way it was arrived at. This idea does not recognise the responsibilities of Directors of companies, irrespective of the mechanism by which a Director is chosen to go on the Board. This gets to the heart of the interesting governance arrangements that are embedded in the Constitution of TRSA.

5.7 Present Governance Structures

TRSA Ltd is a Company limited by guarantee. The number of members is unlimited and the liability of members is limited. The members of the Company are the SAJC and SARCC, who “shall be deemed to have agreed to be bound by this Constitution and Rules in force from time to time”. The objects of the Company are clearly stated under section 3 of the Constitution and 19 powers are specifically identified in section 4. The membership structure is significantly different to the other two codes as another body, namely SARCC, is interposed between the controlling authority and the provincial and country clubs.

The Company has seven Directors and the initial Directors were named in the Constitution. Members of the Board are appointed for a term of three years. Upon expiration of a Director’s term of office, that Director is eligible for re-appointment. The structure of appointment to the Board of Directors is as follows:

Three persons shall be appointed for a term of three years as follows:

- The South Australian Jockey Club (SAJC) shall nominate two persons with South Australian Racing Clubs Council (SARCC) having the right of veto (which right must be exercised by SARCC) of one person, resulting in the SAJC appointing one person to the Board.
- SARCC shall nominate two persons, with the SAJC having a right of veto (which must be exercised by the SAJC) of one person resulting in SARCC appointing one person to the Board; and
- One person shall be appointed jointly by the SAJC, SARCC and the Chairman or other nominee of the Advisory Committee established pursuant to clause 16 of the Constitution or in the event that the three parties cannot jointly agree, a person appointed by a majority of them.

Two persons shall be appointed for a term of two years as follows:

- The SAJC shall nominate two persons with SARCC having a right of veto (which right must be exercised by SARCC) of one person, resulting in the SAJC appointing one person to the Board;
- SARCC shall nominate two persons with the SAJC having a right of veto (which right must be exercised by the SAJC) of one person resulting in SARCC appointing one person to the Board.

Two persons shall be appointed for a term of one-year as follows:

- The SAJC shall nominate two persons with SARCC having a right of veto (which right must be exercised by SARCC) of one person, resulting in the SAJC appointing one person to the Board; and
- SARCC and the SAJC shall jointly appoint one other person, such person to be nominated by the following industry groups:
 - The Australian Trainers Association (SA Branch)
 - The Thoroughbred Breeders Association (SA Branch)

- The SA Jockeys Association
- The South Australian Bookmakers League
- South Australian Racehorse Owners Association

The Industry groups shall nominate at least three persons for this purpose, none of who may be a trainer, jockey or bookmaker. The SAJC and SARCC shall appoint one of the nominations of the industry groups.

None of the persons nominated from the SAJC and SARCC and then appointed by SARCC and the SAJC may be a license holder or permit holder under the Australian Rules of Racing.

The Board membership has been relatively stable. Four of the initial Directors remain on the Board. There has only been one change in the position of CEO when the previous incumbent moved interstate. The Board membership structure was criticised from the outset of my consultations. The membership composition and the method of its choosing was seen as inimical to having an independent board running a business. It was seen as an extension of the principle “you scratch my back, I will scratch your back”; and it was seen as increasing the risk of avoiding making hard decisions. It is thus interesting to note that the recent strategic directions document has recognised that this matter is one of many governance issues that need to be considered.

Another way in which the governing body for thoroughbreds is different to the other codes is in the section relating to passing of resolutions. Section 14.4 reads:

- (a) Save where otherwise provided in this Constitution, a resolution of the Board must be passed by a majority of votes cast by Directors entitled to vote on the resolution.
- (b) Where the Board proposes to amend the existing scheme of distribution of funds to Members, the resolution will be required to be passed by a Super Majority of Directors.
- (c) Where the Board proposes to alter racing dates that have been previously fixed, the resolution will be required to be passed by a Special Majority of Directors.

The Definitions section of the Constitution defines “special majority” as 5 Board members and “super majority” as 6 Board members. **This is a system of voting which is biased towards preserving the status quo and not tackling the changing environment.**

In discussions with TRSA I raised a number of issues about their current powers and the powers that a controlling authority should have if the authority is going to lead the industry. All of these seemed to have been picked up and listed in their strategic directions document, except for the matter of providing the controlling authority with express power to send in an administrator to a club where it deems it appropriate to do so. The recent experience at Strathalbyn where there was a divided committee; poor financial management performance; and behaviour which was bordering on trading whilst insolvent; highlights the need to have a proactive controlling body monitoring club performance and not waiting until all the damage is done and then try and put some of the remaining pieces back together.

The South Australian Racing Club’s Council was brought together as the overarching body to represent its members to TRSA. The other objects of the Council are:

- To promote a uniform system of conducting thoroughbred horse racing meetings by members,
- To represent the members to TRSA...and to assist in the formulation and promulgation of industry policy,
- To decide preferred race dates and liaise with TRSA about them,

- To receive and review the business plans and budgets of members,
- To negotiate with TRSA....on the annual scheme of distribution and to recommend or decide the amounts of distribution to be paid to each member consistent with their business plans and as approved by TRSA

Unlike the other bodies created at the time of corporatisation of the industry, SARCC is an incorporated body; it is not a company; and except as otherwise provided at law, SARCC members are not liable to contribute to any debts and liabilities of the Council. There are 24 member clubs of SARCC, comprising the provincial and country clubs that conduct thoroughbred race meetings. The members have different voting rights. At General or Special Meetings the 7 major clubs (Gawler, Balaklava, Oakbank, Murray Bridge, Strathalbyn, Mount Gambier and Port Lincoln) each have 8 votes. The other 17 clubs have either 3 votes, 2 votes or 1 vote. A Committee controls and manages the affairs of the council and it comprises ten delegates. Each of the 7 major clubs appoints one delegate. The remaining clubs are allocated to three groups: the central group; the eastern group; and the western group and these three groups each chose one delegate. Bodies of this kind exist in a similar form in most of the other states.

The Constitution deals with a lot of process matters that quasi-representative bodies of this nature usually feel they need to have. Unlike the other racing bodies – TRSA, SAJC and each of the member clubs of SARCC – it has no specific business function to conduct. It certainly tries to affect business decisions of TRSA but it does not directly carry out a business of its own. The Constitution provides that the Committee must appoint a Secretary and it currently employs a person as CEO. Table 26 shows the income and expenditure of SARCC for each of the last 6 years. This table provides an insight into the nature of the organisation. Initially SARCC was involved in sponsorship and sponsoring racing series. However this role has almost disappeared during the last two years. It is able to operate by virtue of a subsidy from TRSA. An increasing proportion of its funds have been allocated to staff wages and travel and accommodation expenses. Balance sheet figures are not shown here as they show nothing different from the closing funds available figures.

In the consultation process I found that a number of the Committee members of SARCC had a very good understanding of the racing industry and they had a number of positive suggestions for change. However, SARCC as a body does not seem to add any particular value to the **business** of thoroughbred racing. Given its limited objects; its lack of any direct involvement in the business of racing; and its almost complete dependence on TRSA for funding; it is difficult to understand how it could be expected to add value to the business of thoroughbred racing. It has been assigned a minimalist role and its function is essentially political in that it attempts to put order into provincial and country clubs having an influence on the choosing of Directors of TRSA and it provides a voice where the interests of provincial and country clubs can be heard.

Table 26: SARCC STATEMENT OF INCOME & EXPENDITURE						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
INCOME						
Affiliation Fees	3,450	3,900	3,600	3,450	3,900	3,600
Sponsorship	175,000	165,000	110,120	175,000	10,000	10,000
TRSA	182,289	170,518	50,000	137,500	110,000	209,229
Other	943	310	550	1317	771	1,091
Total	361,682	339,728	164,270	317,267	124,671	223,920
EXPENDITURE						
Sponsorship	125,000	109,000	99,640	128,915	3,760	20,395
Conferences/Meetings	1504	13,722	2,913	6,509	7,645	2,238
Management & Sec. Fees	45,127	42,773	45,523	61,601	74,002	79,210
Racing Series	166,081	67,345	8,908	43,677	0	0
Travel & Accommodation	11,033	5,008	2,480	15,431	12,355	13,364
Other	12,316	8,146	29,616	8,194	15,467	12,473
Total	361,061	245,994	189,080	264,327	113,229	127,680
Operating Surplus	621	93,734	(24,810)	52,940	11,442	96,240
Closing Funds Available	36,548	130,282	105,472	158,412	169,854	266,094

5.8 Summary

The thoroughbred code experience since privatisation has been a mixed one. On the positive side, the controlling authority TRSA at the outset identified most of the key issues that the code would face. It embarked upon some positive marketing and adapted some interstate techniques and some its own to create and grow event days and it persuaded clubs to change practices so that they could increase their race day margins on these days. Some of the country clubs have made significant progress. The SAJC recognised that it needed to energise its balance sheet and move from three tracks to two tracks. It has had to deal with resistance from some of its members, passionate supporters of racing and other interest groups in the community who have had other agendas. The opposition it has encountered has caused the Government to place some restrictions on its ambitions and the club has had to navigate its way through this challenging environment.

On the negative side, TRSA did not address some of the important challenges. It became obvious to TRSA in 2003-04 that the clawback agreement would impact upon their income in a serious way because TAB wagering was less than had been forecast at the time of privatisation. In conjunction with the other two codes it lobbied the State Government to drop the clawback clause and when the Government said “no” it remounted the lobbying and tried again. The growth of gaming machines was added to the mix of their argument and TRSA quite rightly pointed out that WA was experiencing much faster growth in wagering than SA, but that WA had no gaming machines, whereas SA had a large number of machines by Australian standards. No persuasive arguments or evidence were advanced to support the contention that gaming was substituting for wagering expense and no arguments were addressed as to why one sport should receive protection from competition. Throughout this period no plausible and detailed business case was put to Government to justify the TRSA

arguments. No plan was presented in which the problems were clinically outlined, the proposed course of action was stated, and the predicted effect was set out. It was simply a case of asking for the money. Whilst TRSA energies were focussed in this direction they did not address the fundamental issues that they had identified at the beginning of privatisation. The plight of the provincial clubs got worse and even in the latest strategic directions document their plight has still not been addressed.

During this period TRSA may have been inhibited from tackling some of the difficult strategic issues because their composition at Board level may have inhibited Directors from “rocking the boat”. Until as late as last year some Directors were denying this. Whatever the case may be on this score, it is clear the industry lacked strong purposeful leadership at a time when it needed it most. The lack of professionalism in the approaches to Government may or may not have affected Government responses, but irrespective of this the way in which an industry presents itself to Government does help define its image.

6. SUMMARY OF COMPARATIVE CODE PERFORMANCE

6.1 Some Key Questions

In the first section of this report I attempted to stress what the expectations and limitations of this report would be and on page 7, I indicated that some key questions to consider are:

- Are the three racing codes managing their affairs in a way that returns the highest dividends to their stake-holders?
- Are the assets within the racing codes being best utilised to yield the highest returns?
- Have the racing codes devised strategies and put plans in place to address the major challenges facing them?
- Are the corporate structures of the three racing codes conducive to providing good financial management practices?
- Are the governance structures in need of change?

After canvassing a range of matters pertinent to the terms of reference it is important to bring the various strands of the findings and arguments together. My short answer to each of these questions is summarised in Chart 1.

6.2 Returns to Owners/Stake-holders

The economic and financial structure of racing bodies is different to that of nearly all other businesses. The investors in racing are the owners of the animals racing in their particular code. The financial return on their investment is obtained through a horse or dog winning or placing in a race and earning prizemoney. The higher the prizemoney the more attractive racing becomes to the investor. There are other key stakeholders who benefit from this activity: trainers; jockeys in thoroughbreds; drivers in harness; bookmakers; suppliers and the many employees in a range of full-time, part-time and casual positions employed by controlling authorities, clubs, SATAB and the range of suppliers of goods and contracted services.

However where racing differs from many other industries is that many people purchase an interest in a racing animal because they have a passion or they see it as an enjoyable hobby to complement other parts of their life. These people are not primarily motivated by money, but they are influenced by it. Thus if prizemoney became very low or went into decline owners would increasingly ask the question: "why would you bother?" In this way hobbyists would drift from the racing code and the owners with a professional interest would move interstate or leave the industry.

Whilst I am not aware of any study which attempts to measure the extent to which a racing code is populated by owners with a business interest as distinct from being hobbyists, it is generally believed that thoroughbred racing has more owners who have a business interest than the other two codes and that these two codes have a greater proportion of hobbyists. One of the main measures used in the thoroughbred racing code to measure returns to owners is the proportion of TAB Distribution that is put back into stake money. In an ideal world the proportion put back is 100% and all of the other revenue streams fund all of the

other expenses. In practice this has become very difficult to achieve and generally only successful clubs like the VRC at Flemington and successful small country clubs who have one big successful Cup meeting achieve this in Australia.

Chart 1: Some key Questions and Answers

<u>ISSUE</u>	<u>GREYHOUNDS</u>	<u>HARNESS</u>	<u>THOROUGHBRED</u>
1.) Are racing codes managing their affairs in a way that returns the highest dividends to their stake-holders?	PROBABLY NO. Needs to be reviewed. May be able to afford more than currently paying.	YES. Given the current structures within the code, it is paying more than it can afford.	YES. Given the current structures within the code, it is paying more than it can afford.
2.) Are the assets within the racing codes being best utilised to yield the highest returns?	YES. There does not seem to be much room for improvement.	NO.	NO.
3.) Have the racing codes devised strategies and put plans in place to address the major challenges facing them?	YES. They are continually reviewing their position and any improvements would be marginal.	NO. They are aware of the major challenges, but have insufficient power and resources to do it.	PARTLY YES. They have recently put out a Directions document, but it lacks financial underpinnings and may not be able to be delivered.
4.) Are corporate structures of the racing codes conducive to providing good financial management practices?	YES.	NO.	NO.
5.) Are governance structures in need of change?	NO substantial changes, but some small additions to powers might assist.	YES.	YES.

In Section 3 above I indicated that I thought that the greyhound code, which has had a policy for some years of paying between 47 and 52%, could afford to pay more than they do. In 2004-05 GRSA made a profit after servicing debt and depreciation of \$316k. If that money had been applied to prizemoney then the break-even situation that would have eventuated would have resulted in a return to owners' ratio of 55%. If my suspicions that the overhead expenses could be trimmed somewhat are correct, then the break-even percentage might be able to go a little higher. However, the business case needs to be developed and it is acknowledged that the code does not have a shortage or impending shortage of greyhounds to race.

In the case of the harness code it was noted in Section 4 that HRSA was operating at a loss and had some serious financial challenges. In 2004-05 the breakeven return to owners' ratio would have been 63.4% and in 2005-06, after HRSA had trimmed some overhead costs, it would have been 67.2%. Given that HRSA, unlike GRSA, has been making almost no provision for capital maintenance at its racing venues, it is probably unwise at this stage to budget on more than a range of 60-62%. This year HRSA is expecting to pay out 65% and in a recent document forwarded to me in mid-April it is proposing to pay around 66% in each of the next two years. Without a restructuring of arrangements within the industry this course of action may prove beyond the means of the code. Furthermore, the question needs to be posed: "Given that the greyhound and harness shares are now very similar, why should there be any underlying significant difference in their ability to pay stakes?"

The thoroughbred returns to owners calculations need to be made with caution given the way the accounts are published. In Table 27 the Distributions made to Clubs as shown in Table 21 are repeated. From this amount the various non-prizemoney components need to be deducted and this is shown for each of the last 2 years. This shows that in 2004-05 the returns to owners ratio was 76.74% and in 2005-06 it was 77.95%.

Table 27: Thoroughbred Returns to Owners		
Year	2004-05	2005-06
Distribution to Clubs	24,805,778	24,588,467
less		
Promotions Grants	1,001,523	933,434
Capital Grants	296,405	315,093
Training Subsidies	1,080,628	1,068,228
Operating Subsidies	906,232	855,537
	3,284,788	3,172,292
PrizeMoney	21,520,990	21,416,175
TAB Distribution	28,043,437	27,474,603
Returns to Owners Ratio (%)	76.74	77.95
less		
Provincial Club Losses	625,980	634,412
TRSA Loss	1,685,843	1,816,333
	2,311,823	2,450,745
Break-even PrizeMoney	19,209,167	18,965,430
TAB Distribution	28,043,437	27,474,603
Break-even Returns to Owners Ratio (%)	68.50	69.03

However it was noted in Section 5 that TRSA has been running at a loss and the provincial clubs have been running at a loss. To obtain the returns to ratio that would have occurred in a break-even situation it is necessary to make a calculation of what prizemoney could have been afforded if the code had broke even and when this is done it shows that the code could afford to pay 68.5% in 2004-05 and 69.53% in 2005-06. Thus the losses in the case of the thoroughbred code make a substantial difference in the impression of the code's performance with respect to prizemoney. Table 27 also highlights the size of the challenge that the code faces to maintain its position, before it can bring about improvement.

6.3 The Utilisation of Assets

The greyhound code is currently looking at whether it should cut back on the number of racing venues. However this review is unlikely to result in any significant changes to the balance sheet of the code (effectively the sum of Tables 9 and 11) because the only country venue with an asset that is of any significant value is Mount Gambier where the club owns its own land and that club would not be expected to be affected by the review. GRSA should, as a matter of risk management, require each of its clubs to include in their Constitution a wind up clause that would ensure that in the event of the club winding up, the assets would not be lost to the code. The Constitution of the Mount Gambier club, like all the other SA greyhound clubs in varying degree, does not afford the code sufficient protection. I recommend that all Clubs should be required to amend their rules to ensure that in the event of winding up all assets must be assigned to another SA greyhound club or the controlling authority. In Victoria the Country Racing Council in the thoroughbred code put out a model set of rules and asked clubs to adopt them. The wind up clause reads:

“If the Club is wound up in accordance with the provisions of the Act, and there remains....any property whatsoever, the same must be given or transferred to some other thoroughbred racing club or clubs registered under the Rules of Racing pursuant to which thoroughbred racing is conducted in Victoria....”

The observation about the lack of risk management with regard to club assets being lost to the industry applies even more so with respect to the other two codes where clubs own significantly more valuable assets. I recommend that the controlling bodies require the clubs to place a similar provision in their Constitutions.

The harness code has assets that are significantly under-utilised. The substantial land holdings I refer to are:

- The Gawler harness race club racecourse that will soon be the subject of a compulsory acquisition to make way for a new road.
- The Strathalbyn harness racecourse that is now used for harness race meetings once a year.
- The remaining land at Victor Harbor that is yet to be sold off.
- The significant areas of land at Globe Derby that continue to remain unused or under utilised.

If the interests of the industry are put before the particular interests of some people who currently occupy positions of influence within their club, then these areas of land could either be leased on a commercial basis or sold off and the funds invested to create an income stream to enhance the financial position of the harness code. In addition to these areas of land, Port Pirie has indicated that their position could be improved if the Government legislated to remove a condition from their title. Port Pirie Club wishes to sell off or lease an area of land adjacent to their course, but in their title, that is not needed for racing. The current title constrains the club from doing this.

If the abundance of unused or under-utilised assets was approached in a professional and commercial manner, I estimate that the benefit to the bottom line of the harness code would

be an-going amount of at least \$400k per annum. This is equivalent to a permanent boost in TAB Distribution market share of 1%.

The thoroughbred code also has assets that are significantly under-utilised. Notwithstanding their management problems, the racecourses at Mount Gambier and Port Lincoln are vital to maintain the support and spread of thoroughbred racing across the state. They need assistance to change their managerial practices to ensure they grow in a viable manner. Oakbank is significantly under-used, however it has iconic status and the extent to which it can contribute more to the industry, whilst retaining its status is not obvious. The SAJC is addressing its own position with respect to the utilisation of Morphettville, Cheltenham and Victoria Park. The 17 small country clubs do not have significant assets and they play varying roles in their regions. There is no urgent or pressing reason to change their position in any material way. The changes suggested to their affairs in the recent Strategic Directions document need to be further investigated and should not be implemented at this stage.

The area of thoroughbred racing that needs to be addressed with some urgency is with respect to the utilisation of the 4 provincial clubs closest to Adelaide: Balaklava; Gawler; Murray Bridge; and Strathalbyn. Any honest assessment of the long-term needs of the industry would indicate that 4 racecourses would probably become 3, but possibly 2. The matter of determining which venue the industry can least afford to keep should not be done now, but after a full and proper due diligence has been conducted on the immediate and long-term needs of the industry. A range of considerations will affect the timing of these movements and some of the obvious ones are:

- The timing of changes being undertaken by the SAJC.
- The nature of the changes made by the SAJC with respect to a possible synthetic surface at Morphettville and the development of Victoria Park.
- The number of meetings conducted by the SAJC, based upon analysis of benefits to the industry through off-course wagering versus the different costs of different venues to conduct the meetings.
- The total number of race meetings that the controlling authority believes should be conducted each year, based on its assessment of affordability and market share requirements.
- The number of support meetings that need to be run at provincial tracks outside of Port Lincoln and Mount Gambier.
- The financial capacity of the industry to fund any necessary capital improvements that may be needed at each of the 4 provincial tracks.
- The earning power of the 4 competing tracks to produce TAB wagering distribution through off-course wagering.
- The importance of each of the 4 provincial tracks to the provision of training facilities, bearing in mind recent trainer choices.

As the SAJC is the major revenue source for the industry the decisions made about its venues and their timing should come first. Then the consequences and their timing should be fed into the analysis to see which venue is discontinued. This analysis will need to be a properly prepared business assessment, just like the SAJC has had prepared on its 2 track versus 3 track decision. This approach will ensure that assets within the industry are better utilised and that on-going financial problems are dealt with.

6.4 Strategic Planning Performance

Comment has already been made about the strategic planning performance of each of the codes. GRSA has performed very creditably in this area and they continue to work on it. HRSA has been heavily focussed on market share and allocating race meetings between tracks to enhance that position. It has been very short term in its thinking. It has not addressed the underlying issue of asset under-utilisation. It has not yet come up with a strategy to address its contracting support base as it has centred more meetings around Globe Derby. It has not addressed the mismanagement of Globe Derby and currently may lack power to do so. The Harness racing support base north and west of Port Pirie and around Mount Gambier remains precarious indeed. Their past practice is continuing and is evidenced by their recent document, Official Two Year Industry Race Dates and Prizemoney 2007-09. This document displays a confidence that market share has increased by 1% this year, that the Company will make a profit in each of the next two years and paints a picture, which if it emerges as correct, suggests that the code has brought an end to its haemorrhaging. Without in any way criticising the document, it needs to be remembered that some similar documents in the past have proved over optimistic and caution would suggest that the jury is still out on whether the worst is over in the harness code.

TRSA, at the outset of corporatisation, conducted a wide ranging review of its strengths and weaknesses and implemented a range of changes to market racing better, improve raceday profitability and create event days and feature Cup days in order to attract more people back to the racecourse. Unfortunately it identified a number of challenges, such as its over-capitalisation, which it chose to ignore until very recently. In April of this year TRSA issued a new strategic direction document, which identifies and attempts to deal with some of its long term challenges. This document is at best incomplete as it is not accompanied with any financial underpinnings, it does not address the managerial problems of the provincial clubs and governance practices that are in place will probably not be adequate to deliver the strategy.

6.5 Corporate Structures and Financial Management Practice

The corporate structure of the greyhound code is quite simple. It has a limited Company, GRSA Ltd, as the controlling authority and small incorporated clubs as its members. The Company monitors the performance of the clubs. It has the capacity to regulate their behaviour; it performs all of the accounting work on behalf of the clubs, except for one of them that does its own. It has their financial performance on its computer. The Company is very hands on in a financial sense and it does not seem to have any substantial financial issues, except for the one that most people and clubs complain about and that is the need for more money. It may be an advantage if GRSA placed some of the powers it uses under its rules into the powers of the Company Constitution, especially if its responsibilities are widened.

The other two codes are a different story however, as their controlling bodies exhibit a more laissez faire approach towards their clubs. Both the harness and thoroughbred codes seem to be imbued with the philosophy that the club is important and the industry they know they are a part of is someone else's problem. Until the release of the recent thoroughbred strategic document, neither of the code bodies had shown a willingness to assert their

position. TRSA recently posed the following question and answer, the sentiments of which I wholeheartedly agree with:

“Every stakeholder in the industry must ask themselves one elementary question: ‘Does this plan represent the right strategies for the sport as a whole even if it means that a particular sector or club is disadvantaged?’ If this is the case, and the plan is based around that premise, then we must be prepared to take the relevant action.”

TRSA has not closely monitored the financial performance of the clubs; it has not required clubs to take corrective financial action until most of the damage was done; it has not restricted clubs in their use of debt finance when it was apparent that problems were emerging; it has not advised clubs that they were attempting to fund staff overheads that they clearly could not afford; it has not advised clubs of their responsibility to avoid trading whilst insolvent; and it chose to take no action with respect to the financial mismanagement of a provincial club when there was an expectation by others that it should. These observations are not just mine; they were repeated on more than one occasion in my discussions with some of the Committee Members of SARCC.

Whether the lack of action was a product of the combined philosophies of the TRSA Management and Directors, or it was caused by the fact that Directors felt constrained to act because their governance structure made them beholden to clubs, is impossible to say. I suspect that it was the latter more than former and this is evidenced by the TRSA approach to club financial reporting. At the beginning of this project I was advised that receiving audited accounts from the smaller clubs might prove difficult, because the Associations Incorporation Act in SA does not require clubs with a turnover of less than \$200k to submit audited accounts. This response surprised me as I would have thought that a controlling authority would want to seek some assurance that money dispensed by the authority to the club is not being improperly used, irrespective of how big or small that club is. In any case the lack of a requirement to provide audited accounts sends the wrong message about standards expected by the controlling body.

In the case of HRSA the problem seems magnified as the Directors have different attitudes towards the responsibilities of HRSA as a controlling body. The majority viewpoint would seem to be that “we were chosen by the clubs and we should do what we can to appease them or not buy into an argument”. There does not seem to be majority support for HRSA broadening its role and attempting to address the issue of wasted resources through under-utilisation of assets. The majority of Directors would seem to believe that their role as Directors and as a Board has got nothing to do with the parlous state of the code’s finances.

7. CORPORATE GOVERNANCE

7.1 Present Governance Structures in Australia

The racing industries and the state governments in each state have from time to time grappled with the issue of choosing an appropriate governance structure for the three codes of racing. Not many people pretend that they have got it right and I have little doubt that this small report and the one about to be released in Victoria will not be the last ones that touch upon the subject.

An examination of the different approaches to governance indicates that various considerations have influenced the governance structures in any one state. Some of the key factors that have influenced governance structures during the last two decades have been:

- The need to put in place different racing code governance structures to proceed or accompany the sale of the state TAB.
- The need to put in place a governance structure that ensures that racing probity standards of the highest order are in place.
- The need to put in place structures that are more capable of managing and adapting to the changing and increasingly competitive market place.
- The implementation of structures with less government involvement as other gambling forms have become far more important in terms of both revenue and political sensitivity.

In addition to these broad factors at the state level, other practical and local considerations have entered the picture. The thoroughbred code is the largest in every state. The element of size helps explain why in Victoria it is the only code that has been corporatised. The harness and greyhound codes in Victoria remain statutory boards of government. In WA the three codes of racing are governed by the one body that also manages the WA TAB, Racing and Wagering Western Australia (RWWA). In NSW the harness and greyhound codes are both governed by the one body.

In addressing the issue of governance structure in the broadest sense it is important to bear in mind that there are a number of ingredients that can affect the quality of any decision and the main ones would seem to be:

- The Constitution of the body and the extent or limit of its powers.
- The composition of the Board of Directors and the process by which they are chosen or elected.
- The election of a Chair of the Board.
- The form of accountability of the body to stakeholders.
- The processes undertaken by the Board and management in making and communicating decisions.
- The influence of the stakeholders over the Board exercising the powers.
- And last, but not least, the quality of people who occupy the positions of Board Chair, Board Directors and CEO.

The attitude of people to all of the ingredients that make up governance can vary from time to time, depending on how an organisation is travelling. There is a very pragmatic approach

to governance that is useful to bear in mind and that is this: “If it is not broke don’t fix it”. This principle or approach is very pertinent to the situation we find across the three codes of racing in SA.

7.2 A Three Code Governance Structure

In considering issues with respect to corporate governance in South Australia it is very important to keep in mind that the size of South Australian Racing is relatively small. To put SA in perspective it is useful to compare it with Harness Racing Victoria. The latter body has a Board of 7 Directors and they are currently managing a growing business that in turnover terms is larger than the whole of SA Racing. SA across the 3 codes is a little over 80% of the size of HRV. Because of its smaller size SA should be cautious about emulating the separate Victorian structures and those of other large states, unless they are necessary as SA has less capacity to afford them. It is important to bear in mind (see Appendix A Table A3) that SA during the last 20 years has varied between having 5.5% and 6.5% of the TAB wagering market. In making decisions about SA racing codes this size perspective should not be forgotten. If too much money is spent on trying to attain a pure governance structure there will not be enough money to spend on the core activity.

The limitation of size was the key reason that one senior person in one of the smaller codes advanced for SA going down the same path as WA. In principle this is not an unreasonable viewpoint and it has a lot of merit. The structure could be set up for the all-encompassing body with divisional accounts: SAJC (about 48% of the business); Country thoroughbred racing (about 22%); harness racing (about 15%); and greyhound racing (about 15%). However, this very pragmatic suggestion did not attract much support during the consultation phase of this review. Some stakeholders believed that the fact that the three codes competed against one another for market share in SA whereas they did not in WA, meant that the cooperative model that seemed successful in WA could not be translated into SA. It is also important to note that there are some cultural divides between the codes, particularly between the thoroughbreds on the one hand and the harness and greyhounds on the other. Another factor that binds the three codes together in WA is their joint management of the TAB and this condition cannot be emulated in SA as the TAB has already been sold. The WA economy has been growing at a rapid rate and the growth of TAB wagering has been well above the Australian average (see Appendix A, Table A6). It may be that cooperation is easier in times of growth than during relatively stagnant times.

There is one further matter to consider with respect to the possible creation of one joint code body to govern the three codes of racing. In Sections 3 and 6 I identified only very minor governance issues with respect to the operations of GRSA. They have been increasing the transparency of their annual financial reports and there is no reason why this trend will not continue. Their Constitution when read in conjunction with the National and Local Rules seems to contain all the necessary powers to govern the greyhound racing code and manage the business of the code. The only possible exception to this statement is that GRSA does not have the power to place an administrator in charge of a club when they believe that they have good financial or managerial reasons for doing so. This deficiency should be addressed purely from an industry risk management perspective.

GRSA admitted they had not considered setting a code of conduct for race club committees which sets out procedures for handling conflict of interest matters; letting of contracts; arrangements with suppliers; dealings with licensed trainers that operate at the club

premises; and general behaviour matters. The CEO of GRSA welcomed this observation and indicated that it was a good idea. There would seem to be no impediment within GRSA powers to prevent GRSA requiring member clubs to adopt a code of conduct and I recommend that GRSA address this matter. In addition if GRSA takes on a wider role then it may be advisable to explicitly place some of its rules in its powers under the Constitution of the Company to reduce the opportunity for litigation.

Given this relatively clean bill of health, the question needs to be posed as to why GRSA should be roped into a joint code body when it has not got a substantial problem that needs to be fixed. Even though it is apparent that the other two codes do have problems that should be fixed, there is only one reason that I can think of for snaring GRSA into the problems of the other two codes and that is finance. If the one controlling authority governed the three codes, I believe that with full cooperation and after coping with transition costs that it may be possible to save up to \$1m per annum. This gain, if realised, would represent around 2.5% of the TAB Distribution. However, in practice this potential gain is unlikely to be met in full (or maybe at all) because there probably would not be cooperation and management attention would thereby get diverted from the business by the need for management to keep “putting out bush fires”.

GRSA and HRSA during the last two years have had discussions about merging. At the time GRSA felt that most of the benefits of the merger would go to the harness code and they were not confident that the principles of professional management would be allowed to apply in the management of Globe Derby. For these two reasons the proposed deal was not put to members for ratification. However there may be grounds for considering this approach and I shall return to it later.

7.3 The Thoroughbred Code

In the case of the thoroughbred code there is in this writer’s view a need to have the powers of the controlling authority substantially changed. There are two alternatives immediately available to the Government within the current powers under the Authorised Betting Operations Act. It could ask the TRSA to amend its Constitution or it could designate another body and this would obviously be the SAJC, but in the form of a company. **I favour the latter course of action because a layer of administration will be removed and it will save money.**

In either case the current powers of TRSA, or its successor, as the controlling authority should be clearly defined to ensure that it has the necessary powers to properly carry out its function as the controlling authority. All of the current powers of TRSA could be retained as set out in Section 4 of its Constitution except for clause (d). This clause restricts the power of the authority to set budgets. After deleting this clause it is recommended that the controlling authority has additional powers and these should be the power:

- to conduct race meetings at venues that it has direct responsibility for managing;
- to be responsible for the conduct of the business and the management of the assets of the venues at which it conducts race meetings;
- to establish race club committees at each venue where it conducts the race meetings, such committees shall be formed through election by local members;
- to licence other SA thoroughbred clubs to conduct race meetings;

- to be responsible to maximise returns from its business in order that the controlling body can maximise returns to owners;
- to allocate race meetings consistent with its responsibility to maximise returns to owners and to foster support for thoroughbred racing across SA;
- to regulate the conduct and financial performance standards of licensed clubs;
- to appoint an administrator to administer the affairs of a licensed club when the controlling body believes that it has good financial and/or managerial reasons for doing so;
- to make grants to licensed clubs to assist clubs to carry out their affairs and conduct race meetings they are allocated from time to time;
- to report to members and licensed clubs the financial affairs of the thoroughbred code in an open and transparent way in order to facilitate an understanding of the business

The other substantial change that is required to the Constitution is that relating to the composition of the Board and the method by which it is chosen. In this respect I have formed the view that it is better to start again using the GRSA Constitution as a template, rather than attempt to modify or “improve” the current Constitution. The current veto rights need to go; the current quasi representative nature of the Board is not compatible with always making the right business decision; and the Constitution should address itself to maximising the chances of obtaining the right skill set on the Board, rather than worrying about which area of the industry the person originates from. The new or rewritten Constitution of the thoroughbred controlling body should name the commencing Directors, as was done originally, and provide for there to be 7 Directors. All Directors thereafter, including any casual vacancies, will be appointed by the Directors’ Selection Panel (similar to GRSA).

The Directors’ Selection Panel should be appointed as follows:

- One member shall be appointed by the Country licensed racing clubs
- Two members shall be appointed by the race club committees of the proposed Super Club
- One member shall be appointed by the Board

The Directors’ Selection Panel must appoint, from time to time, a human resource consultant to provide to the panel recommendations for each category of Directors. The human resource consultant will solicit widely and only consider people who have agreed in writing to put their name forward. Any registered racing club committee may submit nominations. The Directors’ Selection Panel must then nominate the number of persons required to fill the vacancy or vacancies. The decisions of the Panel must be a majority of the members of that Committee.

The Chair of the Board should be independent and the qualifications for members of the Board should be as follows:

- One Director must have qualifications and experience in financial management
- One must have qualifications and/or experience in marketing
- One must have qualifications/experience in carrying on a business
- One must have experience as a legal practitioner
- One must have experience, at either Committee or management level, in the conduct of Metropolitan thoroughbred racing
- One must have experience, at either Committee or management level, in the conduct of Provincial or Country racing

- One other Director must have any of the above qualifications or experience and be chosen by the Panel to complement the skill set of the other Directors.

The first 4 of the Directors do not need to specifically come from the racing industry. They should be seen to be independent of the SA thoroughbred racing industry; they should not have had any direct involvement with the privatisation and corporatisation process; and they should be capable of providing the industry with a fresh look in dealing with the problems that lay ahead. All Directors upon attaining office should be required to relinquish any other positions on Boards or Committees within the thoroughbred code.

It was pointed out on pages 67-68 that the future direction for clubs at Balaklava, Gawler, Murray Bridge and Strathalbyn is intimately tied up with the decisions made about the racetracks currently owned and managed by the SAJC. It is in the industry's financial interest to place as many meetings as possible at the SAJC venues because those venues attract higher off-course wagering than is the case with provincial tracks. The limit to the number of meetings conducted by the SAJC should be guided by cost/benefit analysis. The higher TAB Distribution income benefits at SAJC tracks and their higher cost of conducting meetings should be properly compared against lower income benefits attained with lower costs at provincial tracks. In addition to this race meetings need to be spatially allocated roughly in proportion to the distribution of horses. This will mean that the centres at Port Lincoln and Mount Gambier and the clubs surrounding them would remain relatively unaffected, provided they run efficiently. The squeeze will be on the 4 provincial clubs in the middle and at least three of them are not coping very well financially. It is important to dwell on this point for a moment.

Profit and Loss Items	Balaklava (11 months)	Gawler	Murray Bridge	Strathalbyn	Port Lincoln	Mount Gambier	Total
Number of Race Meetings	12	12	14	12	14	10	74
Labour Admin Costs	154,006	158,170	122,705	133,937	80,911	99,196	748,925
Average per meeting	12,834	13,181	8,765	11,161	5,779	9,920	
Balance Sheet Items							
Cash	242,384	316	165,489	69,005	(93,384)	15,530	399,340
Receivables minus Payables	(31,060)	(147,222)	32,996	(226,283)	(22,529)	(246,955)	(641,053)
Bank Overdraft		(40,761)				(77,453)	(118,214)
Hire Purchase & Other		(15,268)	(20,625)	(20,131)	(16,776)		(72,800)
Bank Loan Payable				(300,000)	(81,375)	(129,069)	(710,444)
TRSA Loan		(373,430)	(40,900)			(358,600)	(772,930)
Track Management							
Total Track Maintenance	150,309	207,700	269,356	381,012	N A	361,134	1,369,511
Track Labour Costs	52,333	110,710	187,019	196,421	61,004	146,859	754,346
Average per meeting	4,361	9,226	13,359	16,368	4,357	14,686	10,194
Track Non Labour Costs	97,976	96,990	82,337	184,591	N A	214,275	676,169
Average per meeting	8,165	8,083	5,881	15,383	N A	21,428	9,137

Table 28 embellishes the information shown previously in Table 25 and they illustrate the sorry tale of provincial racing. There are some difficulties in making comparisons between clubs because clubs often interpret charts of accounts differently and some clubs display more information than others. Whilst acknowledging this problem there are significant

differences between clubs that defy any logical or reasonable explanation. Murray Bridge is the only club where it can be said that there is some form of financial prudence. Why Strathalbyn has been spending as much as it does on track management and \$112k more than Murray Bridge is a mystery. The two major causes of track management expense are the number of race meetings and the number of horses in training. This suggests that Strathalbyn should be slightly less than Murray Bridge.

Balaklava Racing Club has recorded a loss in each of the last 4 years. TRSA on one occasion had some reservations about the way in which the club's accounts were being managed but did nothing about it. The loss after the last 11 months (after adjusting their financial year) was \$49,898 and was preceded by losses of \$127,823 in 2004-05; \$109,719 in 2003-04; and \$37,210 in 2002-03. The club can be very vocal and passionate about the importance of Balaklava. It is a pity the Club Committee (or TRSA for that matter) has not asked the question as to why they need to spend as much money as they do on labour costs, especially as they only conduct one meeting a month and have very few horses train at the track. The losses during the last 4 years amount to \$324,650.

The Gawler & Barossa Jockey Club is in a very precarious financial position. The operating loss last year was \$199,337, however the club sold some land and was able to make a profit from this transaction of \$214,859. After covering this loss of \$199k the club had only \$316 left on hand. The tracking systems at TRSA are not as good as they could be, but at this stage, another loss is anticipated. With the debt they already have it could be an interesting issue as to how it is funded. Last year's experience came on top of a loss in the previous year of \$182,188. Unless there is something about their finances that I have not been informed of, the only way Gawler can pay back its debt is to sell off further parcels of land. If the underlying problem continues to be ignored it would mean that Gawler would ultimately have to sell the racecourse.

Strathalbyn Racing Club has been poorly managed, there has been dissension on the Committee, it has been permitted to borrow too much money, it has gone perilously close to trading whilst insolvent and is in dire need of strong leadership. At the moment it is being overseen with some industry support and the haemorrhaging may have been brought to a halt. The financial way forward is going to be a very serious challenge if the status quo is maintained.

Mount Gambier has unrealistically high track expenses and Port Lincoln track figures are not available to me. Both have relatively low administration expenses compared with the other 4 provincial clubs. The causes of their problems are not obvious at this stage. They may have issues with the pricing techniques they use in selling their range of race day product. It is important that when new governance arrangements are put in place that an urgent assessment be conducted of their finances in order that they may be placed on a viable and sustainable path. Due to the distance issues posed by their location it is proposed that these two clubs be assisted in a different way to the other 4 provincial clubs.

7.4 The Thoroughbred Code Proposal

I would propose that the South Australian Jockey Club Inc (SAJC) should incorporate a Company limited by Guarantee, which for the purposes of this paper is called Thoroughbred Racing Controlling Body Ltd (TRCB). This body at one and the same time would be the controlling authority and a Super Club covering the Adelaide Metropolitan area and surrounding areas. The Shareholders of this Company would be the SAJC; Balaklava Racing Club (BRC); Gawler & Barossa Jockey Club (GBJC); Murray Bridge Racing Club (MBRC); and Strathalbyn Racing Club (SRC). The key features of this body could be arranged in the following manner:

1. The shareholdings in TRCB would be based on the respective net assets of each organisation, with assets being measured at market value. (An alternative method to determine relative share holding size would be average TAB turnover generated by each Club in the last two years.)
2. The Board of Directors of TRCB would comprise 7 Directors with the initial Board being named in the Constitution after consultation.
3. The Board would comprise Directors with the qualifications and experience as set out above on page 74.
4. A Board selection committee as outlined on page 74 would be established to appoint future Directors.
5. TRSA Ltd would be wound-up with all assets and liabilities being transferred to TRCB.
6. SARCC would be wound up with all assets and liabilities being transferred to TRCB and TRCB would establish a Country Clubs Forum that would meet quarterly to discuss the financial and management affairs of Country Racing and any other aspect of racing that Country Clubs and TRCB felt important to discuss.
7. The BRC, GBJC, MBRC & SRC would transfer all of their assets to the TRCB and the responsibility for all of their respective club liabilities would be assumed by the TRCB.
8. All members of the four provincial clubs would be invited to become full members of the SAJC and initially would be granted free membership for one year in respect of the membership category associated with their respective venue.
9. Various categories of membership should be created that allowed for full membership rights in relation to the various venues.
10. A member could be attached to all 6 venues (full member), 1 provincial venue or a combination of venues.
11. TRCB shall cause to be established a race club committee at each venue that TRCB directly manages and this Committee, elected by members who have nominated that venue as their preferred venue, shall have responsibilities for:
 - Attracting sponsors to support their venue
 - Attracting members to support their venue
 - Representing members' interests at that venue
 - Monitoring members' facilities at the venue and making recommendations to the controlling authority about their venue consistent with the objectives of the authority
 - Entertaining race day sponsors and any other guests in the Committee Room

- Conducting the race day presentations as determined from time to time
12. TRCB would approve and be responsible for all costs incurred by these committees. The race club committees would not employ anyone.
 13. There will be a head committee of the SAJC, which would be responsible for the race club committee function of the two metropolitan venues. Only full members of the SAJC would be eligible for election to and entitled to vote in the election of this head committee.
 14. SAJC would grant to TRCB the management rights over all SAJC assets as well as full operational management rights in relation to all SAJC affairs. This management right would initially be for a period of 10 years and subject to renewal with the terms to be agreed between the parties.
 15. TRCB would grant licences to each of the 20 Country race clubs licensing them to conduct race meetings. These clubs would continue to be responsible for their own activities with financial grants to be allocated to each of these clubs on a basis to be determined by TRCB.
 16. TRCB would immediately carry out a form of due diligence with respect to the financial management problems that obviously exist at Mount Gambier and Port Lincoln to assist the two clubs to put in place necessary changes to turn their financial affairs around.
 17. TRCB would be requested to seek relief from any Stamp Duty arising from the transfer of the assets from the four provincial clubs to the TRCB.
 18. The State Government would be asked to take into account, when considering any concessions on betting turnover tax (see Section 8.1), that these more efficient arrangements involving the consolidation of employees in TRCB would cause on-going increases in payroll tax.

If these changes are put into place the industry could be made far more cost effective at the racing club level where the industry is most vulnerable: the provincial club level. In examining the financial accounts of the existing entities concerned (TRSA; SAJC; SARCC; BRC; GBJC; MBRC; and SRC) I estimate that the creation of this controlling authority/Super Club will bring about higher returns from significant cost savings and more commercial management of all racing club assets and products. There will be transition costs involved in implementing these far reaching changes.

Chart 2: Estimated Annual Improvements for Thoroughbreds

<u>TYPE OF CHANGE TO STATUS QUO</u>	<u>AMOUNT OF IMPROVEMENT</u>
Management Salary Cost Reductions through the winding up of TRSA and SARCC	\$0.400m
Management Salary Cost Reductions through the creation of one Super Club	\$0.400m
Non-Salary Administration Cost Changes due to formation of one Super Club	\$0.175m
Revenue Improvements through changed Club Management practices	\$0.060m
Revenue Improvements through better pricing policies	\$0.050m
Reduction in Debt Charges through consolidation of Debt	\$0.200m
Revenue Improvement through more commercial asset management practices	\$0.200m
TOTAL	\$1.485m

Chart 2 sets out the types of changes that could occur. Once these changes have been bedded down I would anticipate that the improvement to the bottom line would be around \$1.25 million to \$1.5 million per annum. I believe that my estimates, whilst indicative, are achievable with good management after all transition costs have been worked through the system.

During these difficult times that the racing industry is going through in South Australia, it is important to put the needs of the industry before the needs of individuals, clubs, organisational groups and other parties with vested interests. If this is not done, then the owners the industry relies upon to invest their money will fall away and the industry contraction will continue. The changes I am suggesting will assist the thoroughbred code; they will not sort out all of the problems the code is confronted with. Their successful achievement, however, will give the thoroughbred code more credibility when it engages with the government in the future.

7.5 The Harness Code

The challenges facing the harness code are more demanding than those the thoroughbred code is faced with. The code's strength is that everyone I spoke to agrees that there are serious financial issues to address. However that is about where the list of strengths ends. The code does have significantly under-utilised assets, but there is no agreement to put them to some useful purpose to benefit the industry. The current controlling authority with no assets to manage has really had its role reduced to that of an illiquid post box. Funds come in from the TAB Distribution and they go back out again to the Clubs or through racing to the stake-holders. The code needs to be consolidated in a financial and managerial sense and effectively managed for the benefit of the industry. In order to do this the Constitution of the controlling authority needs to be radically altered by an expansion of its powers and changes made to the way in which Directors are chosen.

Like the controlling authority for the thoroughbred code The Constitution needs to include the power:

- to conduct race meetings at venues that it has direct responsibility for managing;
- to be responsible for the conduct of the business and the management of the assets of the venues at which it conducts race meetings;
- to establish race club committees at each venue where it conducts the race meetings, such committees shall be formed through election by local members;
- to licence other SA harness clubs to conduct race meetings;
- to be responsible to maximise returns from its business in order that the controlling body can maximise returns to owners;
- to allocate race meetings consistent with its responsibility to maximise returns to owners and to foster support for harness racing across SA;
- to regulate the conduct and financial performance standards of licensed clubs;
- to appoint an administrator to administer the affairs of a licensed club when the controlling body believes that it has good financial and/or managerial reasons for doing so;
- to make grants to licensed clubs to assist clubs to carry out their affairs and conduct race meetings they are allocated from time;
- to report to members and licensed clubs the financial affairs of the harness code in an open and transparent way in order to facilitate an understanding of the business

The controlling authority should take over the management of all TAB meetings and it should be the only party that employs staff at any of the TAB venues. The controlling authority should cause to be established a race club committee at each TAB venue and this Committee, elected by members of that venue, should have responsibilities for:

- Attracting sponsors to support their venue
- Attracting members to support their venue
- Representing any members interests at that venue
- Overseeing training use at the track and assisting with the conduct of any trials at the track
- Monitoring members facilities and making recommendations to the controlling authority about their venue consistent with the objectives of the authority
- Entertaining any race day sponsors and any other guests in the Committee Room
- Conducting any race day presentations as determined from time to time

Ideally the harness code should consider the idea of creating one Super Club for all of the TAB venue clubs. The financial assets and liabilities could be more effectively and commercially managed. If this were done the code could develop a strategy that would assist in turning the code's affairs around.

Twice since its formation, Member Clubs have changed the way in which Directors are appointed and even if the code now agreed to set up a business Board, steps would need to be put in place to curb the political instincts of some of the key players who inhabit the harness industry. One possible step would be to insert a provision in the Constitution so that the Company either, could only change the Director Selection clauses of the Constitution with the express approval of the Minister, or have a provision whereby the controlling body function is threatened by such a change. There is not strong support for running the code along business lines and the people who play politics do not seem to be much good at conducting a business.

My discussions with many of the main players in the harness code causes me to believe that designing the start of the solution is the easy part. Finding the mechanism to deliver this solution is the more challenging task. As indicated before, the Government does not have a head of power under the Authorised Betting Operations Act to create a controlling body. It could only do this by amending the Act. The Government's power is limited to designating an existing body or a new body created by another party as the controlling body for the code. I have explained above the reasons why an all-encompassing body to cover the three racing codes would not be a feasible option and it would not do anything to bring about some of the changes required within a code. There are four choices and I shall look at each one in turn.

Reform HRSA Ltd:

In the normal course of events reforming HRSA would be the obvious and appropriate course of action. The Minister could ask the Company to consider implementing the range of changes suggested in this report; the Company would consider it and report back on the process it believed should be followed. However, there are philosophical differences at the Board level of HRSA and without a unanimous Board position being put to the Member Clubs I would suspect that the Member Clubs are unlikely to agree to change the Constitution in a way that would be desirable. It is quite possible that support at the Board level for reform may be defeated by 3 votes to 2. This natural disposition of the players in the

industry may be modified if there is some prospect of tax relief, but this approach would be a struggle.

Ask the Principal Club (SAHRC) to reconstitute as Limited Company and become the Controlling Authority:

This approach would be consistent with the course of action I have recommended with respect to the thoroughbred code. It is the arrangement that was made in the greyhound code prior to privatisation. Properly managed, it would make sense to combine the activities of the controlling authority and the principal club. However, the club is not properly managed. Its affairs have not only been characterised by significant financial under-performance, but with factional membership fights and on occasions engaging in litigation against other parties in the industry. The Club after being involved in the Inter Dominion is in the process of seeking more funds from HRSA and it has not met its legal expenses for its unsuccessful Supreme Court activities last year. To ask the SAHRC to make the necessary arrangements to become the controlling authority, which I am sure that a number of their current Committee would welcome, would be untenable.

Ask Harness Racing Victoria to be designated as the Controlling Authority:

During the last 2 years informal discussions have taken place between some senior figures in the SA harness racing industry and HRV about HRV managing all the back office functions of HRSA. Since that time HRSA has reduced its head office costs and the potential gains are not so obvious. HRV has a vested interest in SA harness racing succeeding because of the way their TAB Distribution system works: essentially the more successful SA harness racing is the more money HRV makes. They are a strong body with very professional management standards. I have not investigated this option fully as I have a conflict of interest due to the fact that I conduct occasional consulting work for them and I am a Director of the management company, which HRV has established to build and manage the Melton Racing Complex, a \$40 million racing/hotel/entertainment centre. There may be very real practical and political problems arising from the legal status of HRV if this option was pursued. I have doubts about this option, but if it was intended to explore it more fully, someone else should conduct the analysis.

7.6 The Harness Solution with GRSA

In my view, the best solution with respect to the Harness code is to ask GRSA Ltd whether it would agree to take on the additional role of being the Controlling Authority for Harness Racing. GRSA Ltd is a professional company that is well managed. They have experience in managing race meetings; food and beverage; and gaming. They have professional financial skills and they could readily bolt on some extra work by creating two divisions in their accounts (one for greyhounds and one for harness) and carry out the accounts work for the harness clubs just as they do now for the greyhound clubs. They share two racing facilities at present as a tenant to a harness club at Port Pirie and Strathalbyn. They both have about 15% market share of the SA wagering market. The extent to which they currently compete with one another is easy to over-state. In essence their racing times within SA rarely clash and rarely will. They both benefit from betting within SA on interstate product within their own code and neither HRSA nor GRSA has any control over that large part of product, which affects their market share. The competition they can control is when one code in SA conducts a meeting at the expense of another code in SA. In order for this to happen they would need the support of Sky Channel and this is becoming increasingly harder to obtain. I do not believe that the creation of one controlling authority for the two codes would cause

any substantive conflicts of interest and certainly not ones that a competent Board would be prevented from dealing with in a professional way.

This report has been very critical of the harness industry and the question therefore arises: why would anyone want to take on the problems identified? In response to this I can think of a number of benefits to GRSA. In identifying these benefits I assume that GRSA would manage all TAB venues in both codes and the changes I suggested above on pages 79-80 with respect to Constitutional changes and changed role of Committees are put in place. The benefits I believe that would occur are as follows:

1. The new Company would double in size and place both codes jointly in a better position to deal with any competitive pressures from the thoroughbred code and other sporting and leisure interests.
2. The Company would be able to spread the current overhead costs of two separate companies and cause each codes overhead cost to fall significantly. There would be savings from having one CEO rather than two; one finance officer rather than two; one gaming area of expertise; one catering manager. Eventually, there may be some synergies identified with respect to the employment of stewards in the probity area.
3. There would be advantages to the catering food and beverage side of the Globe Derby and Angle Park businesses if it were under the one professional team and purchasing arm.
4. The two gaming venues (but particularly Globe Derby venue) would benefit from having the one management vehicle.
5. The capacity of both codes to pay prizemoney would be enhanced due to lower costs per code and higher revenues.
6. The balance sheet of the new Company embracing the management of the assets and liabilities of all TAB venues would substantially improve and through professional leadership could yield significantly better returns than is done so at present, particularly in the harness code.

In examining the range of assets within both codes, the accounts of both codes and gaining an understanding of some of their current practices, I believe that the benefits to the bottom line within 18 months would be around \$0.75m and eventually, say 3 years, close to \$1.2 million dollars. If eventually the major greyhound and harness racing venue was co-located and owned the benefits would be considerably greater. The harness code could save around \$80k per annum by not paying what amounts to an annual subscription to conduct the Inter Dominion every 6 to 8 years. Any cost benefit analysis suggests that the benefits to SA harness racing stakeholders are negative as almost all prizemoney goes to interstate stakeholders. The indicative improvements to the business that I have identified are displayed in Chart 3. Some of these benefits would be code specific, like the Inter Dominion fee, others would be shared between the codes. Depending on the detail of any arrangements there may be some stamp duty and payroll tax consequences arising from these arrangements. In this event it is suggested that the new body seek favourable consideration from the Government for its efforts. This detail could be sorted out by the Board.

Chart 3: Estimated Annual Improvements for Greyhounds and Harness

<u>TYPE OF CHANGE TO STATUS QUO</u>	<u>AMOUNT OF IMPROVEMENT</u>
Management Salary Cost Changes due to one Company managing all TAB venues	\$0.350m
Non-Salary Administration Cost Changes due to one enlarged Company	\$0.070m
Improved Returns at Globe Derby through better pricing and management practices	\$0.250m to \$0.300m
Eventual Revenue Improvement through more commercial asset management practices	\$0.400m
Discontinue Inter Dominion Contribution to the Australian body	\$0.080m
TOTAL	\$1.150m to \$1.200m

During the current difficult times that all of the racing codes in SA are experiencing it will be important to put the needs of the industry before the needs of individuals, clubs, organisational groups and other parties with vested interests. This comment is particularly apt with respect to the harness code. The benefits of having one controlling body managing the two codes will not yield the entire perceived shortfall that the two codes would like to see. The changes I am suggesting will assist both the harness and greyhound codes to meet their main objective and that is to improve prizemoney. Their successful achievement, however, will demonstrate a serious concern to pursue the best financial interests of the racing codes ahead of any individual or Club interests. It would give the harness code more credibility when it engages with the government in the future. It would enhance the professional image of the greyhound code with the government when it engages with the government in the future.

I recommend that GRSA Ltd consider amending its Constitution in all the necessary ways in order that they place the Company in a position whereby the Minister can take the necessary steps to have the Company designated as the controlling authority for the harness racing code.

In the event that GRSA does not seek the Minister's endorsement to become the controlling authority for the harness racing code, I recommend that HRSA Ltd amend its Constitution in all of the necessary ways so that the Company can be a controlling authority in the proper sense of the term and that it has the necessary power to manage all of the business conducted at all of the TAB venues for harness racing.

7.7 Summary of Governance and Affected Bodies & Clubs

I am conscious of the fact the racing codes are a reflection of Australian society in that they are cautious about making change and more often than not they tend to stay with what they are comfortable with. If all the recommendations of this report were put into effect the changes would be substantial and clubs in all codes would be affected. However the all-embracing nature of these changes could easily be exaggerated. In this modern day it is not asking a lot to have a system of governance wherein racing clubs can be held to account by the controlling authority. No stake-holder in the industry wishes to see their scarce resources wasted. No stake-holder likes to see assets being disposed of without any gain for the racing code within the industry. In this sense the changes as they affect most clubs are minor and

essentially consist of introducing a standard within the racing codes that is already a part of our lives in other walks of life.

In order to assist people who have neither the time nor the interest to read all of this report I have compiled a summary chart so that the position of each club and code is clear.

Chart 4: Summary of Bodies Affected

Corporate Governance Change	<u>Greyhound Code</u>	<u>Harness Code</u>	<u>Thoroughbred Code</u>
Change to Controlling Authority Constitution	Minor adjustments to GRSA Constitution to broaden powers, but more substantial changes if GRSA becomes the controlling authority for the harness code	Winding up of HRSA and absorption into GRSA. OR Substantial Changes to HRSA powers; to Board structure; to Board responsibilities; and to changes in membership.	Winding up of TRSA and creation of a new controlling authority. OR Substantial Changes to TRSA powers; to Board structure; to Board responsibilities; and to changes in membership. Winding up of SARCC
Change to Club Role	Possibly Port Pirie and Southern(Strathalbyn)	SAHRC (Globe Derby); Port Pirie; Gawler; Strathalbyn; Victor Harbor.	SAJC; Balaklava; Gawler; Murray Bridge; Strathalbyn. AND Mt Gambier; Port Lincoln financial guidance help
Clubs Unaffected by Report Recommendations	Kulpara; Port Augusta; Mount Gambier; Riverland; Whyalla; GOTBA; AGRC.	Franklin Harbour; Kadina; Kapunda; Kimba; Mount Gambier; Port Augusta; Whyalla.	Bordertown; Ceduna; Clare Valley; Hawker; Jamestown; Kangaroo Island; Kimba; Lock; Mindarie Halidon; Naracoorte; Oakbank; Penong; Port Augusta; Quorn; Roxby Downs; Streaky Bay.

8. RECOMMENDATIONS

8.1 Preamble

At the outset of this study I mentioned that one of the reasons that the Minister for Recreation, Sport and Racing commissioned this study was based upon his suspicion that the racing industry was continuing to ask the Government for help, but at the same time it was not doing enough to help itself. In the case of the thoroughbred and harness codes this suspicion certainly has been confirmed. The harness and thoroughbred codes can make significant improvements, as there are a number of changes to governance and management practices that both of these codes could implement and thereby improve the bottom line performance of their results. To achieve these changes will mean more control and accountability being installed in the hands of the controlling authority and it will mean the subjugation of some egos in the interest of their racing code.

I have provided some estimates of the improvement to financial performance that the implementation of these changes might yield. In the case of the harness code and the greyhound code being managed by the one Company I estimated that the amount might be as high as \$0.75 million in the initial phase and in the case of the thoroughbred code I estimated that the amount might be around \$1.3m. These estimated amounts, as useful as they would be, would not match the deficiency that the codes expected at the time of the privatisation. That privatisation was not handled well. It would seem that neither the then Government nor the racing industry paid much attention, if any, to the risk associated with moving from a large pool managed by Tabcorp to a smaller pool managed by Unitab. In this writer's view that shift had caused by 2004-05, a shortfall in revenue to the racing industry of over \$3 million and possibly as much as \$4.5 million. The shortfall in TAB Distribution received by the industry in 2004-05, from the Treasury forecast made at the time of privatisation, was \$3.29 million.

TRSA commissioned a study by Hudson Howell in which it was argued that the racing industry taken as a whole paid \$31 million per annum in taxes. The simple point is that every sport as a part of society incurs some taxes. The Hudson Howell study missed the real point and that is: are there taxes which distinguish the racing industry from any other sport? The answer is there are two: the 6% tax on net wagering revenue; and the \$3 million per annum in claw-back payments. To my surprise Treasury class the latter as a tax in their budget papers, rather than as an annual price to be paid for their agreement to sell off a Government asset.

The 6% tax on net wagering revenue is the tax that really distinguishes racing as a sport from any other sport. This writer is not aware of any other sport that has its major source of income subjected to a tax. The South Australian Government in levying this tax is not unique. Every State Government and Territory in Australia taxes TAB wagering in some way or another. **From a racing point of view the South Australian racing industry position is the best because it is the lowest.** The total amount of revenue collected from this tax in the last year will be of the order of \$7 million. It is a very small tax by any State Treasury standard, but it is a substantial sum of money to the racing industry. It represents an amount which is around one sixth of the annual TAB Distribution paid to the racing industry.

The Government has an interest in the racing industry restructuring its affairs. The industries in all states have been under significant challenge from the many other sporting and leisure pursuits that are available. The poor performance of TAB wagering since privatisation has added to this pressure. Its traditional revenue streams have declined as less people attend race meetings except on the feature race days. However the industry has been estimated to have an employment impact of between 3,000 and 3,500 people who are engaged by many employers scattered around the state. The industry, especially in its country centres is one that engages heavily with volunteer support. This is an industry that, if properly managed, is worth supporting.

Listed below are a range of recommendations, which if implemented will require some radical changes in thinking on the part of many racing industry people. Some people will lose their current positions and others will have to do things differently. There is a real risk that unnecessary squabbles will break out and people will lose focus of the need to restructure the industry and bring about improvement. I believe this problem may be averted if the industry restructuring is rewarded for its efforts. There is also an opportunity for South Australia to lead Australia by being the first state to phase out tax on TAB betting turnover.

I therefore recommend to the Minister for Recreation, Sport and Racing that he request the 6 most senior bodies affected by this report to each provide him with their comments on the report within a maximum of 30 days. The bodies I refer to are: GRSA Ltd; HRSA Ltd; TRSA Ltd; SARCC; SAHRC; and the SAJC.

If the parties put forward a plan of action that is acceptable to the Minister, then I recommend to the Minister he:

1. Recommend to the Cabinet that the Governor make whatever changes are necessary to be made in the designation of racing controlling authorities, such changes to come into effect and be operative from 1 August 2007.
2. Set each racing code targets to be achieved by 31 March 2008 and in the three subsequent years beyond.
3. Upon successful completion of the targets by the end of March 2008 he requests that the Treasurer cut the betting turnover tax, commencing 1 July 2008.
4. Upon completion of the targets in each subsequent year there would be a further reduction in each year so that the tax would then be eliminated by 1 July 2012.

The specific recommendations for each code follow.

8.2 Greyhound Recommendations

1. That GRSA conduct a review of the appropriateness of continuing to adopt a rule that in each year it pays out prizemoney so that the amount lies within the range 47% to 52% of annual TAB Distribution.
2. That GRSA amend its Constitution so that Directors have a fiduciary responsibility to ensure that the interests of stake holders are placed at the forefront of their duties by the inclusion of the following as Company obligations:
 - to be responsible to maximise returns from its business in order that the Company can maximise returns to owners;
 - to allocate race meetings consistent with its responsibility to maximise returns to owners and to foster support for greyhound racing across SA.
3. That GRSA commission an independent assessment of its level and structure of expenses, compared with the other states, with a view to establishing suitable interstate greyhound benchmarks that the Board and Member Clubs can make an objective assessment of the performance of GRSA.
4. That GRSA review its Constitution and its rules with a view to ensuring that it minimises any risk of legal dispute about the extent of its powers and in particular it consider amending its Constitution if there is any doubt that GRSA has the power:
 - to conduct race meetings at venues that it has direct responsibility for managing;
 - to be responsible for the conduct of the business and the management of the assets of the venues at which it conducts race meetings;
 - to establish race club committees at each venue where it conducts the race meetings, such committees shall be formed through election by local members;
 - to regulate the conduct and financial performance standards of licensed clubs;
 - to appoint an administrator to administer the affairs of a licensed club when the controlling body believes that it has good financial and/or managerial reasons for doing so;
 - to make grants to licensed clubs to assist clubs to carry out their affairs and conduct race meetings they are allocated from time to time;
 - to report to members and licensed clubs the financial affairs of the greyhound code in an open and transparent way in order to facilitate an understanding of the business
5. That GRSA should take over the management of all TAB meetings and it should be the only party that employs staff at any of the TAB venues. The controlling authority should cause to be established a race club committee at each TAB venue and these Committees, elected by members of that venue, shall have responsibilities for:
 - Attracting sponsors to support their venue
 - Attracting members to support their venue
 - Representing any members' interests at that venue
 - Overseeing training use at the track and assisting with the conduct of any trials at the track

- Monitoring members' facilities and making recommendations to the controlling authority about their venue consistent with the objectives of the authority
- Entertaining any race day sponsors and any other guests in the Committee Room (when applicable)
- Conducting any race day presentations as determined from time to time

Ideally the greyhound code should consider the idea of creating one Super Club for all of the TAB venue clubs.

6. That GRSA require that each registered greyhound club place a clause in their Club Constitution whereby if a registered greyhound Club is wound up in accordance with the provisions of the Associations Incorporation Act or for any other reason, and there remains any property whatsoever, that property must be given or transferred to some other greyhound racing club or clubs registered under the Rules of GRSA pursuant to which greyhound racing is conducted in South Australia.
7. That GRSA establish a code of conduct for race clubs and club committees to ensure that appropriate procedures and practices are in place.
8. That GRSA carry out full and proper due diligence on the business case for expanding its role so that it might be the controlling authority for harness racing.
9. That GRSA consider amending its Constitution in all ways necessary in order that the Company is in a position whereby the Minister can take the necessary steps to have the Company designated as the controlling authority for the harness racing code.
10. That in the event that GRSA is designated as the controlling authority for the harness racing code it expand its number of Board Directors from 5 to 7 and that after any interim period there be one Director position designated as a person chosen in a similar manner to that which takes place for a person currently coming from the greyhound industry.
11. That in the event of any restructuring and transferring of assets causing stamp duty and payroll tax consequences, the controlling body should ask the Government to consider the code's position.

8.3 Harness Recommendations

1. That HRSA carry out full and proper due diligence on the business case for GRSA expanding its role so that it might be the controlling authority for harness racing.
2. That in the event that GRSA does not seek the Minister's endorsement to become the controlling authority for the harness racing code or is unsuccessful in making such a request, I recommend that HRSA Ltd amend its Constitution in all of the necessary ways so that the Company can be a controlling authority in the proper sense of the term and that it has the necessary power to manage all of the business conducted at all of the TAB venues for harness racing. The Directors would need to be appointed in a similar manner to that of GRSA.
3. That HRSA amend its Constitution so that Directors have a fiduciary responsibility to ensure that the interests of stake holders are placed at the forefront of their duties by the inclusion of the following as Company obligations:
 - to be responsible to maximise returns from its business in order that the Company can maximise returns to owners;
 - to allocate race meetings consistent with its responsibility to maximise returns to owners **and** to foster support for harness racing across SA.
4. That HRSA review its Constitution and its rules with a view to ensuring that it minimises any risk of legal dispute about the extent of its powers and in particular it consider amending its Constitution if there is any doubt that HRSA has the power:
 - to conduct race meetings at venues that it has direct responsibility for managing;
 - to be responsible for the conduct of the business and the management of the assets of the venues at which it conducts race meetings;
 - to establish race club committees at each venue where it conducts the race meetings, such committees shall be formed through election by local members;
 - to license all Harness Racing clubs as bodies to conduct harness race meetings;
 - to regulate the conduct and financial performance standards of licensed clubs;
 - to appoint an administrator to administer the affairs of a licensed club when the controlling body believes that it has good financial and/or managerial reasons for doing so;
 - to make grants to licensed clubs to assist clubs to carry out their affairs and conduct race meetings they are allocated from time to time;
 - to report to members and licensed clubs the financial affairs of the harness racing code in an open and transparent way in order to facilitate an understanding of the business.
5. That HRSA should take over the management of all TAB meetings and it should be the only party that employs staff at any of the TAB venues. The controlling authority should cause to be established a race club committee at each TAB venue and these Committees, elected by members of that venue, shall have responsibilities for:
 - Attracting sponsors to support their venue
 - Attracting members to support their venue
 - Representing any members' interests at that venue
 - Overseeing training use at the track and assisting with the conduct of any trials at the track

- Monitoring members' facilities and making recommendations to the controlling authority about their venue consistent with the objectives of the authority
- Entertaining any race day sponsors and any other guests in the Committee Room
- Conducting any race day presentations as determined from time to time

Ideally the harness code should consider the idea of creating one Super Club for all of the TAB venue clubs. The financial assets and liabilities could be more effectively and commercially managed and the code could develop a strategy that would assist in turning the codes affairs around.

6. That the harness code reduces expense by around \$80k per annum by no longer continuing to subscribe to the Inter Dominion series, as it provides no extra benefit to SA stake-holders and the money could be more productively utilised to benefit SA harness racing.
7. That HRSA require that each registered harness club place a clause in their Club Constitution whereby if a registered harness Club is wound up in accordance with the provisions of the Associations Incorporation Act or for any other reason, and there remains any property whatsoever, that property must be given or transferred to some other harness racing club or clubs registered under the Rules of HRSA pursuant to which harness racing is conducted in South Australia.
8. That HRSA, or its successor, require all registered clubs to provide a copy of their audited financial accounts in a prompt manner and that the controlling authority as a matter of course monitor the financial affairs of registered clubs on an ongoing basis.
9. That HRSA, or its successor, establish a code of conduct for race clubs and club committees to ensure that appropriate procedures and practices are in place
10. That HRSA, or its successor, amend its Constitution to ensure that directors appointed to the board except in the case of one board member shall be independent of the Harness Racing industry.
11. That the controlling authority for Harness Racing take whatever steps are necessary to ensure that the Globe Derby venue is professionally managed and that it achieves a level of profitability commensurate with its patronage in all phases of its business. This will enable the venue to be able to financially contribute to the Harness Racing industry in a substantial way.
12. That the controlling authority should take whatever steps are necessary to ensure that the assets owned by current Harness Racing clubs are not lost to the industry but are utilised in the most productive way for the benefit of the industry.
13. That the controlling authority should conduct a proper cost benefit analysis of the number of race meetings it is currently programming with a view to ensuring that the current number is an optimal one from the point of view of maximising funds for the industry as distinct from maximising market share of TAB distribution.
14. That HRSA, or its successor, approach the government for their assistance to alter the conditions attached to the land title of the Port Pirie Harness Racing Club with a view to the land being able to be put to the best financial use for the industry.
15. That in the event of any restructuring and transferring of assets causing stamp duty and payroll tax consequences, the controlling body should ask the Government to consider the code's position.

8.4 Thoroughbred Recommendations

1. That TRSA review its position and consider the merits of winding up its affairs in order that one new body is created to be the controlling authority for the thoroughbred industry and the body which manages all of the business currently conducted by the SAJC and the clubs located at Balaklava, Gawler, Murray Bridge and Strathalbyn.
2. That in the event that TRSA agrees to wind up its affairs it makes the necessary arrangements to transfer all assets and liabilities to the newly created controlling authority as expeditiously as possible.
3. That the SAJC review the contents of this report and consider the merits of establishing a new controlling authority which would manage its own business affairs and those of the clubs located at Balaklava, Gawler, Murray Bridge and Strathalbyn. In particular the SAJC committee is asked to look at the structure of the new body as outlined in section 7.4 and the financial implications that arise there from.
4. That SARCC review the contents of this report and consider the merits of the recommendations herein including consideration of winding up its affairs and transferring all of its assets and liabilities to a newly created controlling authority.
5. That TRSA ask the club committees at Balaklava, Gawler, Murray Bridge and Strathalbyn to consider the merits of this report and in particular the costs and benefits associated with the creation of a Super Club, the changed role of its committee and the transference of its assets and liabilities to the newly created controlling authority/Super Club.
6. That TRSA, or its successor, inform the Mount Gambier and Port Lincoln clubs of their strategic importance to the industry and the need for their financial performance to improve, and to this effect it wishes to have their cooperation to conduct financial due diligence of their business affairs in order that changes can be brought about to ensure that they are managed in a financially viable way.
7. That TRSA, or its successor, include in its Constitution a clause to ensure that Directors have a fiduciary responsibility to ensure that the interests of stake holders are placed at the forefront of their duties by the inclusion of the following as Company obligations:
 - to be responsible to maximise returns from its business in order that the Company can maximise returns to owners;
 - to allocate race meetings consistent with its responsibility to maximise returns to owners and to foster support for thoroughbred racing across SA.
8. That TRSA, or its successor, review its Constitution and its rules with a view to ensuring that it minimises any risk of legal dispute about the extent of its powers and in particular it consider amending its Constitution if there is any doubt that the controlling authority has the power:
 - to conduct race meetings at venues that it has direct responsibility for managing;
 - to be responsible for the conduct of the business and the management of the assets of the venues at which it conducts race meetings;
 - to establish race club committees at each venue where it conducts the race meetings, such committees shall be formed through election by local members;

- to license all thoroughbred clubs as bodies to conduct thoroughbred race meetings;
 - to regulate the conduct and financial performance standards of licensed clubs;
 - to appoint an administrator to administer the affairs of a licensed club when the controlling body believes that it has good financial and/or managerial reasons for doing so;
 - to make grants to licensed clubs to assist clubs to carry out their affairs and conduct race meetings they are allocated from time to time;
 - to report to members and licensed clubs the financial affairs of the thoroughbred code in an open and transparent way in order to facilitate an understanding of the business.
7. That the new controlling authority should take over the management of all TAB meetings conducted by the SAJC, Balaklava, Gawler, Murray Bridge and Strathalbyn and it should be the only party that employs staff at these TAB venues. The controlling authority should cause to be established a race club committee at each of these TAB venues and these Committees, elected by members of these venues, shall have responsibilities for:
- Attracting sponsors to support their venue
 - Attracting members to support their venue
 - Representing any members' interests at that venue
 - Overseeing training use at the track and assisting with the conduct of any trials at the track
 - Monitoring members' facilities and making recommendations to the controlling authority about their venue consistent with the objectives of the authority
 - Entertaining any race day sponsors and any other guests in the Committee Room
 - Conducting any race day presentations as determined from time to time
8. That TRSA, or its successor, require that each registered thoroughbred club place a clause in their Club Constitution whereby if a registered thoroughbred Club is wound up in accordance with the provisions of the Associations Incorporation Act or for any other reason, and there remains any property whatsoever, that property must be given or transferred to some other thoroughbred racing club or clubs registered under the Rules of TRSA pursuant to which thoroughbred racing is conducted in South Australia.
9. That TRSA, or its successor, require all registered thoroughbred clubs to provide a copy of their audited financial accounts in a prompt manner and that the controlling authority as a matter of course monitor the financial affairs of registered clubs on an ongoing basis.
10. That TRSA, or its successor, amend its Constitution to ensure that directors appointed to the board, except in the case of the two board members with race club experience shall be independent of the Thoroughbred Racing industry.
11. That the controlling authority should take whatever steps are necessary to ensure that the assets owned by current Thoroughbred Racing clubs are not lost to the industry but are utilised in the most productive way for the benefit of the industry.
12. That TRSA, or its successor, establish a code of conduct for race clubs and club committees to ensure that appropriate procedures and practices are in place.
13. That TRSA, or its successor, agree as a matter of policy to publish thoroughbred accounts in an open and transparent way to ensure that members and supporters of racing can be assisted in understanding the thoroughbred racing business.

14. That the new controlling authority/Super Club (or in its absence the SAJC) consider, as a matter of good risk management, commissioning an independent review of current SAJC expenses in all parts of its business in order to assess whether any expenses can be stripped away without causing any adverse reactions from consumers.
15. That in the event of any restructuring and transferring of assets causing stamp duty and payroll tax consequences, the controlling body should ask the Government to consider the code's position.

APPENDIX A

TABLE A1 (TABLE 133 from Report)
RACING EXPENDITURE AS A % OF HOUSEHOLD DISPOSABLE INCOME
(ALL STATES AND TERRITORIES)

	NSW	Victoria	Queensland	SA	WA	Tasmania	ACT	NT	Australia
Percentage (%)									
1979-80	0.64	0.58	0.55	0.39	0.59	0.42	0.32	0.29	0.57
1980-81	0.61	0.56	0.52	0.36	0.59	0.45	0.30	0.26	0.55
1981-82	0.59	0.53	0.52	0.36	0.57	0.43	0.30	0.30	0.53
1982-83	0.56	0.53	0.52	0.36	0.52	0.38	0.27	0.26	0.51
1983-84	0.57	0.55	0.54	0.38	0.56	0.39	0.27	0.25	0.53
1984-85	0.59	0.55	0.57	0.39	0.53	0.41	0.26	0.24	0.54
1985-86	0.62	0.57	0.59	0.37	0.50	0.42	0.30	0.23	0.55
1986-87	0.63	0.56	0.56	0.35	0.47	0.41	0.29	0.27	0.55
1987-88	0.63	0.56	0.58	0.40	0.47	0.45	0.29	0.35	0.56
1988-89	0.66	0.55	0.56	0.43	0.45	0.45	0.30	0.37	0.57
1989-90	0.63	0.55	0.53	0.43	0.45	0.50	0.25	0.46	0.55
1990-91	0.63	0.55	0.53	0.43	0.43	0.50	0.24	0.48	0.55
1991-92	0.61	0.55	0.52	0.40	0.40	0.55	0.23	0.52	0.54
1992-93	0.55	0.53	0.50	0.40	0.41	0.50	0.23	0.50	0.50
1993-94	0.52	0.51	0.51	0.38	0.43	0.52	0.21	0.48	0.49
1994-95	0.55	0.49	0.48	0.36	0.41	0.49	0.18	0.47	0.48
1995-96	0.50	0.48	0.46	0.32	0.41	0.47	0.21	0.47	0.46
1996-97	0.50	0.46	0.43	0.33	0.40	0.44	0.22	0.53	0.45
1997-98	0.45	0.45	0.42	0.35	0.41	0.42	0.21	0.52	0.43
1998-99	0.46	0.45	0.41	0.36	0.42	0.38	0.22	0.53	0.43
1999-00	0.44	0.43	0.36	0.34	0.40	0.35	0.20	0.55	0.41
2000-01	0.41	0.43	0.33	0.32	0.39	0.34	0.21	0.57	0.39
2001-02	0.42	0.43	0.32	0.27	0.38	0.30	0.19	0.97	0.39
2002-03	0.44	0.44	0.32	0.28	0.38	0.26	0.18	1.37	0.40
2003-04	0.41	0.43	0.32	0.28	0.38	0.24	0.19	1.03	0.38
2004-05	0.41	0.43	0.32	0.29	0.41	0.24	0.18	1.30	0.39

TABLE A2 (TABLE 160)
TAB TURNOVER

	NSW	Victoria	Queensland	SA	WA	Tasmania	ACT	NT	Australia
Value (\$ million)									
1979-80	948.561	628.456	247.888	111.963	202.898	47.747	24.925	-	2,212.438
1980-81	1,034.821	688.374	285.386	120.904	234.869	55.680	27.555	-	2,447.589
1981-82	1,151.203	731.021	342.309	133.047	263.254	61.845	28.528	-	2,711.207
1982-83	1,220.733	825.240	387.201	158.255	274.859	62.124	29.052	-	2,957.464
1983-84	1,336.954	980.122	460.728	193.187	293.769	69.600	33.003	-	3,367.363
1984-85	1,486.220	1,071.442	498.741	216.793	314.248	76.216	37.232	-	3,700.892
1985-86	1,765.690	1,224.880	560.324	237.232	328.823	83.399	45.667	17.471	4,263.486
1986-87	1,919.811	1,358.237	610.847	249.696	340.641	87.717	45.590	21.120	4,633.659
1987-88	2,200.698	1,521.746	702.931	314.947	386.216	106.568	56.997	27.995	5,318.098
1988-89	2,644.683	1,729.463	827.482	393.256	441.195	125.000	65.837	35.113	6,262.029
1989-90	2,958.340	1,898.608	904.246	463.842	478.610	144.410	70.631	41.259	6,959.946
1990-91	3,170.753	1,996.558	990.540	491.740	460.537	157.498	76.995	47.974	7,392.595
1991-92	3,217.192	2,104.547	1,059.920	494.491	459.058	181.697	79.632	49.831	7,646.368
1992-93	3,221.439	2,230.886	1,122.745	503.183	519.048	201.132	82.813	52.818	7,934.064
1993-94	3,329.177	2,323.920	1,249.199	526.852	583.869	221.512	87.199	60.634	8,382.362
1994-95	3,467.924	2,259.918	1,281.074	513.283	619.472	267.060	83.465	69.235	8,561.431
1995-96	3,574.283	2,274.362	1,295.100	496.392	658.249	253.145	102.631	72.000	8,726.162
1996-97	3,625.400	2,285.145	1,329.000	522.926	676.719	226.116	112.880	87.900	8,866.086
1997-98	3,554.474	2,371.919	1,344.900	590.304	733.455	204.833	113.027	74.095	8,987.007
1998-99	3,672.300	2,537.683	1,418.100	617.823	779.194	206.855	115.128	70.240	9,417.323
1999-00	3,772.700	2,576.276	1,526.065	616.363	813.080	195.108	110.915	67.819	9,678.326
2000-01	3,912.400	2,687.640	1,551.565	630.254	846.171	208.395	129.171	70.796	10,036.392
2001-02	4,485.000	2,818.234	1,590.191	622.050	886.898	229.493	126.538	76.987	10,835.391
2002-03	4,642.100	2,940.641	1,686.593	631.043	961.381	261.980	128.905	86.119	11,338.762
2003-04	4,343.950	3,074.044	1,808.578	663.895	1,030.888	273.879	151.210	91.337	11,437.781
2004-05	4,448.803	3,242.283	1,915.544	683.780	1,168.319	286.660	157.582	101.914	12,004.885
% Change	369.01	415.91	672.75	510.72	475.82	500.37	532.22		442.61

**TABLE A3 (FROM TABLE 160)
TAB TURNOVER STATE SHARES**

	NSW	Victoria	Queensland	SA	WA	Tasmania	ACT	NT	Australia
Percentage Share									
1979-80	42.87	28.41	11.20	5.06	9.17	2.16	1.13	0	100.00
1980-81	42.28	28.12	11.66	4.94	9.60	2.27	1.13	0	100.00
1981-82	42.46	26.96	12.63	4.91	9.71	2.28	1.05	0	100.00
1982-83	41.28	27.90	13.09	5.35	9.29	2.10	0.98	0	100.00
1983-84	39.70	29.11	13.68	5.74	8.72	2.07	0.98	0	100.00
1984-85	40.16	28.95	13.48	5.86	8.49	2.06	1.01	0	100.00
1985-86	41.41	28.73	13.14	5.56	7.71	1.96	1.07	0.41	100.00
1986-87	41.43	29.31	13.18	5.39	7.35	1.89	0.98	0.46	100.00
1987-88	41.38	28.61	13.22	5.92	7.26	2.00	1.07	0.53	100.00
1988-89	42.23	27.62	13.21	6.28	7.05	2.00	1.05	0.56	100.00
1989-90	42.51	27.28	12.99	6.66	6.88	2.07	1.01	0.59	100.00
1990-91	42.89	27.01	13.40	6.65	6.23	2.13	1.04	0.65	100.00
1991-92	42.07	27.52	13.86	6.47	6.00	2.38	1.04	0.65	100.00
1992-93	40.60	28.12	14.15	6.34	6.54	2.54	1.04	0.67	100.00
1993-94	39.72	27.72	14.90	6.29	6.97	2.64	1.04	0.72	100.00
1994-95	40.51	26.40	14.96	6.00	7.24	3.12	0.97	0.81	100.00
1995-96	40.96	26.06	14.84	5.69	7.54	2.90	1.18	0.83	100.00
1996-97	40.89	25.77	14.99	5.90	7.63	2.55	1.27	0.99	100.00
1997-98	39.55	26.39	14.96	6.57	8.16	2.28	1.26	0.82	100.00
1998-99	39.00	26.95	15.06	6.56	8.27	2.20	1.22	0.75	100.00
1999-00	38.98	26.62	15.77	6.37	8.40	2.02	1.15	0.70	100.00
2000-01	38.98	26.78	15.46	6.28	8.43	2.08	1.29	0.71	100.00
2001-02	41.39	26.01	14.68	5.74	8.19	2.12	1.17	0.71	100.00
2002-03	40.94	25.93	14.87	5.57	8.48	2.31	1.14	0.76	100.00
2003-04	37.98	26.88	15.81	5.80	9.01	2.39	1.32	0.80	100.00
2004-05	37.06	27.01	15.96	5.70	9.73	2.39	1.31	0.85	100.00

TABLE A4 (TABLE 188)
PER CAPITA TAB EXPENDITURE

	NSW	Victoria	Queensland	SA	WA	Tasmania	ACT	NT
Value (\$)								
1979-80	39.18	37.65	27.48	19.29	39.90	25.51	26.90	-
1980-81	41.97	40.64	30.15	20.53	44.86	29.82	29.23	-
1981-82	45.54	42.18	34.56	22.23	48.92	32.84	29.45	-
1982-83	47.20	46.49	37.38	25.17	49.49	32.55	29.04	-
1983-84	52.39	54.34	43.15	31.01	54.96	35.95	31.91	-
1984-85	60.02	58.11	50.42	34.17	57.46	40.97	35.69	-
1985-86	70.45	65.40	55.24	36.83	58.68	45.26	44.81	29.13
1986-87	75.27	71.31	58.48	38.26	58.90	46.94	43.18	36.42
1987-88	84.76	78.60	65.66	48.24	65.13	56.05	48.98	47.01
1988-89	101.47	86.93	73.16	59.71	71.82	64.14	55.72	58.96
1989-90	109.34	93.60	75.71	69.07	76.21	74.13	57.13	72.28
1990-91	116.37	97.02	79.94	71.93	71.85	79.09	60.86	81.13
1991-92	116.13	100.31	85.57	71.31	70.94	90.59	61.47	82.34
1992-93	109.81	104.92	85.97	73.35	77.32	87.36	63.39	87.04
1993-94	109.21	104.20	89.03	74.38	85.52	91.70	62.07	93.34
1994-95	122.11	102.84	90.22	71.86	85.73	94.80	56.63	100.98
1995-96	119.36	106.85	90.10	69.45	89.08	93.72	68.56	105.76
1996-97	123.44	106.16	90.31	72.78	89.67	88.79	74.56	109.92
1997-98	112.90	109.01	89.95	81.25	94.61	84.00	70.91	90.73
1998-99	122.71	115.27	93.23	84.84	98.57	78.67	80.40	87.38
1999-00	124.38	115.50	91.67	84.32	101.37	75.16	74.70	82.93
2000-01	127.13	125.02	91.71	83.62	103.48	76.59	89.38	82.80
2001-02	143.70	128.48	92.35	81.90	106.77	72.71	83.17	89.02
2002-03	146.98	132.00	94.89	85.19	113.51	66.81	83.72	99.02
2003-04	133.39	136.17	99.38	88.53	119.80	65.54	96.48	103.10
2004-05	137.90	141.62	102.82	92.97	133.29	70.62	97.86	113.40
% Change	251.97	276.16	274.11	382.06	234.10	176.88	263.76	

**TABLE A5 (TABLE 189)
REAL PER CAPITA TAB EXPENDITURE**

	NSW	Victoria	Queensland	SA	WA	Tasmania	ACT	NT
Value (\$)								
1979-80	127.42	122.44	89.38	62.72	129.75	82.95	87.49	-
1980-81	124.90	120.94	89.73	61.08	133.50	88.73	86.98	-
1981-82	122.60	113.55	93.04	59.84	131.70	88.42	79.29	-
1982-83	114.11	112.41	90.37	60.86	119.65	78.70	70.21	-
1983-84	118.49	122.90	97.57	70.14	124.30	81.31	72.17	-
1984-85	130.13	126.00	109.33	74.09	124.58	88.82	77.38	-
1985-86	140.91	130.79	110.49	73.66	117.35	90.51	89.62	58.27
1986-87	137.79	130.54	107.05	70.03	107.82	85.93	79.04	66.67
1987-88	144.54	134.04	111.97	82.26	111.07	95.59	83.53	80.17
1988-89	161.07	138.00	116.14	94.78	114.01	101.82	88.45	93.61
1989-90	160.74	137.60	111.30	101.53	112.03	108.97	83.98	106.25
1990-91	162.46	135.43	111.60	100.42	100.30	110.41	84.96	113.25
1991-92	159.10	137.42	117.23	97.70	97.18	124.10	84.21	112.81
1992-93	148.91	142.28	116.58	99.47	104.85	118.46	85.97	118.03
1993-94	145.54	138.87	118.66	99.13	113.97	122.21	82.72	124.40
1994-95	157.60	132.73	116.44	92.75	110.65	122.35	73.09	130.33
1995-96	147.81	132.33	111.58	86.01	110.32	116.06	84.90	130.97
1996-97	150.84	129.72	110.36	88.93	109.58	108.50	91.11	134.31
1997-98	137.96	133.20	109.92	99.28	115.60	102.64	86.64	110.87
1998-99	148.10	139.12	112.52	102.39	118.96	94.95	97.03	105.46
1999-00	146.62	136.16	108.06	99.40	119.50	88.60	88.06	97.77
2000-01	141.36	139.01	101.97	92.98	115.06	85.16	99.39	92.07
2001-02	155.32	138.87	99.82	88.52	115.40	78.59	89.90	96.22
2002-03	154.10	138.40	99.49	89.32	119.01	70.05	87.78	103.82
2003-04	136.64	139.49	101.80	90.69	122.72	67.13	98.83	105.61
2004-05	137.90	141.62	102.82	92.97	133.29	70.62	97.86	113.40
% Change	8.22	15.66	15.03	48.23	2.73	-14.86	11.85	

TABLE A6 (DERIVED FROM TABLE A2)**TAB TURNOVER**

(Each year's figure shows the % growth that has taken place over the last four years)

	NSW	Victoria	Queensland	SA	WA	Tasmania	ACT	NT	Australia
1983-84	40.95	55.96	85.86	72.55	44.79	45.77	32.41		52.20
1984-85	43.62	55.65	74.76	79.31	33.80	36.88	35.12		51.21
1985-86	53.38	67.56	63.69	78.31	24.91	34.85	60.08		57.25
1986-87	57.27	64.59	57.76	57.78	23.93	41.20	56.93		56.68
1987-88	64.61	55.26	52.57	63.03	31.47	53.11	72.70		57.93
1988-89	77.95	61.41	65.91	81.40	40.40	64.01	76.83		69.20
1989-90	67.55	55.00	61.38	95.52	45.55	73.16	54.67	136.16	63.25
1990-91	65.16	47.00	62.16	96.94	35.20	79.55	68.89	127.15	59.54
1991-92	46.19	38.30	50.79	57.01	18.86	70.50	39.71	78.00	43.78
1992-93	21.81	28.99	35.68	27.95	17.65	60.91	25.78	50.42	26.70
1993-94	12.54	22.40	38.15	13.58	21.99	53.39	23.46	46.96	20.44
1994-95	9.37	13.19	29.33	4.38	34.51	69.56	8.40	44.32	15.81
1995-96	11.10	8.07	22.19	0.38	43.39	39.32	28.88	44.49	14.12
1996-97	12.54	2.43	18.37	3.92	30.38	12.42	36.31	66.42	11.75
1997-98	6.77	2.07	7.66	12.04	25.62	-7.53	29.62	22.20	7.21
1998-99	5.89	12.29	10.70	20.37	25.78	-22.54	37.94	1.45	10.00
1999-00	5.55	13.27	17.83	24.17	23.52	-22.93	8.07	-5.81	10.91
2000-01	7.92	17.61	16.75	20.52	25.04	-7.84	14.43	-19.46	13.20
2001-02	26.18	18.82	18.24	5.38	20.92	12.04	11.95	3.90	20.57
2002-03	26.41	15.88	18.93	2.14	23.38	26.65	11.97	22.61	20.40
2003-04	15.14	19.32	18.51	7.71	26.79	40.37	36.33	34.68	18.18
2004-05	13.71	20.64	23.46	8.49	38.07	37.56	21.99	43.95	19.61

TABLE A7 (TABLE 34)
SOUTH AUSTRALIA
GAMING EXPENDITURE

	LOTTERIES	LOTTO	INSTANT LOTTERY	POOLS	CASINO	MINOR GAMING	KENO	GAMING MACHINES	TOTAL GAMING
Value (\$ million)									
1979-80	3.560	7.038	8.400	-	-	19.550	-	-	38.549
1980-81	3.960	8.208	6.749	0.620	-	24.300	-	-	43.837
1981-82	3.000	11.723	7.125	1.950	-	28.600	-	-	52.397
1982-83	2.120	14.222	7.215	1.780	-	31.200	-	-	56.537
1983-84	2.673	17.306	10.042	1.576	-	33.858	-	-	65.455
1984-85	1.600	21.679	11.224	1.291	-	33.314	-	-	69.108
1985-86	0.699	27.313	13.215	1.602	32.490	35.453	-	-	110.772
1986-87	0.400	35.832	13.988	1.064	54.720	40.114	-	-	146.118
1987-88	0.452	41.475	15.336	0.755	61.092	36.965	-	-	156.075
1988-89	0.404	48.200	17.786	0.699	75.207	38.672	-	-	180.968
1989-90	0.120	58.787	18.191	1.260	82.748	41.690	-	-	202.796
1990-91	-	75.160	17.483	0.758	86.605	43.818	-	-	223.824
1991-92	-	69.342	16.153	0.561	88.594	44.177	9.767	-	228.593
1992-93	-	60.031	17.698	0.643	100.403	48.900	11.360	-	239.035
1993-94	-	61.464	14.144	1.068	116.204	50.492	13.945	-	257.316
1994-95	-	60.849	10.950	0.386	83.559	23.535	12.817	185.415	377.511
1995-96	-	63.003	8.246	0.372	76.544	21.959	12.818	319.229	502.171
1996-97	-	62.419	8.185	0.269	70.709	25.700	13.097	364.255	544.634
1997-98	-	67.516	8.343	0.267	76.008	28.900	13.071	394.629	588.734
1998-99	-	70.599	9.286	0.288	76.648	19.278	12.614	442.466	631.179
1999-00	-	72.588	10.165	0.282	75.831	22.758	15.611	485.987	683.222
2000-01	-	78.233	12.076	0.333	80.737	6.425	12.631	543.469	733.904
2001-02	-	78.371	12.515	0.281	91.761	8.192	12.460	606.814	810.394
2002-03	-	84.938	13.145	0.344	100.182	7.202	10.454	669.075	885.340
2003-04	-	87.186	13.017	0.288	107.923	9.263	11.276	723.604	952.557
2004-05	-	87.113	13.281	0.272	105.656	12.197	15.185	749.251	982.955

APPENDIX B

Appendix B1: TRSA CAPITAL GRANTS TO CLUBS 2001-06							
CLUB	F2002	F2003	F2004	F2005	F2006	TOTAL	% Share
SAJC	3,805,963	1,073,799	646,331	30,785	621	5,557,499	66.20
OAKBANK	13,915	21,058	8,800	5,450	80,551	129,774	1.55
BALAKLAVA	1,811	25,925	100,973	2,565	28,522	159,796	1.90
GAWLER	0	6,005	44,646	0	450	51,101	0.61
MURRAY BRIDGE	0	22,966	208,563	0	34,636	266,165	3.17
STRATHALBYN	0	267,672	149,527	25,000	17,967	460,166	5.48
MT GAMBIER	123,006	655,951	25,450	31,400	157,716	993,523	11.83
PT LINCOLN	0	124,103	25,773	44,625	20,000	214,501	2.56
PROVINCIAL CLUBS	138,732	1,123,680	563,732	109,040	339,841	2,275,025	27.10
BORDERTOWN		25,621	30,000		3,566	59,187	0.71
CEDUNA		10,471	11,485	2,634	224	24,814	0.30
CLARE VALLEY		-	10,425	30,219	7,273	47,917	0.57
HAWKER		-	-		600	600	0.01
JAMESTOWN		2,500	-		1,008	3,508	0.04
KANGAROO ISLAND		19,000	19,210	3,000	10,000	51,210	0.61
KIMBA		-	-		0	-	0.00
LOCK		-	-	4,000	0	4,000	0.05
MILLICENT		10,325	1,500	1,000	0	12,825	0.15
MINDARIE HALIDON		9,000	-		500	9,500	0.11
NARACOORTE		15,600	6,853		690	23,143	0.28
PENONG			-		6,306	6,306	0.08
PENOLA		21,107	37,836	7,500	0	66,443	0.79
PT AUGUSTA	5,000		17,500	27,259	4,536	54,296	0.65
QUORN		1,500	-	4,164	545	6,209	0.07
ROXBY DOWNS		4,068	-	3,764	0	7,832	0.09
STREAKY BAY		-	45,000		0	45,000	0.54
TUMBY BAY		1,500	-			1,500	0.02
COUNTRY CLUBS	5,000	120,692	179,809	83,540	35,248	424,290	5.05
SARCC			6,500			6,500	0.08
Other	18302	22,084	52,652	38,820		131,858	1.57
TOTAL	3,967,997	2,340,255	1,449,024	262,185	375,711	8,395,172	100.00

Appendix B2: TRSA TRAINING GRANTS TO CLUBS 2001-06							
CLUB	F2002	F2003	F2004	F2005	F2006	TOTAL	% Share
SAJC	473,419	442,512	444,181	436,995	394,374	2,191,481	41.06
OAKBANK	24,998	29,055	32,248	30,055	31,711	148,067	2.77
BALAKLAVA	8,636	8,017	7,633	2,578	3,263	30,126	0.56
GAWLER	60,507	57,269	56,630	66,476	85,848	326,730	6.12
MURRAY BRIDGE	156,731	155,588	162,332	153,897	166,225	794,774	14.89
STRATHALBYN	87,849	120,369	131,264	148,029	161,246	648,757	12.16
MT GAMBIER	98,070	108,025	78,554	97,700	77,647	459,996	8.62
PT LINCOLN	54,881	49,101	55,526	59,266	67,902	286,675	5.37
PROVINCIAL CLUBS	491,672	527,422	524,187	558,001	593,842	2,695,124	50.50
BORDERTOWN	15,153	23,952	26,967	25,803	24,757	116,633	2.19
CEDUNA	4,441	5,320	6,768	5,883	5,437	27,849	0.52
CLARE VALLEY	2,608	3,683	2,830	2,193	4,294	15,608	0.29
HAWKER	-	-	-	-	-	-	0.00
JAMESTOWN	-	-	-	-	-	-	0.00
KANGAROO ISLAND	2,488	2,330	2,710	1,888	756	10,172	0.19
KIMBA	-	-	-	-	-	-	0.00
LOCK	-	-	-	-	-	-	0.00
MILLICENT	8,048	14,398	14,858	12,445	13,721	63,470	1.19
MINDARIE HALIDON	-	-	-	-	-	-	0.00
NARACOORTE	18,603	13,159	17,066	17,796	16,766	83,390	1.56
PENONG	-	-	-	-	-	-	0.00
PENOLA	5,198	6,795	7,653	2,972	3,162	25,780	0.48
PT AUGUSTA	27,952	20,729	15,560	13,849	9,553	87,642	1.64
QUORN	1,147	690	720	777	513	3,847	0.07
ROXBY DOWNS	-	-	-	-	-	-	0.00
STREAKY BAY	1,085	750	1,380	2,026	1,053	6,294	0.12
TUMBY BAY	4,778	4,070	850	-	-	9,698	0.18
COUNTRY CLUBS	91,502	95,876	97,362	85,632	80,012	450,384	8.44
Total	1,056,593	1,065,810	1,065,730	1,080,628	1,068,228	5,336,989	100.00

Appendix B3: TRSA OPERATION SUBSIDIES TO CLUBS 2001-06							
CLUB	F2002	F2003	F2004	F2005	F2006	TOTAL	% Share
SAJC	1,100,000	1,009,998	750,000	750,000	704,160	4,314,158	85.69
OAKBANK					-	-	0.00
BALAKLAVA		8,625	18,206	6,000	-	32,831	0.65
GAWLER					5,528	5,528	0.11
MURRAY BRIDGE			8,205		-	8,205	0.16
STRATHALBYN		6,500		2,996	-	9,496	0.19
MT GAMBIER				21,766	27,622	49,388	0.98
PT LINCOLN		20,750	25,370	6,720	8,227	61,067	1.21
PROVINCIAL CLUBS	-	35,875	51,781	37,482	41,377	166,515	3.31
BORDERTOWN				-		-	0.00
CEDUNA				-		-	0.00
CLARE VALLEY				-		-	0.00
HAWKER				-		-	0.00
JAMESTOWN				-		-	0.00
KANGAROO ISLAND				-		-	0.00
KIMBA				-		-	0.00
LOCK				-		-	0.00
MILLICENT				-		-	0.00
MINDARIE HALIDON				-		-	0.00
NARACOORTE				-		-	0.00
PENONG				-		-	0.00
PENOLA				1,750		1,750	0.03
PT AUGUSTA				-		-	0.00
QUORN				-		-	0.00
ROXBY DOWNS				-		-	0.00
STREAKY BAY				-		-	0.00
TUMBY BAY				-		-	0.00
COUNTRY CLUBS	-	-	-	1,750	-	1,750	0.03
SARCC	61,336	136,600	110,000	110,000	110,000	527,936	10.49
OTHER	-	7,000	10,000	7,000	-	24,000	0.48
Total	1,161,336	1,189,473	921,781	906,232	855,537	5,034,359	100.00