

Mr Ian Britza; Mr Paul Papalia; Mr Terry Redman; Mr John McGrath; Mr Peter Watson; Mr Paul Miles; Mr Mark McGowan; Mrs Glenys Godfrey

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**Racing and Wagering Western Australia —**

Mr I.M. Britza, Chairman.

Mr D.T. Redman, Minister for Regional Development representing the Minister for Racing and Gaming.

Mr R. Burt, Chief Executive Officer.

Mr B. Killigrew, Chief of Staff, Office of the Minister for Racing and Gaming.

Mr B.A. Sargeant, Director General, Department of Racing, Gaming and Liquor.

[Witnesses introduced.]

**The CHAIRMAN:** This estimates committee will be reported by Hansard. The daily proof *Hansard* will be available the following day.

Members may raise questions about matters relating to the operations and budget of the off-budget authority. Off-budget authority officers are recognised as ministerial advisers. It is the intention of the Chair to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point. The minister may agree to provide supplementary information to the committee, rather than asking that the question be put on notice for the next sitting week. I ask the minister to clearly indicate what supplementary information he agrees to provide. I will then allocate a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the principal clerk by Friday, 19 June 2015. I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice with the clerk's office.

Member for Warnbro.

**Mr P. PAPALIA:** I refer to the retail outlet upgrade program on the third line down in the table on page 869 of budget paper No 2. What exactly does that program involve?

**Mr D.T. REDMAN:** Mr Richard Burt.

**Mr R. Burt:** The program specifically looks to modernise our retail outlets. We have 330 retail outlets. They are typically legacy based; they have paper, they are teletext dependent. We are turning them into modern, paperless outlets that are as good as, if not better than, the eastern states outlets.

**Mr P. PAPALIA:** Once they are as good as, if not better than, what the eastern states outlets offer, what does the minister anticipate will be the result for the TAB with regard to revenue?

**Mr D.T. REDMAN:** Is the member asking what the impact of retail outlets —

**Mr P. PAPALIA:** No. I am talking about the program that is listed in the *Budget Statements* as upgrading retail outlets. What will be the result for the TAB's revenue as a consequence of this program?

**Mr R. Burt:** The impact of the investment is primarily twofold. Firstly, it will drive turnover. In the retail outlets, there was upwards of 20 per cent growth at an outlet level and it is margin based. As the member was talking about in the previous session, the business is moving from parimutuel to fixed odds. We have a yield benefit whereby, effectively, we are a bookmaker offering a greater margin through the win-loss ratio of customers versus the book, so we get turnover growth through the investment as well as a high yield from the book winning and the customer losing.

**Mr P. PAPALIA:** Can the minister be a little more specific as to what the projections are? Does the minister anticipate growth in overall revenue for the TAB in the forward estimates as a consequence of this investment?

**Mr D.T. REDMAN:** Mr Burt.

**Mr R. Burt:** I can answer it two ways. Yes, simply, and in terms of return on capital, it is a very lucrative investment with a high yield rate. We are probably conservatively talking about a four-year payback or a 25 per cent rate of return; or, more realistically, there may be a 33 per cent rate of return across the board—some outlets are better than others.

**Mr P. PAPALIA:** That is a pretty good rate of return. It looks like you are anticipating substantial growth in revenue to the TAB, which the Premier has said on the public record is losing business, and he anticipates losing business. You are kind of contradicting the argument that has been portrayed in the public domain by the government. That aside, I have a further question.

**Mr J.E. McGRATH:** I have a point of order. There is a member here who is asking the chief executive officer of Racing and Wagering Western Australia for an opinion.

**Extract from Hansard**

[ASSEMBLY ESTIMATES COMMITTEE A — Wednesday, 10 June 2015]

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**Mr P. PAPALIA:** No, I am not.

**Mr J.E. McGRATH:** He wants an opinion that is contrary to the Premier. I think it is out of order.

**Mr P.B. WATSON:** What!

**The CHAIRMAN:** The comment that you made, member for Warnbro, was out of order, but I want the further question now.

**Mr P. PAPALIA:** Okay; I am asking the minister, sorry.

Through the minister, because I suggest he will probably have to ask: why is the investment in this program forecast to drop in the out years? This year it has already gone down significantly from the previous two years. Why is it forecast to just remain at \$300 000, as opposed to previous years when it has been significantly higher?

**Mr D.T. REDMAN:** Mr Burt.

**Mr R. Burt:** The document does not necessarily reflect our current strategic development plan, which we have submitted to our minister. With the timing of the submission of the SDP—it normally takes a while for that to go through the minister to the Treasurer—we have actually delayed the investment in the retail upgrade. We did trial sites last year. We are investing aggressively next year to the tune of about \$7 million and are continuing that program for a number of years with it then tapering off because, as the member will appreciate, once the rollout has been completed, it will not be repeated for probably the technology life, which is around seven years. It will then significantly taper to a maintenance level. It will follow that profile, but with a different timing.

**Mr P. PAPALIA:** Is RWWA a fair way through the program already; has a significant percentage of the outlets already been done?

**Mr R. Burt:** No. We have done fewer than 10 pilot sites and we are commencing the rollout of 80 sites this financial year coming, in about a month's time.

**Mr P. PAPALIA:** I have one last question related to the outlets. Are the operators of these outlets independent businesses or are they leased by the TAB like franchises?

**Mr R. Burt:** We have 330 retail outlets in total. Our plan is to roll out PubTABs, which are independent businesses. They are hoteliers, TAB outlets within a host business, and we are doing some TAB-licensed business or full-time outlets, such as Barrack Street and Hay Street—those sort of shops, if you like. However, the majority are going to be in host businesses, such as bar TABs.

**Mr P.T. MILES:** The minister indicated that the retail outlet upgrade program has a cost of \$9.7 million and it was over a trial of only 10 sites. Is that right?

**Mr R. Burt:** No. The average investment cost per outlet, of which we have done just under 10, is around \$200 000 in our full-time shops, so it is just under \$2 million. The difficulty I have articulating the document here is that our most recent SDP reflects what we intend to do and this is an outdated or previously approved set of financials based on our former SDP.

**Mr M. McGOWAN:** I think this question follows on from what the member for Warnbro was asking, which is about the success of the retail outlets and the improvement in turnover that was referred to. In light of that, has Racing and Wagering Western Australia expressed a view in relation to the proposed sale of the TAB?

[5.40 pm]

**Mr D.T. REDMAN:** Does that question relate to opinion? I am not sure that seeking an opinion on something, as distinct from —

**Mr M. McGOWAN:** It is not an opinion. Has the industry expressed a view to the government?

**Mr D.T. REDMAN:** There is a whole range of commentary in the industry, so what does the Leader of the Opposition —

**Mr M. McGOWAN:** Has RWWA expressed a view to the government in relation to the proposed sale?

**Mr R. Burt:** In our most recent SDP, which is obviously not a publicly discoverable document, we have indicated an intensive program of investing in our retail outlets to benefit the racing industry and, in turn, government and taxpayers, by a fairly high level of investment with quite positive rates of return. We anticipate commencing that issue.

**Mr M. McGOWAN:** Okay, just returning to the question. The SDP has been submitted to government—I am familiar with what they are—with a significant amount of growth and investment, but has RWWA expressed a view to the government in respect of the proposed sale of the TAB?

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**Mr D.T. REDMAN:** RWWA is an authority of government, and I am sure as government works through the potential decision to sell the TAB—which is what the Leader of the Opposition is getting to—I am sure RWWA will express a view, and those will be deliberations that occur between RWWA and government and discussions around all the various parameters that might exist. As I said before, a decision has not been made on this and there are a whole heap of unknowns if, indeed, we were to go to a decision as to what parameters we might put around a sale, so it is not inconceivable that we might land on something that has the full support of the industry.

**Mr J.E. McGRATH:** There seems to be a lot of confusion, especially amongst the opposition, about whether RWWA has a position on something that has been floated by the Treasurer. I would like to ask the minister if Mr Burt could answer the following question. Does Mr Burt agree with the statement released yesterday by the deputy chairman of RWWA, Mr Bob Pearson? He said that Racing and Wagering Western Australia was not opposed to the privatisation of the TAB, but he also added that it could not offer an opinion or guidance to the racing industry until all details had been announced by the state government. My simple question is: does Mr Burt agree with the statement released by his deputy chairman?

**The CHAIRMAN:** Before the minister answers that question, I am not sure where that question is coming from in the budget papers.

**Mr J.E. McGRATH:** It is a follow-on.

**Mr R. Burt:** In as straightforward a way as I can, I am 100 per cent supportive of the deputy chairman's comments, personally and on behalf of the business.

**Mr P.B. WATSON:** I thank the member for South Perth for putting someone under pressure.

**Mr D.T. REDMAN:** Clarity!

**Mr P.B. WATSON:** A set-up.

I refer to the heading "Works in Progress" and the line item "Retail Outlet Upgrade Program". There have been comments about people not going to the races and how that will affect the turnover of the TAB. I would like to ask RWWA whether it —

**Mr D.T. REDMAN:** What is the member referring to in the budget papers that reflects on people's preparedness to go to the races?

**Mr P.B. WATSON:** Can I finish my question?

**Mr D.T. REDMAN:** Yes, member for Albany.

**The CHAIRMAN:** Do not forget a page reference, too, member.

**Mr P.B. WATSON:** Sorry; we have only one page—page 869, and I said I am referring to "Works in Progress" and the line item "Retail Outlet Upgrade Program".

**The CHAIRMAN:** Thank you, member.

**Mr P.B. WATSON:** I want to know whether RWWA thinks it is preferable to have better retail outlets where people can bet all over Australia and the world than it is to have people going to the races on race day? Does RWWA think it is better to get the TABs up to date? Some commentators have said that unless we get people to the races, we will not get TAB turnover.

**Mr D.T. REDMAN:** Just to get clarity on the member's question, I assume he is asking about the profile of the industry and whether it is people attending races in person or having access to other outlets, and the nature and quality of those outlets as they apply to the industry and the performance of the industry and I guess, from the government's perspective, getting income or revenue back from that industry—is that right?

**Mr R. Burt:** It is a very good question from the point of view of what our direction will be going forward, and I have to say we are a multi-channel business. Our competitive advantage in running a racing and also a wagering business is that we are in control of the ability to look after the customer experience, hopefully in a seamless way, across all channels. As I have already described, right now we are investing in our retail outlets. We have a very good commercial return, and we intend to roll that out. We are investing in our mobile digital channels because as the member will appreciate as a consumer, that is where people are going. Gillon McLachlan of the AFL, who is obviously well entrenched in this sort of area of consumer behaviour, has reminded us that we must have people at our venues; we must have crowd/fan experiences at the track, so we are investing in that venue as well. We see the business of racing as being one and the same as wagering, where we must have investments going into all areas, all channels and all platforms.

**Mrs G.J. GODFREY:** My question is about how the Western Australian TAB is going in comparison with TABs in the eastern states; the question would possibly fall under the line item “Wagering Systems and Products”. It is my understanding that in Tasmania the turnover was \$900 million but the profit was only \$1 million, and that was because of the rebates having been taken out. There is a lot of information coming in from Queensland about boards being sacked. I believe we are doing extremely well with the current TAB in Western Australia. Does the minister have any knowledge of what is going on in the eastern states, so that we can be more informed?

**Mr D.T. REDMAN:** I will ask Mr Burt to respond in a second, but like anything, if we are moving towards having a closer look at the TAB as an asset sale, all these things are part of any deliberations we will undertake in order to bring that to the table. I ask Mr Burt to make a response.

**Mr R. Burt:** The member has raised a number of points, ranging from welfare leading to administrative bodies and boards being sacked, through to what has happened in Tasmania. I will address the underlying issue, as I did at a symposium last Friday, in terms of the WA TAB’s performance versus other operators, in a very simplistic way, and if I may, I will touch on the other two points after that.

I do not say this with any motive in mind; I will just state facts objectively. There are many ways to measure the effectiveness of a wagering organisation’s performance. The two that I hold up are the penetration per capita and the return from what we generate from that turnover or margin in passing back, as per our statutory obligations, to the racing industry. On both counts, we are in the top one percentile of what happens around Australia. With regard to Tasmania, there is a lot of confusion around what actually happened there, but effectively it is a business, like us, that depends on the local population. Where we have a few million people, it has a few hundred thousand. We have a business turnover of about \$2.2 billion; it had a business, at the time the member is talking about, of just under a billion—about \$900 million—of which \$250 million was based on its local population and the balance was rebated business, from which it made little or no profit, coming from international clients. That was actually artificial, and hence the model failed. It was unable to fund its racing industry and the Tasmanian government absorbed a great deal of funding risk. This is an opinion, but Tasmania now has an outcome that is probably suboptimal for racing, to be fair.

What we have in WA at the moment is the complete opposite of what occurred in Tasmania. We have a balanced, profitable and very stable business that is growing its revenue and its funding to racing. Picking up on the member’s earlier comment, we are completely open to the concept of what the government is looking at in terms of privatisation, but what we hold very high in our thinking is that we want to find out what future funding opportunities there are for racing and if, indeed, racing could be better off out of a transaction, the board is very open to that.

[5.50 pm]

**Mrs G.J. GODFREY:** It has been put to me that our TAB is the goose laying the golden eggs. I say that if we sold the goose, the eggs would still be going to the government as taxation. Is it possible that the TAB could be privatised—it could go offshore or to the eastern states—and the government would not get any taxation?

**Mr D.T. REDMAN:** I know the member for Belmont is part of the Liberal–National government, but a decision has not been made to sell the TAB. There is a deliberative process being worked through and a lot of parameters sit around that. I am sure all those aspects will be considered prior to any decision being made. We must consider the nature of the industry in Western Australia and benefits to that industry. Western Australia still has a strong industry here. To ask an opinion about where the government is at in relation to what earns revenue, it is an authority and like anything else in government, we made a call with all the information at hand, and that is what is being worked through by government now.

**Mr P. PAPALIA:** The symposium presentation was mentioned earlier. Where does Western Australia stand in relation to other like agencies around the nation with regard to disbursements to industry on a per capita basis?

**Mr R. Burt:** In relation to the returns Western Australia makes relative to the income it generates, I mention those two indexes. First, this state has the highest rate of spend per capita out of all the states. That suggests we are efficient in getting our products and services into the WA community, we believe responsibly. Second, the return to racing as a result of that, because we do not have shareholders or other corporate taxes and other debt instruments we have to service, again is one of the highest in Australia. The actual ratio is near on eight per cent of turnover.

**Mr P. PAPALIA:** I seem to remember the PowerPoint presentation of that day suggesting that we were the highest, beyond the Northern Territory, which is kind of distorted because of their taxation regulations.

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**Mr D.T. REDMAN:** The government has been awfully forgiving here in terms of departure from the budget, on all counts, including questions that we have already answered. To keep pursuing something that is separating ourselves from what is at hand here is —

**Mr P. PAPALIA:** It would be embarrassing to find that we were the highest per capita in the nation and the government was trying to sell it.

I would like an explanation of the statistics under wagering systems and products—the member for Belmont may have referred to that line—particularly why the forward estimates indicate a significant growth in money allocated.

**Mr D.T. REDMAN:** I am happy for Mr Burt to respond. It has also shown a significant decline from previous years.

**Mr P. PAPALIA:** The question I have is about the forward estimates.

**Mr D.T. REDMAN:** I understand.

**Mr P. PAPALIA:** I know the minister does not believe they exist.

**Mr R. Burt:** The investment on page 869 of budget paper No 2, again because it is an outdated strategic development plan, does not accurately reflect what our current expenditures are. The business is investing higher levels of capital than are indicated there on the wagering systems in areas such as the core systems and digital. The business is capable of servicing those higher level of investments through revenue growth.

**Mr P. PAPALIA:** Could the adviser explain that last comment—that the business is capable of servicing those higher levels through anticipated growth?

**Mr R. Burt:** The easiest way to put it is that we run a commercial enterprise very much in a business-like way, so we apply investment to generate return. It is pretty rare, other than potentially funding in areas of industry infrastructure. Where we invest in our wagering business we have a very commercial focus. As I have described in the retail area, whether we are replacing our core betting systems or our betting channel or any other part, we get a commercial return. I am not trying to create a perception that this business cannot be run in an alternative model, but as it is running at the moment, it is generating good returns from the investments we are making.

**Mr P. PAPALIA:** Is the adviser able to quantify what “good returns” are with regard to the returns being generated? There is very little information here. That is a reasonable question.

**Mr D.T. REDMAN:** Again, it is operating in a commercial marketplace.

**Mr P. PAPALIA:** I am talking about percentages, perhaps.

**Mr D.T. REDMAN:** It is an organisation that operates in the commercial marketplace. A number of government trading enterprises are in a similar space. Decisions are made by cabinet, as members opposite have done when they have been in government, around how those things work.

**Mr P. PAPALIA:** How does that relate to how well the business is going right now?

**Mr D.T. REDMAN:** I think there have been broad comments from Mr Burt about performance, but we are relating to what is discussed in the budget papers here, specifically around the asset investment program, and that is what I ask the member for Warnbro to adhere to.

**Mr P. PAPALIA:** With regard to the line on wagering systems and products, why is the 2018–19 expenditure predicted to be \$4.075 million, up from this year’s level?

**Mr R. Burt:** The investment level here is again—sorry to be repetitive—probably not reflective. The overall level of investment we are making in the business is reflective of the commercial conditions we are dealing with and we are moving a lot more of our investment towards the digital channels. The size and kind of investments we are making are reflective of the market opportunity we have. That is not only in retail, but also in digital. Commensurate with those sorts of opportunities, we are moving ahead with the sorts of investment levels that are slightly different from what is here.

**Mr P. PAPALIA:** Effectively, the opportunities are greater: there are greater returns so the office is investing more solidly in that particular field?

**Mr R. Burt:** I think it is fair to say that all wagering operators are very much moving towards the mobile platforms. With customer relationship systems, competitive platforms and value for money must be provided to the customers. We have a very competitive legacy-based business and we have to invest in these new digital channels to a higher degree. The challenge for the business going forward will be that this particular business, as I have talked about previously, benefits from a very high market share in Western Australia but at the moment

**Extract from Hansard**

[ASSEMBLY ESTIMATES COMMITTEE A — Wednesday, 10 June 2015]

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does not have a very high market share nationally and its challenge will be through digital platforms: can it access that national market or will it continue to operate at a regional level? If it stays at only a regional level, as a business we must be careful that we do not get diminishing returns through the additional scale that might be required. There are opportunities, but there is risk associated with it.

**Mr P. PAPALIA:** Is the state currently competitive, so we are not losing market share at the moment in the digital space?

**Mr R. Burt:** We believe we have just under 70 per cent market share at the moment, which we do through regular market assessment. I think it is fair to say that we have lost some market share to corporate bookmakers, but have gained share in other areas. The member spoke previously about the VIP rebate scheme: we have successfully grown significantly into that market, unlike Tasmania, and have been very profitable in that pursuit. The market is getting harder and it is becoming more competitive. It is requiring a high level of commercial skill and preparedness to invest in the channels that are required, but at this stage we are competing.

**Mr P.T. MILES:** Under the line item on works in progress there is “Other Works”. Could the minister provide by way of supplementary information what those other works are as they are not specified?

**Mr D.T. REDMAN:** I am happy to provide by supplementary information some clarity around other works under works in progress.

[*Supplementary Information No A44.*]

*Meeting suspended from 6.00 to 7.00 pm*