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A short analysis of Greyhound Racing Victoria financial performance from GRV annual reports 2012/13 – 2016/17

[Note: GRV's 2017/18 Annual Report has not yet been released. We may update this report subsequent to its release.]

16 November 2018

[Synopsis: In the 5 years to 2016/17, GRV's annual wagering revenue vaulted from \$68m to \$91m. Here, using GRV's own Annual Report figures, we show that that money has been consumed by operating expenses other than participant returns and infrastructure. The increase in those expenses (\$20.3m in 12/13 to \$50.3m in 16/17) appears poorly controlled. Employee costs alone doubled between 2015/16 and 2016/17 to \$20m.

In that time, participant returns as a percentage of GRV wagering revenue decreased from 55% to 47% though participants attended more meetings and had more obligations put on them. Infrastructure spending has been stagnant. Each has participation and welfare implications.

We know of the industry challenges in this period. That is no longer an excuse. Trends shown in this Report must be shown to have reversed in 2017/18 and beyond. On participant returns in particular GRV compares poorly to Racing Victoria Limited which in 2016/17 paid 57% of its wagering revenue to participants.

Participants should read our summary conclusions in section 2 and look at the figures in Appendix A. In section 3 of the Report we provide some snapshots of key figures.

The GRV Board must address this if it has not already done so. Urgently. Participants may need to take further action if they do not.

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1. Introduction

- 1.1 GOTBA Vic is a member-based organisation that has been representing Victorian greyhound owners, trainers, breeders, attendees and other interested persons for several decades.
- 1.2 Over the past 2-3 years, we at GOTBA Vic have become increasingly concerned about the relative economic performance of Greyhound Racing Victoria, particularly the seemingly uncontrolled explosion of ongoing costs at the expense of economic returns to participants and clubs.
- 1.3 In this summary note, we look at figures drawn from GRV and Racing Victoria Limited (RVL) annual reporting – extracted at Appendix A and B to this note - to back our conclusions. Participants should look at Appendix A in particular.
- 1.4 We do this with full knowledge of the trials and tribulations of greyhound racing since 2014/2015 in particular. Some priorities have changed, we accept that.
- 1.5 But this cannot excuse open, thorough testing of numerical performance and any assumptions upon which (in particular) spending is predicated, without fear or favour. That is the real point. **No area of spending warrants a blank cheque and no crisis is permanent.** Refocus is required. Particularly where money could and should be better spent elsewhere.
- 1.6 GRV seems to want to duck these issues:
 - 1.6.1 **Example 1** - When GOTBA Vic sought to use its article in GRV's Greyhound Monthly in November 2018 to refer to participant returns and advert to this report, GRV refused to publish the article.
 - 1.6.2 **Example 2** - In 2016/17 GRV removed two line items from its five year comprehensive operating summary in its Annual Report that showed in simple terms the decrease in participant returns and increase in operating costs across the 5 year period:
 - % return to participants figure (even though that % figure is misleading when only Tabcorp revenue, and not racefields revenue, is counted); AND
 - % of operating expenses (that is, excluding participant return and infrastructure) to total revenue. The LATTER figure for 2016/17 - not visible in the 2016/17 Report – would be **53.3%**. It was **28.6%** in 2012/13.

- 1.7 Over-aggressive spending in some areas appears to have resulted in neglect of other areas of spending (such as infrastructure). This has welfare implications which will at some stage be shown through injury and other figures.
- 1.8 At the end of this analysis, we also highlight what to look for in GRV's 2017/18 Annual Report when it is released.

2. Summary of conclusions

2.1 **(GRV cannot seem to control operating expenditure other than by neglecting participants)**

In recent years, GRV's general operating expenditure has increased exponentially, and GRV has drawn upon significant revenue increases to meet this expenditure, at the expense of return to the participant or increased investment in physical infrastructure. In one year, between 2015/16 and 2016/17, employee costs, for example, doubled, to consume over 20% of GRV's wagering income. GRV spent \$30m **more** on non-prizemoney, non-infrastructure expenses in 2016/17 than it did in 2012/13.

- 2.2 **(But context is important)** Context is, of course, important. It cannot be denied, for example, that GRV has done an outstanding job – but as have participants in general, we might add (WITH almost no increased reward in real terms)¹ – in shepherding continual, significant increases in the number of greyhounds adopted in Victoria in the past few years and that this is critical to the sport of greyhound racing. That activity costs money.² But equally, 'context' is not a shield to protect against rigorous scrutiny.

- 2.3 **(Trends don't lie)** The trends in the numbers we identify below are terrible. Those numbers suggest a management approach to simply throw money at perceived issues. The Board and executive management of GRV needs to control and reduce costs immediately – particularly for employees – and more rigorously evaluate and scrutinise expenditure in the racing and integrity departments without fear or favour.

- 2.4 **(A greater normalised return)** GRV must increase returns to participants as a matter of urgent priority. We think that, properly controlled, GRV should normalise prizemoney

¹ With effect from January 2018, GRV increased annual prizemoney by \$2.55m on FY 2016/17 levels, with potential for (but no certainty of) a further \$1.4m to be paid as bonuses. It is as yet unclear how much of those amounts were actually paid in 2017/18.

² GRV expenditure on GAP (excluding, we believe, purchase of facilities) has increased from \$891,000 in 2013/14 to \$3.019m in 2016/2017.

distribution at around 52%-54% of 2016/2017 revenue.³ That would be an increase of between \$4.5m - \$6.3m in prize money on 2016/2017 levels if revenue stayed stagnant.⁴

- 2.5 **(GRV underperforms on prizemoney)** In this regard – and others - GRV is underperforming Victoria's other major racing code, thoroughbred racing. Indeed if GRV matched RVL on the percentage of wagering revenue returned to participants (57% in 2016/17), Victorian greyhound prizemoney would increase by just over \$9 million per year from 2016/17 levels.
- 2.6 **(GRV is underfunding infrastructure)** Track facilities, and particularly track surfaces, are ageing. Infrastructure spend by GRV is very low. **This is becoming a welfare issue.** By contrast, RVL in 2015/16 spent \$23m on infrastructure and in 2016/17 spent \$12m on 40 infrastructure projects.⁵

3. A five year, one year and comparative snapshot

A. FIVE YEAR SNAPSHOT: GRV performance 2012/13 to 2016/17

- 3.1 Between 2012/13 and 2016/17 (5 years), Victorian greyhound racing has seen:
- 3.1.1 **(Increased income)** Annual wagering income (TAB distributions and race field income) **increase by 32.7%** (from \$68.6m to \$91.0m);
- 3.1.2 **(Lower participant returns)** Annual participant returns (prizemoney, starter fees, GOBIS) as a percentage of wagering revenue **decrease from 55% to 47%** (noting that each percentage point on 2016/17 revenue currently about \$910,000 in real terms and is likely closer to \$1m now), despite participants attending more race meetings (**1015** in 2012/13, **1183** in 2016/17);⁶
- 3.1.3 **(Exponential ongoing cost increases)** Non infrastructure, non-prizemoney spend by GRV **explode by 150%** (from \$20.3m in 2012/13 to \$50.3m in 2016/17);

³ If revenue continues to increase at present rates, that percentage figure could be even higher.

⁴ GRV announced an annual increase in prizemoney of \$2.55m on FY 2016/17 levels (commencing Jan 2018), with potential for a further \$1.4m to be paid as bonuses. It is as yet unclear how much of those amounts were paid in 2017/18.

⁵ RVL Annual Report 2016/17, pg 55 Notes to Financial Statements.

⁶ Up until 2016/17 (when it was deleted entirely), GRV reported on the percentage of TAB wagering revenue returned to participants, but excluding racefield revenue. We see no reason to exclude racefield revenue – it has become an increasingly significant component of GRV wagering revenue.

3.1.4 (Employee stagflation) GRV’s full time equivalent employee count **increase by 158%** (from 73 in 2012/13 to 189 in 2016/17) – indeed much of that increase occurred from 2015 (from 87 in 2014/15 to 189 in 2016/17) – and its individual headcount **increase from 114** in 2013/14 **to 245** in 2016/17.

3.2 Some of these figures and trends expressed visually:

Figure 1: GRV wagering income and return to participants 2008-2017

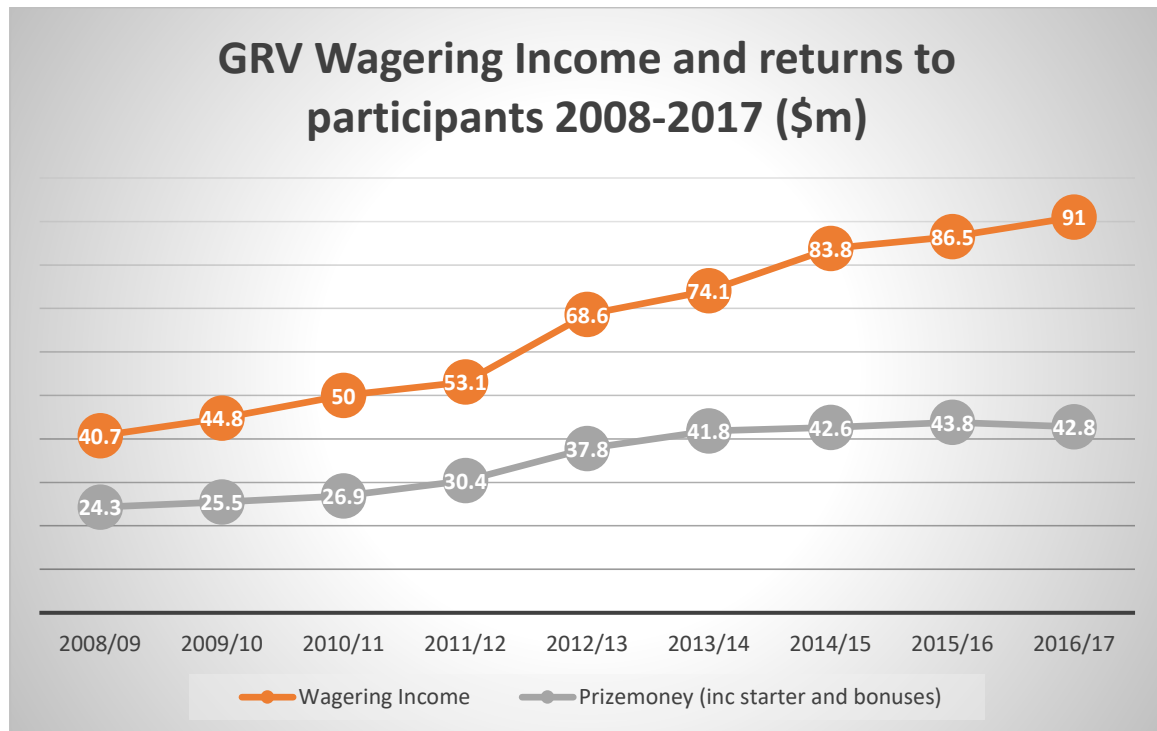


Figure 2: GRV wagering income, expenses (excl prizemoney and infrastructure) and infrastructure spend 2008-2017

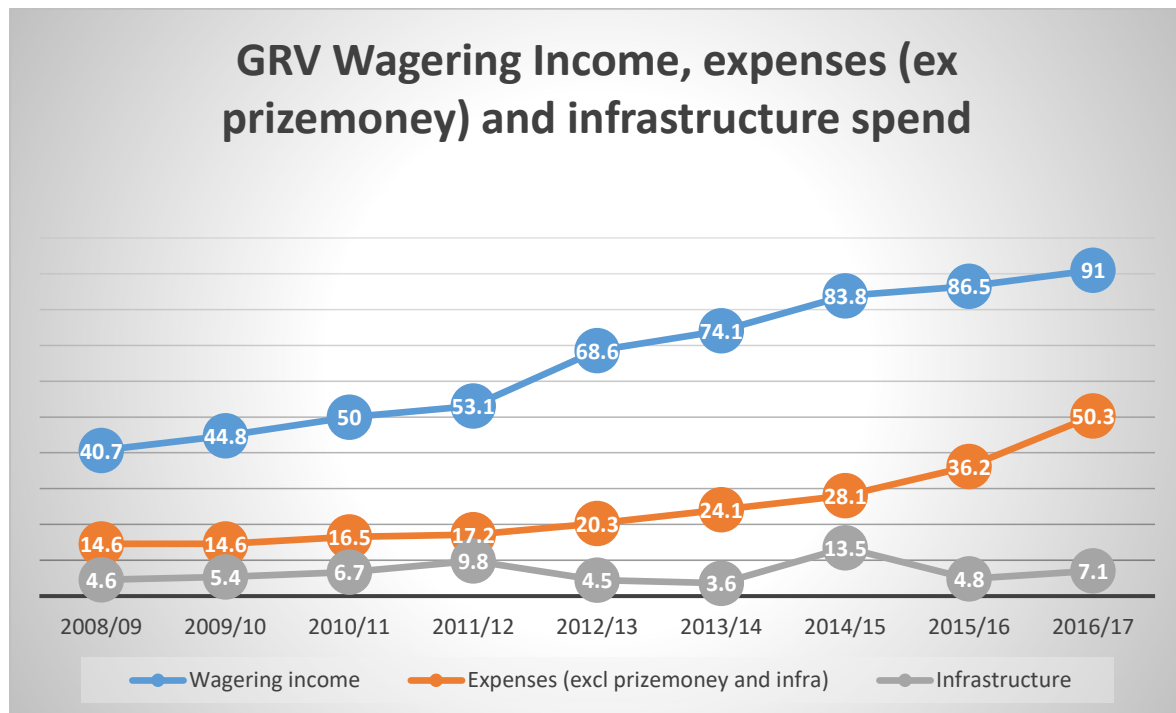
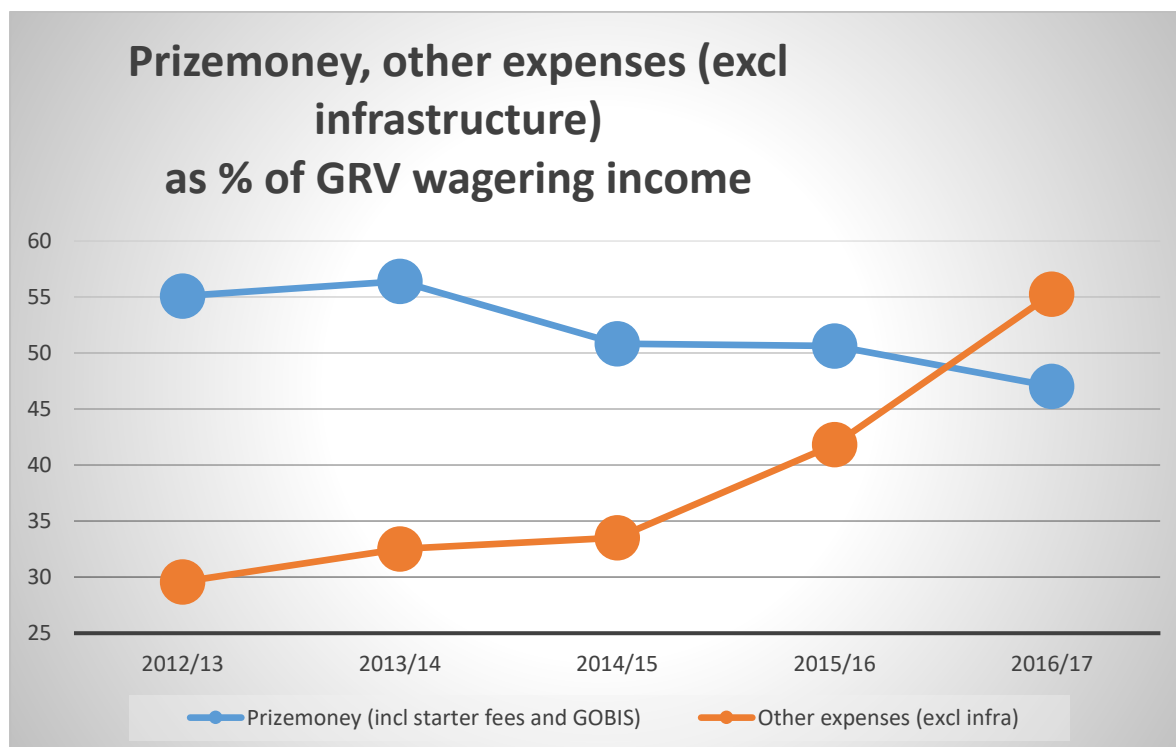


Figure 3: Percentage use of wagering income by GRV: a comparison of prizemoney and other expenses (excl infrastructure)



B. SINGLE YEAR SNAPSHOT – 2016/17

3.3 A single year snapshot – between 2015/16 and 2016/2017 –is even more disturbing:

3.3.1 (Hefty income increase) Annual wagering income (TAB distributions and race field income) **increased by 5.20%** (from \$86.5m to \$91.0m);

3.3.2 (Decreased participant return) Annual participant returns (prizemoney, starter fees, GOBIS) **decreased** both:

- as a percentage of wagering revenue, **from 50.64% to 47.03%**; AND
- in real terms, **by \$1m** (from \$43.8m to \$42.8m),

which is all the more remarkable given there were more race meetings in 2016/17 (**1183**) than 2015/16 (**1141**);

3.3.3 (Bloated spending) Non infrastructure, non-prizemoney spend by GRV **increased by 39%** (from \$36.2m to \$50.3m in 2016/17);

3.3.4 (Employee explosion) GRV's full time equivalent employee count **increased by 48%** (from 128 in 2015/16 to 189 in 2016/17) and its individual headcount increased by 58% from 155 to 245;⁷ and

3.3.5 (Employee costs double) **GRV's total employee costs virtually doubled in one year -** from **\$10.99m** in 2015/16 (1st year stated in annual reports) to **\$21.08m** in 2016/17.

C. SNAPSHOT COMPARISON WITH THOROUGHBRED RACING – RACING VICTORIA LIMITED

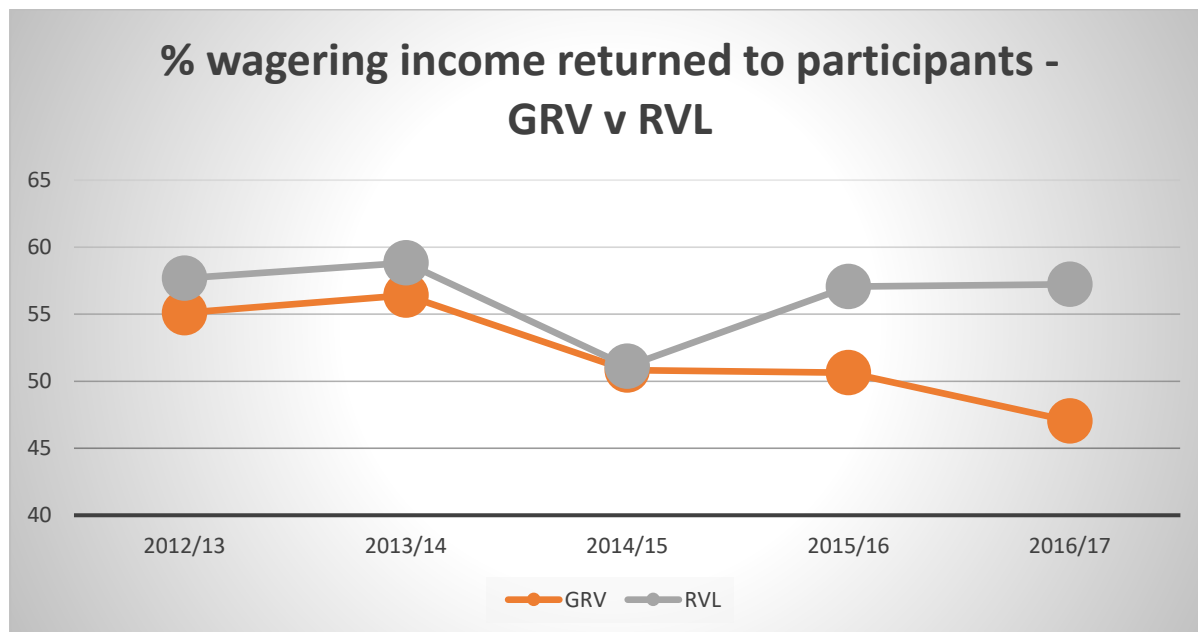
3.4 Nor does GRV compare well to the performance to Racing Victoria Limited (horse racing). In 2016/2017, RVL returned 57.22% of its wagering income to participants. GRV returned just over 47%. From 2015/16 to 2016/17, RVL's wagering revenue increased by 3.5% and its returns to participants increased by 3.77%. GRV's wagering revenue increased 5.20% in that same period and it decreased prizemoney by 2.3%.

3.5 Indeed, in all bar one year (2014/15 – 51%), RVL between 2012/13 and 2016/17 returned between 57-59% of its wagering income to its participants. In that time, it spent approximately a third of its wagering income on expenses that excluded prizemoney and

⁷ We understand that GRV has taken on some activities previously undertaken by clubs and that has led to additional employees. That ought not anywhere near account for the level of increase.

infrastructure – GRV spent approximately 53% of its wagering income on those expenses in 2016/2017.

Figure 4: Comparison: percentage of wagering income (TAB and race fields) returned to participants by each of GRV and RVL 2012/13-2016/17



4. Testing GRV's spending – is it occurring?

- 4.1 In our review, we saw little emphasis on expenditure controls. Much crisis, but little control. GRV is a regulator but one that is in commercial control of the sport too. It simply cannot neglect the imperative of commercial returns and targeted investment in capital infrastructure and adequately carry out its duties to advance and regulate a sport in the long term.
- 4.2 What we see in GRV's Annual Reports is seemingly unanalysed or unquestioned increase in spending on regulatory or marketing initiatives with little regard to whether the expenditure itself is getting an appropriate return or to other interests. That has to change.
- 4.3 We wish to be clear: GOTBA Vic does not object to appropriately tested spending on regulatory priorities that support greyhound racing. But no area gets a free rein or a blank cheque.
- 4.4 We can demonstrate by one example (but there are many, many others): swabbing. It is of course vital to the sport. An efficient swabbing program is essential. We support that: everyone does.

- 4.5 In 2012/13 GRV spent \$588,000 on the collection and testing of 3307 swabs. In 2016/17, it spent \$2.98m on collection and testing of 16,154 swabs. These figures are listed in Appendix A.⁸ In 2012/13 swab positives were 0.54% of tested swabs. In 2016/17, that rate was 0.61%.
- 4.6 Has the value of the near five fold increase in cost of that program since 2012/13 been tested for results and the question asked: can it be done better? The comparatively stagnant % rate of positives (under 1%, averaging under 0.7%) between 2012/13 and 2016/17, suggests a continual year on year significant increase in the number of swabs and the cost of swabbing is not rationally justifiable by reference to actual results.
- 4.7 Put another way, is spending \$2.4m more in 2016/17 on swab testing than in 2012/13, for comparable swab positive rates (0.61% to 0.54% respectively in those years), justifiable to participants associated with the 99.4% of negative swabs whose available prizemoney is reduced at least in some part by that expenditure? The swabbing figures do not support a prophylactic justification – that more testing induces more fear of ‘being caught’ and therefore less positives/better conduct⁹ – why wouldn’t a more *targeted* and less expensive approach be a better use of regulatory resources?

5. What to look for in GRV’s upcoming 2017/18 report

- 5.1 What we are particularly interested in GRV’s 2017/18 Annual Report it though is the year on year comparison and 5 year trend that can be derived from the following 2017/18 figures:
- 5.1.1 Wagering income (TAB and race fields combined) – likely found in comprehensive operating statement;
 - 5.1.2 Prizemoney paid - likely found in comprehensive operating statement;¹⁰
 - 5.1.3 Total expenses - likely found in comprehensive operating statement;
 - 5.1.4 Infrastructure spend - likely found in comprehensive operating statement;
 - 5.1.5 Number of FTEs (full time equivalent staff) – likely in workforce data section of ‘statutory information’; and

⁸ See Appendix A – last 4 rows of table.

⁹ We acknowledge that a greater rate of testing is defensible from an external stakeholder – punter perspective – but no more or less so than a targeted approach, given the evidence of the lack of outcome of the ‘carpet bombing’ approach to swabbing.

¹⁰ GRV increased prizemoney in FY 2017/18 as noted previously.

- 5.1.6 Total Employee Expenses – likely in notes to financial statements, employee benefits section.

The Committee - GOTBA (Vic)

APPENDIX A – SUMMARY OF FIGURES EXTRACTED FROM GRV ANNUAL REPORTS

[NOTE: Blue highlighted sections below are calculations using the figures stated.]

(All figures below are drawn from GRV Annual Reports between 2013 and 2017. All are in \$m unless noted.

Unless otherwise noted, figures used as published in report of year described. All pre-2013 figures drawn from 2012/13 report.)

TOPIC	ITEM	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
<i>INCOME</i>	Wagering Income ¹¹ (total) - million	40.7	44.8	50	53.1	68.6	74.1	83.8	86.5	91.0
<i>EXPENSE PARTICIPANT RETURNS</i>	Prizemoney paid ¹²	24.3	25.5	26.9	30.4	37.8	41.8	42.6	43.8	42.8
RETURNS TO PARTICIPANTS	% return to participants (returns as % wagering income)	59.71	56.92	53.8	57.25	55.10	56.41	50.842	50.64	47.03
<i>EXPENSE</i>	Other expenses - exc infrastructure ¹³	14.6	14.6	16.5	17.2	20.3	24.1	28.1	36.2	50.3
<i>EXPENSE - Infrastructure</i>	Other expenses - Infrastructure ¹⁴	4.6	5.4	6.7	9.8	4.5	3.6	13.5	4.8	7.1
<i>EXPENSE – Infrastructure and other</i>	Club expenses, infrastructure maintenance total ¹⁵						14.9	25.79	17.41	19.97
<i>EXPENSE</i>	Total expenses	44	45.5	49.2	57.5	62.4	70	83.5	85.3	100.2

¹¹ TABCORP income and race fields income combined. Figure drawn from comprehensive operating statement portion of reports.

¹² Stakemoney, starters fees and breeders' incentives. Figure drawn from comprehensive operating statement portion of reports.

¹³ Figure drawn from comprehensive operating statement portion of reports.

¹⁴ Figure drawn from comprehensive operating statement portion of reports.

¹⁵ Separate item as of 2013/14. Figure drawn from comprehensive operating statement / consolidated statement of position portion of reports.

A short analysis of Greyhound Racing Victoria financial performance from GRV annual reports 2012/13 – 2016/17

TOPIC	ITEM	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
<i>EMPLOYEES</i>	Number of employees (FTEs) - year end				64	73	76	87	128	189
	Workforce data - headcount (on and from 2013/4 report)						114	119	155	245
	Total employee expenses ¹⁶								10.99	21.08
<i>ASSETS</i>	Total assets (current and non-current)				33.24	43.99	51.95	59.1	66.65	60.62
<i>ASSETS</i>	Net Assets				27.67	36.31	44.06	51.51	58.14	52.84
<i>EXPENSE - ADMIN</i>	Administration Expenses (reclassified from 2014/15) ¹⁷				3.58	4.83	5.12	5.17	7.42	11.92
	(sub-item) Admin employees wages and associated costs				2.12	2.49	2.24	2.37	3.31	5.75
<i>EXPENSE _ STEWARDS</i>	Steward expenses ¹⁸				2.237	2.8	3.39	5.34	7.4	10.877
<i>EXPENSE _ INTEGRITY/WELFARE - general</i>	Integrity and Welfare Expenses (separate item from 2014/15 report) not incl						5.43	7.42	11.006	17.679

¹⁶ Separately reported, see for eg pg 30 of GRV 2016/17 Annual Report, Table 3.1.1.

¹⁷ Generally excludes steward expenses and integrity/welfare expenses.

¹⁸ Includes legal and swabbing expenses in 2013, 2014. From 2014/15, this figure is calculated using line items from 'Integrity and Welfare expenses' to match to 2015 and prior.

A short analysis of Greyhound Racing Victoria financial performance from GRV annual reports 2012/13 – 2016/17

TOPIC	ITEM	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	'Racing & Wagering Expenses' ¹⁹									
<i>EXPENSE _ INTEGRITY/WELFARE & RACING – general</i>	Integrity, Welfare and Racing Expenses ²⁰								11.82	19.59
<i>GAP</i>	GAP expenditure ²¹						0.891	1.155	1.526	3.019
	Number of rehomed greyhounds (GAP and non-GAP)								1720	2693
<i>SWABBING</i>	Swab analysis - cost ²²					0.588	0.654	1.087	2.35	2.98
	OTHER FIGURES- Swabs- total ²³					3307	4288	5838	10357	16154
	OTHER FIGURES- Swabs positive ²⁴					18	35	33	94	98
	OTHER FIGURES- - % positive sample					0.544	0.816	0.565	0.908	0.607

¹⁹ Includes GAP expenditure.

²⁰ Includes GAP expenditure.

²¹ Component of Integrity & Welfare Expenses from 2014/15.

²² Included in Integrity & Welfare Expenses

²³ Swab figures for 12/13, 13/14, 15/16 taken from 2015/16 Annual Report pg 15.

²⁴ Positive swab figures for 12/13, 13/14, 15/16 taken from 2015/16 Annual Report pg 15

APPENDIX B – SUMMARY OF FIGURES EXTRACTED FROM RVL ANNUAL REPORTS

[NOTE: Blue highlighted sections below are calculations using the figures stated.]

(All figures below are drawn from RVL Annual Reports between 2012/13 and 2016/2017. All are in \$m unless noted.)

<u>ITEM</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
Wagering Income (total) ²⁵	292.63	292.23	340.35	339.54	351.375
Returns to participants ²⁶	168.81	171.92	173.96	193.76	201.06
% return to participants (returns as % wagering income)	57.6871818	58.8303733	51.1120905	57.0654415	57.2209178
Club funding - total (includes track maintenance funding)	36.78	35.3	43.9	59.68	82.86
Other expenses - Infrastructure	13.895	13.699	14.43	23.03	11.933
Total operating (and industry) expenses - excluding return to participants and club funding	86.76	86.22	95.48	120.68	117.76

²⁵ Notes to financial statements. TABCORP and racefield income.

²⁶ Includes distributions to owners etc as prizemoney, breeder incentive schemes, riding payments, jockey work cover and jockey welfare payments.

A short analysis of Greyhound Racing Victoria financial performance from GRV annual reports 2012/13 – 2016/17

ITEM	2012/13	2013/14	2014/15	2015/16	2016/17
Total assets (current and non-current)	78.6	80.12	122.134	146.41	169.06
Net Assets	15.2	33.72	83.77	111.64	121.31
Employee benefits expense	14.42	15.48	15.89	18.28	17.612
Integrity and Welfare Expenses (separate item from 2015/16report) ²⁷	9.257	10.44	12.693	11.96	14.29
Integrity and Welfare Expenses AND Racing Expenses from 2015/16 ²⁸				24	26.85

²⁷ Note: Not collated under one heading until 2015/16. Before then 'integrity services', 'veterinary and swabbing' and 'legal' are combined for the purposes of this table.

²⁸ This collects expenses reported 'Integrity & Welfare' and 'Racing' headings in financial statements, from 2015/16 on.