

ATTACHMENT A

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**CORRESPONDENCE DATED 24 APRIL 2009
FROM THE NSW HARNESS RACING CLUB**



NEW SOUTH WALES HARNESS RACING CLUB LTD

INCORPORATED IN NSW IN 1902

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24 April 2009

Ms Monica Barone
General Manager
City of Sydney
Town Hall House
George Street Sydney NSW 2000



Dear Ms Barone,

Securing Jobs and the Future of the NSW Harness Racing Industry – Harold Park Paceway Site

Following our recent meeting regarding the future of the NSW Harness Racing Clubs' Harold Park Paceway site in Forest Lodge, I am writing to update you on the Clubs' plans for the site.

The Club has this week submitted an application to the NSW Minister for Planning, The Hon Kristina Keneally MP, under Clause 8 of the Major Projects SEPP for the inclusion of the site within Schedule 3 of the SEPP as a Site of State Significance and for concurrent preparation of a Concept Plan Application under Part 3A of the Act.

The land has been in the freehold ownership of the NSW Harness Racing Club since 1911.

The NSW Harness Racing Industry provides an annual benefit to the NSW economy of approximately \$680 million (including \$44 million in taxes) and employs some 29,000 people, predominantly in rural and regional NSW.

However, the NSW Harness Racing Industry is in a state of decline and has been severely affected by equine influenza, a lack of new investment in the sport and a gradual decline in prize money - all of which are contributing to a falling number of jobs and returns to NSW State Revenue. On current estimates the industry will be at unsustainable levels within the next 3-5 years.

In order to protect existing jobs and create new employment within the Industry, Harness Racing NSW (the Statutory Body) is seeking to implement an Industry-wide restructure which hinges on the sale of the Harold Park site. As the premier Club in NSW, the NSW Harness Racing Club recently voted to relocate to Menangle Park in Sydney's South West, sell the site in Forest Lodge and use sale proceeds to:

- Repay \$25 million in loans from the Harness Racing Race Course Development Fund
- Fund a major infrastructure upgrade at Menangle Park
- Upgrade facilities at harness racing clubs in Bathurst, Tamworth and the Riverina and
- Provide the financial basis for the long term financial security of the industry.

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Importantly, our plans will mean that the Industry can secure its future despite the lack of direct government assistance or handouts – which have been provided in most other Australian States.

Project Background

The NSW Harness Racing Club voted in late 2008 to examine options for the sale of the Harold Park site. Since then we have undertaken investigations and consultation with State Government Agencies and the City of Sydney, to canvass possible options for the future of the site.

While we have no firm proposal at this stage it is our belief that the site provides an ideal opportunity for urban renewal. The site offers 10.5 ha of privately-owned land just 2kms from the Sydney CBD and is located next to Jubilee Park light rail station, currently the most under-utilised station on the inner-west light rail route.

The Club believes that a concept for the site needs to be developed through a process of detailed consultation with neighbours, Government, Councils, the local community and expert planning, architectural and environmental advisers, with consideration of options such as:

- Residential development including student, seniors and affordable housing;
- Possible educational facilities;
- Dedication of new public open space (there is currently no public access);
- Restoration and reuse of the historic Glebe tram sheds;
- Ancillary commercial/retail;
- New community and recreation facilities such as an aquatic centre, passive open space, community gardens, childcare centre, artist studios or growers' markets.

Why Harold Park should be a State Significant Site

After an examination of the possible options available for the rezoning of the site, the Club has decided to request that the site be declared a Site of State Significance. Firstly, the site more than adequately meets four of the five key criteria for State Significance:

1. Industry importance – the sale of the site is critical to the protection of 29,000 jobs in the Harness Racing Industry, especially in rural and regional NSW, and to the long term financial security of the industry.
2. Major economic investment - Development of the site would deliver a major economic boost to Sydney and NSW with investment construction value of up to \$760 million and a flow-on economic value of up to \$618 million. Estimates of construction jobs indicate up to 5,300 direct construction jobs and 21,300 flow-on jobs in the existing economy. An extra 480 new jobs could be expected on site in the longer term from new small-scale support retail, community and commercial areas. Economic growth and new jobs will also result from expenditure on infrastructure upgrades at harness racing facilities in NSW regional areas.
3. Heritage – Development of the site is critical to funding the restoration of the historic Glebe tram sheds.

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4. Council boundaries – The site sits on the boundary between the City of Sydney and the Leichhardt LGA. Any development on the site will potentially impact residents within the City of Sydney and the Leichhardt LGA. A planning process through City of Sydney would not guarantee appropriate consideration of the views of the residents of Leichhardt Council or their share of potential S94 contributions.

Secondly and more importantly for the Club, is the matter of timing. The State Significant Site and Major Project process would allow a concurrent review of SSS controls while at the same time allowing for a Concept Plan to be developed for the site under Part 3A in a more appropriate time frame than the rezoning and DA process indicated by Council.

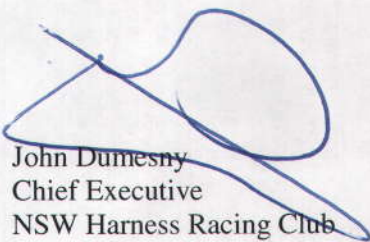
Council has advised that it will not consider a rezoning of the site under the current Leichhardt LEP (2000) and that its priority is the finalization of the broader Consolidating LEP for the City of Sydney. That being the case, we are advised that it could be at least three years (end 2011) before Council could begin to consider a Development Application for the site. Given recent experience on similar sites it could then take another 2 - 3 years before final DA approval is granted.

Given the financial state of the industry and the ongoing decline in employment we believe the Club, its members and the broader interests of the industry and the NSW economy would be better served by a more expeditious process.

The Club is seeking a fair and inclusive process involving the Club's expert team of consultants, Government, City of Sydney and Leichhardt Councils, our neighbours and our local community. We are, however, concerned about a process which could take more than five years to deliver an outcome when there are compelling economic arguments for dealing with the site as a matter of priority.

For the sake of our industry and the 29,000 people whose jobs rely on it I hope that our plans receive Council's full support. Regardless of the planning process the Club looks forward to working closely with both Sydney City and Leichhardt Councils in order to ensure the best possible outcome for the site and the Club.

Yours sincerely,



John Dumesny
Chief Executive
NSW Harness Racing Club

Encl.



Position Paper

2 April 2009

Future of the NSW Harness Racing Industry

Introduction

1. The NSW Government has implemented recommendations to return control of harness racing to a single industry board on the basis that reform is required to meet challenges like the tough economic climate, increasing competition and the need for modern business standards.

One of the requirements of the legislation that has been introduced is that HRNSW prepare a strategic plan to address the issues of the ongoing commercial viability and regulatory integrity of the industry.

2. This position paper has been prepared to serve as the basis for the strategic planning exercise. It sets out the findings of ongoing HRNSW analysis into the state of the industry and projections of its likely future path, and highlights key needs and actions that will be required at the strategic level if the industry is to remain financially and operationally viable.

Summary

Review of the state of the NSW harness racing industry over the past decade and projection of activity over the next five years highlight the need for strong strategic action in the immediate future by HRNSW if harness racing is to remain a relevant, viable part of the racing industry.

This position is based on:

- key indicators **confirming that the industry has been in decline over the last ten years;**
- analysis and projections indicating that **further erosion of the participant and horse population will occur over the next five years to points of criticality;**
- recognition that **the industry requires significant, sustained investment and financial stimulus** to arrest and reverse the declines;
- expectations that **external revenue streams such as the TAB Distribution will not grow in real terms to the magnitude necessary to fund investment and financial stimulus** required to guarantee the industry a sustainable future;
- recognition that under these circumstances **it is imperative that the industry proceed with action plans to divest itself of suitable assets to release resources to self-fund industry growth;**
- the view that **failure to act will inevitably lead to ongoing contraction of the industry with regional and rural areas being the first and hardest hit;** and
- the risk that any **further contraction of the industry especially in regional and rural areas will most likely be permanent resulting in loss of employment, investment and the sporting/cultural degradation of local communities.**

The Past Decade: Decline

3. Harness racing generally has been in decline over the last 10 years. The three key States of NSW, Victoria and Queensland have experienced dramatic downturns in breeding and participant levels. Only Victoria has delivered an increase in prizemoney however this is to be expected given that it has access to around \$20M pa in additional funding from gaming machine revenue.

4. NSW harness racing activity has experienced the most significant decreases taking into account the relative size of the industry in terms of the number of horses, participants and clubs compared to Queensland.

Table 1: Rates of Change 1999-2008

Category	NSW	VIC	QLD
Prizemoney*	-6%	+2%	-4%
Sires	-61%	No change	+25%
Services**	-26%	+7%	-27%
Foals**	-21%	-11%	-4%
Horses Named**	-12%	-4%	-11%
Trainers	-37%	-11%	-34%
Drivers	-42%	-21%	-42%

* Adjusted for inflation

** Adjusted for equine influenza

5. A comparison of the declines in NSW and Queensland harness racing activity to Victoria confirms that increasing prizemoney over time is a primary factor in slowing the rate of decline and maintaining a local breeding base.

6. The situation regarding the breeding industry (ie. sires, services, foals and horses named) is particularly concerning and is already affecting the viability of racing at current levels particularly 2YO racing.

7. The direct effects of the decline have been most keenly felt in regional/rural areas. Lack of new investment and reinvestment by breeders and owners would have resulted in reduced employment and a loss of irreplaceable skills.

8. In view of the decline, harness racing has become concentrated to regional centres such as Bathurst, Wagga/Young, Tamworth and Newcastle. These areas have evolved into the main breeding centres, nurseries and sources of new participants.

9. While consolidation may bring greater opportunity to access economies of scale, it also has higher levels of risk in terms of the impact of downturns as the flow-on effects are magnified through the community.

10. The rate of decline in the number of trainers and drivers far outstrips natural attrition and the rate at which these participants can be replaced. The reduced pool of professional trainers and drivers has enabled fewer stables to dominate the sport in recent years resulting in a lack of product diversity which has the potential to impact on attractiveness to punters.

11. Any objective analysis of the data for the last ten years would have to arrive at the conclusion that harness racing is in terminal decline and of the larger States NSW is declining at the fastest rate (see Appendix).

The Future: Projected Contraction

12. Based on current trends harness racing will further diminish over the next five years as a viable sporting and commercial activity. If current levels of racing are maintained TAB Turnover on harness racing and by extension the TAB Distribution (ie. funding to the industry) should remain relatively stable over the next five years.

13. Prizemoney, which has not kept pace with CPI changes, is expected to continue to decline in real terms as the operating costs of clubs and industry overhead increase.

Table 2: NSW Financial Projections to 2013 \$M

Category	1999	2009	2013
TAB Turnover	264	232	230
TAB Distribution	32	34	31
Prizemoney	26	20	16

* All figures expressed in 2009 dollars

14. The relative stability of the TAB Distribution suggests that HRNSW will lack the financial resources to do more than maintain current levels of investment in initiatives to drive the breeding industry. While these initiatives are predicted to arrest declines in breeding activities over the next five years, this will be a respite rather than remedy.

Table 3: NSW Activity Projections to 2013

Category	1999	2007*	2013
Services	2 899	1 569	1 650
Foals	2 049	1 617	1 670
Horses Named	1 392	1 120	1 000
Trainers	1 964	1 278	1 030
Drivers	1 719	1 032	800

* Last full season before equine influenza

15. Real term decline in prizemoney is expected to drive ongoing falls in the number of trainers and drivers. Beyond five years the prizemoney situation can be expected to result in fewer owners which will in turn drive the next downturn in breeding activity.

16. A stable Distribution and projected fall in prizemoney will increase pressure on HRNSW to undertake a major rationalisation of clubs by way of further consolidation to regional centres. Reducing the number of clubs being funded from the Distribution will be the only option available to HRNSW to obtain funds to produce prizemoney growth at key revenue-generating clubs such as Menangle Park, Bathurst, Newcastle and Penrith.

17. While the number of Metropolitan Sydney clubs would be affected, the greatest impact of a stable Distribution and decline in prizemoney would be felt in regional/rural areas. The Riverina could not support two TAB Clubs (Wagga & Young) as well as 8 Non-TAB Clubs nor could the Central West support Bathurst, Dubbo, Parkes and Blayney. The same principle will apply to the Hunter and Tamworth.

18. Historically closure of a club or significant reduction in racing activity has resulted in the loss of any notable harness racing presence at that locality (eg. Grenfell, Tweed Heads, Richmond, Lithgow, Armidale) with a concomitant loss of employment, expertise and private investment as well as write-off of industry investment in infrastructure and facilities.

19. Actions taken over the next five years will therefore be critical to determining the scale and scope of NSW harness racing with obvious implications for the communities and regions in which it currently operates.

Need for Investment and Financial Stimulus

20. There are no comparable industries with a similar investment in infrastructure, production, facilities and operations in NSW that have survived similar rates of historical and projected decline without significant injections of financial assistance.

21. Commencing in 2006 HRNSW recast industry breeding schemes and increased overall subsidisation to more than \$1M pa. Five year projections for services, foals and horses named indicate that these initiatives have arrested historical declines in these areas.

22. Maintaining let alone increasing this level of investment will be difficult in the face of a projected real term decline in prizemoney. Without a significant and sustained increase in investment in breeding, the rest of the industry will continue to contract through lack of quality product and retention/attraction of owners.

23. Analysis of HRNSW capital expenditure on facilities improvements and the balance of capital reserves illustrates that following major upgrades in 1999 flowing from the major inflow of cash to the industry from the privatisation of the TAB, capital investment has tailed off.

Table 4: NSW Capital Works Expenditure \$M

Category	1999	2003	2008
Capital Works	6.5	1.5	0.8
Capital Reserves	7.3	4.0	3.5

* All figures expressed in 2009 dollars

24. During the same period other States, particularly Victoria, have invested heavily in racing, training and club facilities to the extent that with the exception of Menangle Park NSW is in dire need of major capital investment to modernise its facilities in the Riverina, Hunter, Central West and Tamworth regions.

25. The key to any future capital and operating investments is that they must be continuous rather than intermittent or ad hoc. Apart from maintaining participant confidence in the future of the industry, the nature of horse breeding/harness racing means that results are incremental and occur over longer periods of time.

26. For example, the investment to bring a quality stallion online requires an initial outlay in the vicinity of \$1M to which annual operating costs need to be added. In order to obtain a reasonable ROI, private investors would need to be convinced that the industry in NSW had positive prospects over at least 5 years.

27. Similarly planned training/stabling facilities at Menangle Park and in the Hunter need to be developed over time on commercial lines to minimise risk and maximise returns to the industry.

28. It would therefore be insufficient for HRNSW to simply maintain current levels of investment in prizemoney, infrastructure and facilities development. Returning the industry to the levels of activity of five years ago will more than likely take ten years of ongoing, incrementally increased investment.

29. The current economic climate places increased pressure on HRNSW to take action. For most people involved in harness racing, certainly owners, the sport is a discretionary activity. For the last ten years costs of entry and participation have risen while returns have fallen in real terms. Uncertainty regarding employment and business growth may also be expected to become major factors in dissuading new investment in owning and racing. Lowering the costs of entry and ongoing participation will consequently need to be considered to protect the current industry base and offer prospects for growth.

Self-Funded Industry Growth

30. Over the last ten years harness racing in other States has benefited from government assistance through favourable taxation treatment or totalizator licensing regimes that have produced secondary revenue streams.

31. The NSW racing industry has not received similar government support and is unlikely to do so in the foreseeable future. In light of this, harness racing will need to self-fund industry growth if it is to have a real and sustainable future.

32. Divestment of assets is the only action that will provide sufficient financial resources to fund the level of investment and financial stimulus necessary to secure the future of the NSW harness racing industry.

33. While the proposed commercialisation of the Beresfield Land in the Hunter Valley will release funds to the industry, the various conditions attached and relative low returns compared to the level of funding required by the industry mean that it has limited potential to fuel growth.

34. The proposed sale of Harold Park is the last and arguably only hope that the industry has to self-fund a recovery from a decade of decline and secure the future of its participants.

35. The importance of the sale of Harold Park to the industry cannot be over-emphasised. The sale is critical to the ongoing viability of harness racing and, those who directly and indirectly rely on it for their livelihoods in the key nursery regions of the Riverina, Central West and Hunter.

36. HRNSW's continued support for the sale also recognises that a continued decline in harness racing activity and prospects in these regional areas will inevitably result in reduced revenue streams to and from TAB which has broader implications for employment, taxation and economic development beyond harness racing.

37. The sale of Harold Park is also vitally important for infrastructure development as the return of capital to HRNSW is to provide the resources for investment in modernisation of facilities in the Riverina (\$5M), Tamworth (\$4M) and Bathurst (\$3M).

38. Apart from providing NSW with harness racing facilities on a par or better than those in Victoria, these projects will create ongoing direct and indirect employment across many fields in these key regional areas.

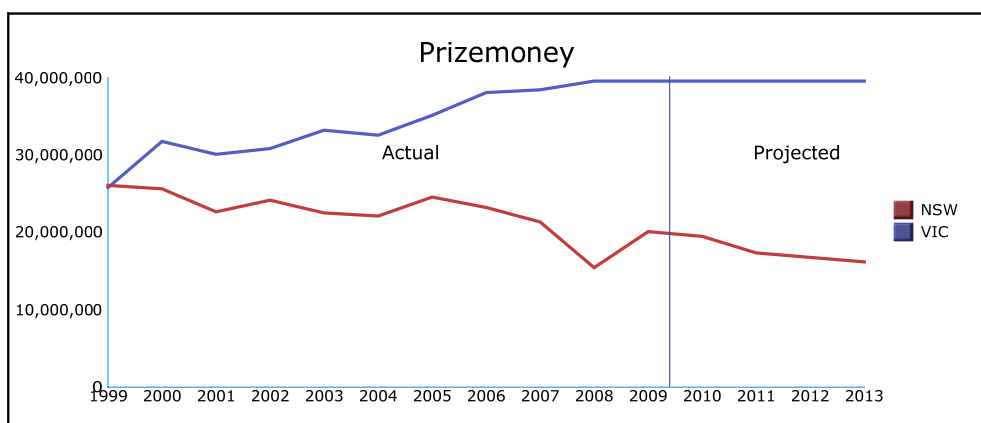
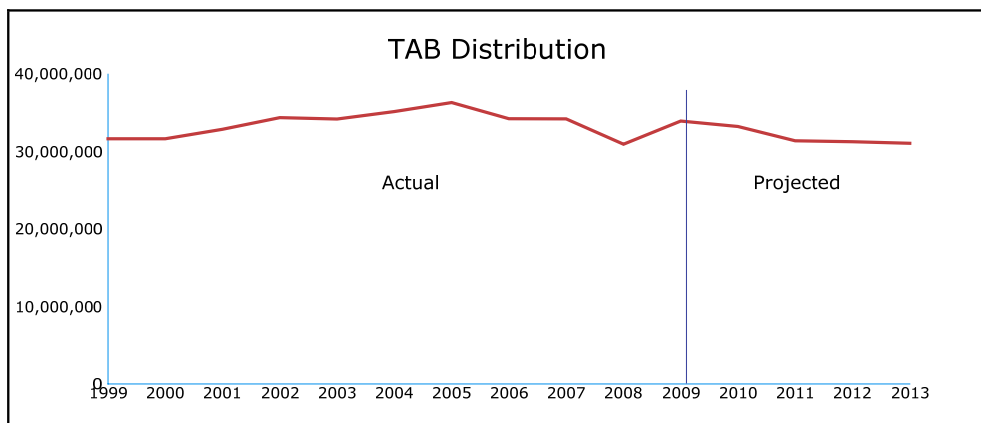
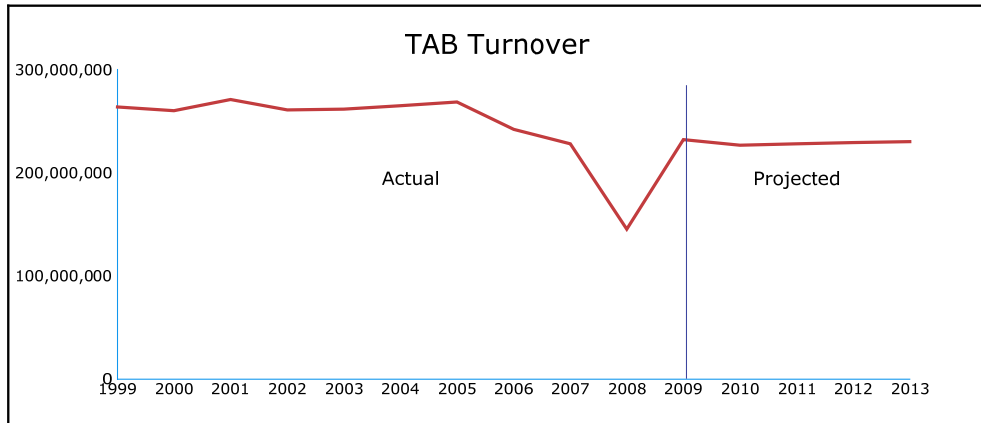
39. Consequently given the decline over the last ten years and less than optimistic projections for the next five years, it is reasonable to come to the conclusion that the fate of harness racing in NSW hinges on the sale of Harold Park.

40. Failure to obtain the maximum benefits through a sale in the immediate future will represent the loss of a golden opportunity for the harness racing industry and will ultimately require direct government financial intervention within the next decade at considerably higher levels than would be the case if the industry was provided with the means to self-fund its growth now.

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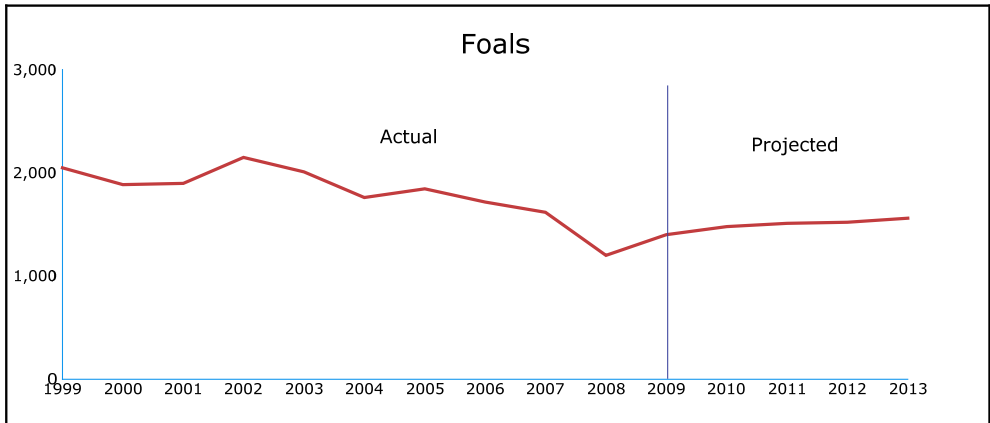
Appendix: Charts

All figures expressed in 2009 dollars.

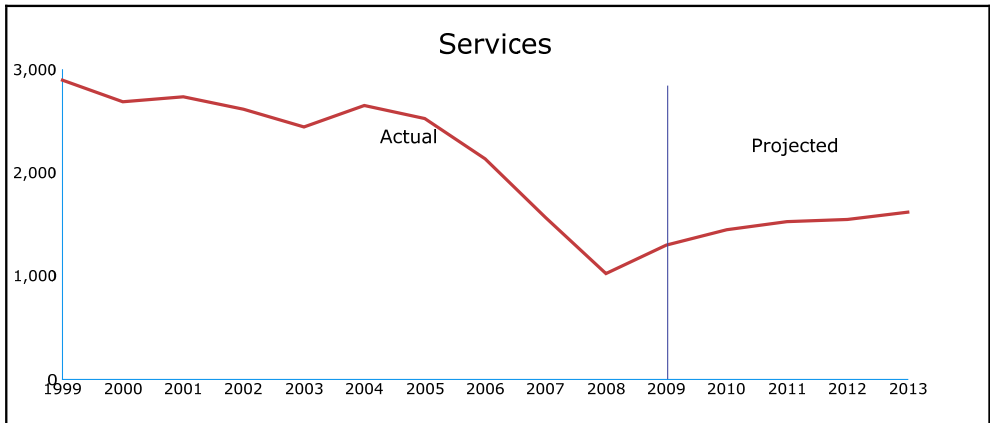


NSW EI funding carried forward of \$3.6M ceases after 2010

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Post 2008 increases assumes continued positive effect of Breeders Challenge investment and recovery from EI



Post 2008 increases assumes continued positive effect of Breeders Challenge investment and recovery from EI

