

Victorian based AFL Club EGM Venues – Community Benefit Statements

Preliminary analysis – 2007- 08 CBS

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Introduction

In Victoria, electronic gaming machine (EGM) venues licensed as hotels are required to pay 8.33% of their net gaming revenue as, in effect, an additional tax to the Community Support Fund (CSF). The CSF, which is administered and allocated by the Victorian government, funds community-building activities as well as infrastructure such as local swimming pools, problem gambling counselling services, etc. EGM venues licensed as clubs are exempt from payment of the CSF tax subject to providing annual ‘community benefit statements’ (CBS), which are required to be lodged by 30 September in each year, detailing claims of community benefit provided by, and at the discretion of, the club for the previous financial year. Statements for the year to 30 June 2008 were required to be lodged by 30 September 2008 and this preliminary analysis draws on such statements lodged by Victorian-based Australian Football League (AFL) clubs and published on the website of the Victorian Commission for Gambling Regulation (VCGR).

Following an earlier analysis of CBS statements for the year 2005-06 undertaken by the present author in 2007, the Minister for Gaming announced a review of the arrangements for claiming community benefit, and provided draft guidelines which would have had the effect of removing some types of expenditure from the categories which could be claimed as community benefit by clubs. Submissions from the club industry opposed such changes. The VCGR website advises that “This CBS form for 2007-2008 is to be completed on the basis of the Minister’s Determination dated 24 June 2003 of the activities and purposes that constitute community purposes” (<http://www.vcgr.vic.gov.au/CA256F800017E8D4/Online/214E366EFC9030E6CA2571AA00082B7B?OpenDocument>). Elsewhere, the VCGR advises that “The Minister’s new Order ... dated 8 February 2008 will apply to the forthcoming CBS reporting periods of 2008-2009 and beyond” (<http://www.vcgr.vic.gov.au/CA256F800017E8D4/Online/815D17FE235EB7E9CA25747B00836589?OpenDocument>). The revised Ministerial order introduces a number of reforms but will still permit clubs to claim a proportion of operating costs including employment and capital costs, in addition to clearly charitable and benevolent purposes. This issue is discussed further below, with particular reference to the circumstances of AFL clubs.

Current categories for claiming community benefit

The current nine categories of allowable community benefit are summarised by VCGR as follows:

1. Employment expenses of all staff met from gaming revenue.
2. Gifts of funds from gaming revenue, as detailed in the schedule for Category 2.
3. Sponsorships from gaming revenue, as detailed in the schedule for Category 3.

4. Gifts of goods to the community, paid for from gaming revenue, as detailed in the schedule for Category 4.
5. Voluntary services provided to the community, as detailed in the schedule for Category 5.
6. Expenses claims paid or reimbursed to volunteers, as detailed in the schedule for Category 6.
7. Activities subsidised using gaming revenue, where the venue provides a commercial service to members of the community at less than commercial rates for Category 7.
8. Fixed assets provided for community purposes from gaming revenue, other than fixed assets used for gaming purposes, as detailed in the schedule for Category 8.
9. Direct and indirect costs associated with the provision of community services, as detailed in the schedule for Category 9.

The VCGR guidelines for claiming in these categories are reproduced at Appendix 1 of this paper.

It should be noted that Categories 1 (wages), 8 (fixed assets) and 9 (direct and indirect costs) are effectively costs associated with running the business. Categories 2 (gifts of funds), 3 (sponsorships), 4 (gifts of goods), 5 (voluntary services), and 6 (volunteer expenses) reflect what might generally be regarded as philanthropic or benevolent purposes. Category 7 (activities subsidised) reflect the capacity of gaming venues to cross-subsidise food and drink, etc, and might be regarded as a marketing tool, albeit with some capacity to provide benefits to some club patrons.

Method

The CBS statements for the 15 club venues operated by the 10 Victorian AFL clubs were downloaded from the VCGR website, specifically from <http://www.vcgr.vic.gov.au/CA256F650009C886/wCBSbyVenue?OpenView&RestrictToCategory=cbs2008&Count=600&Year=2008>

Note that in 2007-08 the Collingwood Football Club also operated two hotel venues. However, under current arrangements these venues are not required to furnish CBS returns.

The data contained in these statements were then tabulated, and the results of this tabulation are reproduced in Table 1. A summary of explanatory statements included in the schedules from each claim category attached to the CBS return by each venue was also abstracted from CBS returns, and this is reproduced in Table 2, noting that this includes only relatively significant claims.

Discussion

As Table 1 demonstrates, CBS claims for the 2007-08 year by AFL clubs totalled over \$15.6 million. Of this, \$9.2 million (58.9%) were for wages costs, over \$4 million (26.1%) for direct and indirect costs, and \$1.3 million (8.5%) for fixed assets. Thus, AFL clubs' operating costs (categories 1, 8 and 9) constituted 93.6% (a total of \$14.6 million) of the amounts claimed for community benefit. Amounts claimed in

charitable or benevolent categories (categories 2, 3, 4, 5 and 6) amounted to 4.1% (about \$644,800) . Subsidies amounted to 2.3% (about \$360,000).

Although there was a very modest increase in the proportion of claims related to clearly philanthropic or benevolent purposes between 2006-07 and 2007-08 (amounting to about 0.7 of a percentage point), the overwhelming majority of claims (about 94%) continued to be devoted to the actual costs of operating the business.

This comparison is derived from an analysis of the CBS returns by Victorian AFL clubs for the year 2006-07 undertaken by the present author in early 2008, which demonstrated that 72% (about \$9.7 million) of CBS claims by those clubs related to wages costs, with 8.4% (\$1.1 million) related to fixed assets and 13.7% (\$1.9 million) to direct and indirect costs. Accordingly, claims related to the expenses of the business of the clubs amounted to 94% of the AFL clubs' CBS claims in 2006-07. Benevolent and philanthropic purposes (as distinct from the costs of operating the business) accounted for a total of 3.4% (\$462,000) of total CBS claims, which amounted to about \$13.5 million in that year.

As a component of all community benefit claims by AFL clubs, wages costs declined between 2006-07 and 2007-08 from 72% to about 59%, but direct and indirect costs almost doubled, from 13.7% to 26.1% of claims. As Table 2 indicates, these costs included electricity, water, gas, rates, cleaning, rental, 'dividends' and support for football departments. In some cases these are very substantial amounts, such as the \$131,799 paid by the Coach and Horses venue of Collingwood FC as 'dividends' and rental of \$203,145 paid by the Royal Oak venue operated by Richmond FC. Geelong FC claims \$121,964 in this category for 'maintaining football team'.

In the fixed assets category (category 8) claimed community benefits include renovation expenses and equipment such as TV sets, rent and repairs, and players' equipment.

Overall, this preliminary analysis suggests that AFL clubs are able to significantly overstate the actual benefits accruing to community from their EGM activities, although operating within the requirements of existing reporting requirements.

Analysis of data is severely limited by the substantial lack of specificity required of clubs furnishing returns. As the guidelines attached at Appendix One demonstrate, the VCGR does not require detail of expenditure, including that claimed as gifts, sponsorships or charitable donations. This lack of transparency is a major issue as it does not allow observers to determine the extent to which such contributions actually benefit the broader community. The use of community benefit type arrangements to 'legitimate' the substantial amounts lost by EGM (and other) gamblers is widespread, but in the absence of a truly transparent system for determining the actual benefit accrued to community from gambling losses it becomes very difficult to assess the true relationship between costs and benefits. It is in the interests of all beneficiaries of EGM revenue – including clubs, hotels, gaming operators and government – to suggest that significant benefits are generated by EGM gambling. However, if such claims are overblown, which appears from available evidence to be the current case, this is to the detriment of the community's capacity to accurately determine whether

the benefits of gambling outweigh the costs, and thus permit a judgement of the ethical sustainability of current EGM licensing and regulatory arrangements.

The substantial discretion available to clubs under current arrangements is considerable, and is not available to hotels, who must pay the 8.33% contribution to the Community Support Fund which is administered by government. This will continue under the revised arrangements from 2008-09, referred to above. The lack of transparency in the allocation of these highly discretionary funds must give rise to some concern as to the extent to which they do in fact provide genuine community benefits. EGM gambling is the cause of 85% of all problem gambling in Victoria, and the harms it causes are considerable. Current arrangements for reporting of the community benefits provided by clubs in return for the right to collect substantial sums, and coincidentally to inflict serious harm on many members of the community, continue to be inadequate in their capacity to permit a reasonably accurate assessment of the relationship between such harm and the benefits accruing to the community.

The introduction of new arrangements for reporting of CBS claims for 2008-09 and beyond may clarify the situation to some degree. However, the continued availability of claims that some part of the expenses of running the business (which the revised Ministerial guidelines will continue to allow) appears to be inequitable, particularly in the case of organisations such as the large AFL clubs which have very significant resources available to them, and are organised and run along increasingly commercial principles. For example, under the revised Ministerial order (available at <http://www.gazette.vic.gov.au/Gazettes2008/GG2008S069.pdf>), clubs may claim as community benefit “an amount equal to the proportion of non-gaming revenue to the club’s total revenue”, which, as the Ministerial statement indicates in a footnote, means that “[f]or example, where a club derives 60 per cent of its revenue from gaming, it can claim 40 per cent of the amounts it has spent” in the following categories (known in the order as ‘class B purposes and activities):

Class B purposes and activities: Indirect community benefits

- (a) Capital expenditure.
- (b) Financing costs (including principal and interest).
- (c) Retained earnings accumulated during the year for which the community benefit is claimed.
- (d) The provision of buildings, plant or equipment but excluding any building, plant and equipment with a value of less than \$10,000 per item and excluding the provision of gaming equipment or the gaming machine area of an approved venue.
- (e) Operating costs

AFL clubs have access to considerably more revenue sources than most local clubs – for example, there is a great distinction to be made between a local bowls club and an AFL club. The actual revenue available to a bowls club may well be limited to a modest subscription base, EGM revenue and sales of food and snacks, for example. If EGM revenue constitutes a large proportion of otherwise modest club revenue, the club’s capacity to claim class B purposes and activities (which include costly expenditure items) will be reduced. AFL clubs generally have access to a large membership base, revenue derived from broadcast rights, etc, allocated to clubs from the AFL’s central organisation, as well as substantial commercial operations and

sponsorship. Thus, even very extensive EGM operations are likely to generate a relatively modest proportion of the club's revenue, permitting a larger proportion of class B expenditure to be claimed than would be the case for a club with more limited access to revenue. Again, the true community benefit of the club's EGM derived expenditure would be massively overstated – permitting current practices to continue more or less untrammelled.

It is also important that revised reporting arrangements require a greater degree of transparency in relation to the actual purposes to which claimed amounts are put. At present, as noted above, there is no transparency in the reporting of such claims. For the revised arrangements to improve transparency and thus restore public confidence in the accurate assessment of benefits provided to community in return for the harms associated with gambling, considerably greater reporting detail would be required than is currently the case.

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Table 1: Summary of CBS statements, 2007-08, Victorian AFL Clubs

2007-08 data		Community benefit claim categories									
Club	No of Venues	Wages - 1	Gifts of funds - 2	Sponsorships - 3	Gifts of goods - 4	Voluntary services - 5	Volunteer expenses - 6	Subsidies - 7	Fixed assets - 8	Direct and Indirect - 9	Total Comm'y Benefit claimed
Carlton	1	\$583,757	\$6,700	\$0	\$0	\$0	\$0	\$3,795	\$339,831	\$38,162	\$972,245
% of claim		60.0%	0.7%	0.0%	0.0%	0.0%	0.0%	0.4%	35.0%	3.9%	
Collingwood*	3	\$1,577,703	\$29	\$135,515	\$0	\$0	\$0	\$56,218	\$289,416	\$592,733	\$2,651,614
% of claim		59.5%	0.0%	5.1%	0.0%	0.0%	0.0%	2.1%	10.9%	22.4%	
Essendon	1	\$2,061,672	\$143,723	\$17,017	\$3,668	\$0	\$0	\$191,339	\$12,357	\$176,271	\$2,606,047
% of claim		79.1%	5.5%	0.7%	0.1%	0.0%	0.0%	7.3%	0.5%	6.8%	
Footscray	3	\$1,251,421	\$718	\$22,608	\$5,936	\$96,810	\$2,107	\$36,749	\$0	\$254,983	\$1,671,332
% of claim		74.9%	0.0%	1.4%	0.4%	5.8%	0.1%	2.2%	0.0%	15.3%	
Geelong	1	\$647,127	\$0	\$0	\$0	\$0	\$0	\$0	\$83,925	\$125,713	\$856,765
% of claim		75.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.8%	14.7%	
Hawthorn	1	\$1,122,246	\$290	\$2,768	\$0	\$0	\$0	\$1,336	\$7,775	\$2,208,096	\$3,342,511
% of claim		33.6%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.2%	66.1%	
Melbourne	1	\$630,805	\$1,810	\$5,430	\$7,778	\$4,000	\$0	\$16,966	\$303,804	\$28,514	\$999,107
% of claim		63.1%	0.2%	0.5%	0.8%	0.4%	0.0%	1.7%	30.4%	2.9%	
North Melbourne	1	\$39,383	\$0	\$0	\$0	\$0	\$0	\$6,091	\$0	\$3,364	\$48,838
% of claim		80.6%	0.0%	0.0%	0.0%	0.0%	0.0%	12.5%	0.0%	6.9%	
Richmond	2	\$1,278,957	\$1,144	\$0	\$13,361	\$0	\$0	\$35,816	\$279,068	\$607,953	\$2,216,299
% of claim		57.7%	0.1%	0.0%	0.6%	0.0%	0.0%	1.6%	12.6%	27.4%	
St Kilda	1	\$22,611	\$7,507	\$163,411	\$0	\$2,480	\$0	\$11,544	\$13,701	\$50,744	\$271,998
% of claim		8.3%	2.8%	60.1%	0.0%	0.9%	0.0%	4.2%	5.0%	18.7%	
TOTAL	15	\$9,215,682	\$161,921	\$346,749	\$30,743	\$103,290	\$2,107	\$359,854	\$1,329,877	\$4,086,533	\$15,636,756
% of claim		58.9%	1.0%	2.2%	0.2%	0.7%	0.0%	2.3%	8.5%	26.1%	

*Note: Collingwood also operated two hotel venues in 2007-08

Source: VCGR

Table 2: Details of category expenditure abstracted from CBS returns

Club	Venue	Expenditure 'details' - numbers in parentheses refer to expenditure categories
Carlton	Club Laverton	\$31,729 for amortisation of costs of smoking room (8) and \$299,046 for rent for bistro, dining & function room (8) and \$29,681 for electricity (9)
Collingwood	The Club	7 sponsorships of between \$7,900 and \$24,594 (3), \$32,861 for renovation of smoking area (8) and \$216,550 for rent (8), and \$22,941 electricity costs
	The Coach & Horses	TV and Playstations \$1248, 2 compressors \$4417, Plasma TV \$799 (8), rental \$193,057 and dividends \$131,799, rates \$1,956 and gas \$2,270, cleaning \$28,737 (9)
	The International	Sports sponsorship \$15,515 (3), gaming room promotion \$37,776 (7), Rent \$142,657, electricity \$19398 (9)
Essendon	Essendon F&CS Club	Gift to 'sport' of \$143,723 (2), sport sponsorship \$17,017 (3), discounted meals \$118,461, drinks \$39,572 (7), sky channel \$9,725, cleaning \$39,841, heating & lighting \$45,749, insurance \$26,770, security \$44892 (9)
Footscray	Footscray Football Club	Sports sponsorship \$4498 (3), 'charity' \$19,260 (5), Player appearances \$5,883 (7), rates, electricity and gas (\$3705), rental of Whitten Oval \$11,513 'Football direct costs \$29,186 (9)
	Club Leeds	Sports sponsorship \$8,132 (3), Charity \$2135 (4), Charity \$34,823 (5), Player appearances \$10,636 (7), Rates, electricity and gas \$6,699 and Football - direct costs \$52,768 (9)
	Vic Inn Williamstown	Sports sponsorship \$9978 (3), 'culture' \$42,727 (5), Player appearances \$13,051 (7), Football - direct costs \$64,745, rates electricity and gas \$8,219, rental of Whitten oval \$25,540, Spirit West services \$12,427 (9)
Geelong	Geelong Football Club	Council lease \$26,058, new grandstand \$18,673, new interchange bench \$8,279, football department \$9,029 (8), Maintaining football team \$121,964 electricity \$3728 (9)
Hawthorn	Vegas at Waverley Gardens	Sport sponsorship \$2768 (3), keyslide \$1,507 TV x 3 \$819, flat screen TVs \$584, \$348, \$839 (8), subsidising football operations \$1,905,183, electricity \$28,253, property rental \$212,637 (9)
Melbourne	Leighoak	Promo liquor \$12,408 (7), repairs and maintenance \$17,289, Cleaning \$33,557, property rental \$252,958 (8), Gas electricity water \$26,014 (9)
North Melbourne	NMFC Social Club	Poker subsidy \$5,930 (7), rental \$2,600 (9)
Richmond	Royal Oak Richmond	Gas \$3,444, contribution to RFC \$318,590, electricity \$17,998, cleaning \$20,562, property rental \$203,145 (9)
	Wantirna Club	Discounts given to members \$25,862 (7), rent \$263,963, repairs to venue \$12,962 (8), heating lighting \$29,215 (9)
St Kilda	St Kilda Football Social Club	Charity \$7507 (2), sport sponsorship \$163,411 (3), player's equipment \$9,193 (8), family day \$43,213 heat & lighting \$4,358 (9)

Source: VCGR

Appendix One

VCGR summary guidelines - CBS categories

Note 1. Employment expenses include all on-costs except for payroll tax and fringe benefits tax. Training costs for staff, including gaming room staff, are also treated as employment expenses.

Where a venue operator has entered into a management contract that requires the contracted manager to employ and direct staff, the employment expenses of these staff can be included on the same basis as staff employed directly by the venue operator.

Note 2. Venue operators can only claim direct donations from gaming revenue as community benefits. Donations of vouchers are treated as donations of funds. Where venue operators conduct fundraising activities on behalf of charities or other community groups, they can only claim the labour component as a community activity.

Venue operators should categorise donations into the various classes of community purposes set out in the Minister's Determination dated 24 June 2003, that is, the promotion of art, culture, science, religion, education, charity, sporting or recreational purposes. The recipients do not need to be identified and in particular, individual recipients are not to be identified for privacy reasons.

Note 3. Venue operators may claim sponsorships paid from gaming revenue as community benefits.

Venue operators should categorise sponsorships into the various classes of community purposes set out in the Minister's Determination dated 24 June 2003, that is, the promotion of art, culture, science, religion, education, charity, sporting or recreational purposes. The recipients do not need to be identified and in particular, individual recipients are not to be identified for privacy reasons.

Note 4. The amount claimable as a community benefit for the gift of new goods is the amount paid from gaming revenue by the venue operator, including GST. The amount claimable for gifts of used or second-hand goods is the market value of the goods.

Venue operators should categorise gifts of goods into the various classes of community purposes set out in the Minister's Determination dated 24 June 2003, that is, the promotion of art, culture, science, religion, education, charity, sporting or recreational purposes. The recipients do not need to be identified and in particular, individual recipients are not to be identified for privacy reasons.

Note 5. This item covers voluntary services and the cost attributable to these services. The amount of the benefit to be credited for the voluntary activities is

\$20.00 per hour.

Venue operators should categorise voluntary services into the various classes of community purposes set out in the Minister's Determination dated 24 June 2003, that is, the promotion of art, culture, science, religion, education, charity, sporting or recreational purposes. The recipients do not need to be identified and in particular, individual recipients are not to be identified for privacy reasons.

Note 6. The amount of the benefit is all costs incurred by volunteers in carrying out activities that the venue operator is entitled to claim as community benefits.

Venue operators should categorise costs incurred by volunteers into the various classes of community purposes set out in the Minister's Determination dated 24 June 2003, that is, the promotion of art, culture, science, religion, education, charity, sporting or recreational purposes. The recipients do not need to be identified and in particular, individual recipients are not to be identified for privacy reasons.

Note 7: The amount of the benefit is the difference between the commercial selling price and the selling price that the venue operator offers to the public.

Note 8. Expenditure on fixed assets in the last financial year, other than assets used for gaming purposes, can be included as a community benefit. The amount to be included in relation to fixed assets is:

- Where the asset is purchased by the venue operator using reserves, the cost of the fixed assets, including GST.
- Where the asset is purchased by the venue operator using borrowings, the costs of repaying that loan.
- Where the asset is leased by the venue operator, rental costs for that asset.

In all cases, the fixed asset must be provided for community purposes and the costs met from gaming revenue. Where venue operators have entered into rental agreements or borrowings for non-gaming fixed assets prior to 1 July 2003, payments made after 1 July 2003 under these agreements can be included as community benefits.

The breakdown between gaming and non-gaming areas is as follows: Venues can claim as community benefits the proportion of the non-gaming building floor area as a percentage of the total building area. For example, if 90% of a new building costing \$1 million is used for non-gaming purposes, and the building is funded from gaming revenue, then the calculated community benefit is \$900,000.

Note 9. This includes direct and indirect costs incurred by venue operators in providing community benefits. Examples include the venue operator's support of its own activities that meet the definition of community activity or benefit

as set out in the Minister's Determination dated 24 June 2003, such as payments made to subsidise a club's sporting activities. It also includes costs such as heating and lighting, except where these are associated with gaming purposes. The breakdown between gaming and non-gaming areas is the same as that described in Note 8 above.

Where there is any uncertainty over whether direct or indirect costs are providing community benefits, the test to be applied by venue operators is whether the dominant purpose of the expenditure is providing a community benefit as set out in the Minister's Determination. The additional costs incurred by venue operators in providing Community Benefit Statements can also be included as community benefits.
(VCGR, Community Benefit Statement on-line form, 2008).