

Productivity Commission Inquiry into Australia's Gambling Industries

Submission by Clubs Queensland

9 November 1998

1 Introduction

1.1 Purpose

The purpose of this document is to outline the views of the Queensland club industry on the Terms of Reference of the Productivity Commission Inquiry into Australia's Gambling Industries, for its hearing in Sydney on November 16, 1998.

This preliminary submission is prepared by Clubs Queensland on behalf of its member clubs and is part of a national submission prepared by the Council of Community Clubs of Australia and New Zealand, of which Clubs Queensland is a member association. It is proposed to compile a further submission for the Commission's consideration by mid-December 1998, following consultation with members and consideration of the views expressed at the Brisbane and Sydney hearings.

1.2 Background

Clubs Queensland is the industry association and union of employers for all licensed clubs in Queensland and acts as the representative body with government, statutory and regulatory authorities on all matters affecting clubs.

Licensed clubs in Queensland are community-based, non-profit associations established with the purpose of providing sporting, cultural, recreational and community services to their members and the local community in which they are based. Almost 80 percent of our member clubs are sporting clubs: Bowls, Golf, Rugby League, Soccer, Cricket, Hockey, Boating and Sailing, multi-Sports, Rugby Union, Australian football, Basketball, Polo and Country clubs. The other members are community service or ethnic-based clubs: RSL/Services, Buffaloes, Workers, Surf Lifesaving, Irish, Italian, Croatian etc. We also have a number of private or exclusive clubs within our membership, none of whom have any gaming facilities.

The vast majority of members of Clubs Queensland are incorporated under the Associations Incorporation Act 1981 and exist for the benefit of their members. All net proceeds from their operations are expended on the provision of facilities and services to their members and the local community. No individual or group of individuals is able to derive personal profit

from the operations of a club, except under normal commercial arrangements for provision of goods and services. Those components of net income which are derived from the expenditure of club members within their own club are fully returned to benefit those same people, as mutual owners of the facilities provided. Club members specifically expend their money in the club, understanding that the net proceeds will be returned to them in other ways, either through sporting activities for themselves and their children, better facilities and services, or community expenditure which assists others who live in their local area. The annual reports of all Clubs with gaming machines are provided each year to the Queensland Consumer Affairs Department and the Office of Gaming Regulation (QOGR), for assessment as to whether the Club has expended the income derived from gaming on the Objects of the Club as stated in its Constitution. Both regulatory authorities have the power to investigate the operations of a club if evidence warrants such action.

Since the introduction of gaming machines to Queensland clubs in 1992, a significant proportion of the licensed clubs in Queensland has installed machines. As at November 1998, Queensland has approximately 1100 licensed clubs (with a liquor licence of some nature) of which 647 have gaming machines.

These clubs now rely, to some extent, on the revenue from gaming machines to fund other operations and community service activities. Accordingly, licensed clubs represent a component of the wider gambling industry, however, should not be considered in the same context as other sectors of the gambling industry, due to the community ownership of clubs. The net income derived from gaming, along with the income raised from other sources (membership fees, sponsorships for sporting teams, bar sales, catering and functions, etc) are used to support the principle purpose of the club. In most cases, this purpose is conduct of sporting competition and provision of facilities to enable that to occur. In the case of community service clubs (RSL, Surf, Buffaloes etc), the income is expended on provision of services and facilities for their target sector of the community.

2 Overview of the Queensland Licensed Club Industry

There are 17 500 gaming machines in operation in 647 licensed clubs in Queensland. There are also almost 8 000 machines in Hotels throughout the State. Under the regulations of the Gaming Machine Act, Clubs are allowed a maximum of 270 machines and only three clubs have that number. There are only 14 Clubs with 150 machines or more. Two thirds of clubs (447 sites) have 1-20 machines, 114 clubs have 21-50 machines and 72 clubs have between 50-150 machines. As seen by these figures, the vast majority of clubs are small in their machine numbers and do not place a major emphasis on gaming in their overall operations.

From the statistics provided in the latest *Gaming Machine Newsletter* provided by the QOGR, the average daily turnover of gaming machines in clubs is \$522, yet the turnover in the smaller (1-20 machines) clubs is only \$229 a day. It is important to understand that turnover is a misleading guide to the actual impact of gaming. In Queensland, the gaming machine regulations and monitoring procedures ensure that at least 85% of turnover is returned to the players through their winnings from the machines. Therefore the actual effect of gaming on players' expenditure is only 15% of turnover. Total turnover in Queensland clubs in the 1997/98 Financial year was \$3 018 485 000 but the net impact on gamblers was

\$452 770 000 (QOGR Gaming Newsletter Vol 1 Issue 1 October 1998).

Clubs offer access to their services and facilities to financial members of their club, to members' guests and to bone fide visitors to the club who reside at least 40 kilometres from the club facility. There is no concise compilation of total club membership throughout the State but from the records provided to Clubs Queensland, we estimate that Club membership stands at approximately 1.3 million Queenslanders who belong to at least one licensed club in their local community. A significant number of people belong to more than one club.

Licensed Clubs are a significant part of the economic life of Queensland. Over 22 000 people are employed in full-time or part-time positions in the industry and this figure grows strongly each year. Clubs employ a large number of young people and women across all sectors of operations and are major users of training programs, traineeships and work experience programs. Clubs Queensland has recently met with the Queensland Government to develop industry-wide programs as part of the "Community Jobs Plan" recently announced by the Premier. We will be aiming to expand employment across all sectors of club operations in all areas of the State.

Clubs are an integral part of the State's Tourism services, particularly for domestic and interstate visitors. On average, 35 percent of patrons in clubs are bone fide visitors, travelling at least 40 kilometres from home to visit the club. In particular tourist areas of the State, these figures would be higher due to significant patronage by interstate visitors.

2.1 Taxation

Clubs pay taxes and charges to all three levels of government to varying degrees. At the Local Government level, many clubs, particularly sporting clubs, are established on Council lands leased to the club. All clubs pay rates and other charges for services as well as annual lease payments or rates depending on the ownership of the land.

The major proportion of taxes paid by clubs are at the State level, in the form of a tax on the "metered win" from a gaming machine: in other words the 15% of turnover left in the machine after players have taken their winnings. There is a sliding scale of taxation rates imposed by the State Government on the total monthly metered win from machines in a club:

- \$ 0 - \$ 10 00010%
- \$ 10 001 - \$ 75 00027%
- \$ 75 001 - \$ 150 00030%
- \$ 150 001 - \$ 300 00033%
- \$ 300 001 - \$1 400 00035%
- > \$1 400 00045%

Hotels/Taverns pay 45% on all gaming metered win.

These tax scales have been in operation since 1 July 1997.

Clubs also pay a host of other State taxes such as Payroll tax, Stamp Duties, Fire Services Levies, Workers Compensation charges, and other costs associated with conducting business in the State.

At the Federal level, some clubs pay income tax on earnings from their operations but most receive some taxation concessions because of the application of the mutuality principle or the sporting exemption. *These issues will be addressed in greater detail in the national submission.*

Within the total State tax contribution, there are three specific Levies raised as a contribution by clubs to the social development of the State. The Gaming Machine Community Benefit Fund currently receives 8.5% of the total gaming taxes raised in Clubs and Hotels. The Sports and Recreation Benefit Fund receives 23% of gaming taxes and the Charities and Rehabilitation Fund receives 13% of gaming taxes. The remaining 55.5% of gaming taxes goes to the Consolidated Revenue Fund for the general administration of the State. Until July 1997, these levies were separately collected and identified as a contribution from each venue but with the change in the taxation arrangements last year, these levies were incorporated into the general gaming tax schedule. The State Government contributes the percentages outlined into each Fund by Cabinet decision rather than by regulation.

3 Existing Regulatory Framework in Queensland

Licensed Clubs operate under the clauses and regulations of a number of State Acts:

3.1 *The Gaming Machine Act 1991*

This Act controls the licensing of gaming in clubs and hotels, and the licensing of any companies which seek to provide gaming facilities and services to clubs and hotels. This legislation established strict regulation of the gaming machine industry to ensure the integrity of gaming in the State in terms of fairness to patrons, the exclusion of criminal elements and the protection of government revenues.

This regulatory framework includes:

- Stringent licensing requirements for sites and staff;
- Establishment of an independent Queensland Machine Gaming Commission to:
 - Grant licences
 - Cancel and suspend licences
 - Determine machine numbers
- Rigorous accounting requirements and reporting procedures;

- A comprehensive evaluation and approval process for gaming hardware and software;
- A purchasing policy which distanced gaming machine manufacturers from club and hotel management;
- The operation of computerised monitoring systems to provide for continuous monitoring of all sites and to ensure the integrity of games;
- The establishment of the Queensland Office of Gaming Regulation which is responsible for performing all functions necessary in connection with the administration of the Gaming Machine Act.

Until July 1997, sites were not able to own their gaming machines. They were leased from the QOGR who tendered for the purchase of machines from a set of licensed manufacturers. Sites paid a monthly rental charge for each machine. Since the amendments to the Gaming Machine Act came into force in July 1997, sites have now purchased their existing machines from the QOGR at depreciated prices and are able to purchase new and additional machines through Licensed Monitoring Operators from the manufacturers.

The centralised computer monitoring of machines is in the process of being transferred to eight different Licensed Monitoring Operators (LMOs), the choice of which is determined by each site. LMOs also perform a number of different services for sites, depending on the contractual arrangements between them, such as financing of machine purchase, provision of linked jackpot systems, marketing and promotional assistance, and player loyalty programs.

3.2 Liquor Act 1992

This Act regulates the granting of liquor licences to clubs, hotels, restaurants, taverns, resorts etc and prescribes the hours of operation and all other conditions which must be met to hold a liquor licence. A specific section of the Act determines the requirements for clubs and establishes rules regarding membership and right of entry to clubs to utilise facilities and services. The Act establishes the Liquor Licensing Division, responsible for performing all of the functions necessary to administer the Liquor Act.

A Club must have a Liquor Licence before they can be considered for a Gaming licence.

3.3 Workplace Relations Act 1995

This Act sets the industrial relations framework for all employers in the State and Clubs are required to comply with all of its provisions. Club employees are employed either under Awards registered with the Industrial Relations Commission, or by Enterprise Agreements or Queensland Workplace Agreements which are negotiated by each site with their employees and registered with the Commission.

4 Community vs Privately-owned Gaming

Gaming activities in Queensland can be divided between those owned by the community, either directly as in Clubs or by the Government on behalf of the community, and those owned by private companies and individuals.

The Queensland Government currently owns two corporations which operate gaming and wagering services for its citizens, the profits from which are returned to benefit all Queenslanders through provision of government facilities, services and programs:

- The Golden Casket Corporation, which operates lotteries, “scratch” tickets, and lotto services throughout the State;
- The Totalisator Administration Board (TAB) which operates wagering services on horse and greyhound races in clubs, hotels, its own agencies and telephone betting services.

The Licensed Club industry is the other major “Community-owned” sector of gaming, where all of the net returns from gaming and other services provided by clubs are returned to benefit the members of that club and the wider community in which each club resides.

Other community organisations are permitted under the Lotteries Act to operate Art Unions of different sizes and values for the purpose of raising funds for charity or community work.

Privately-owned gaming operations exist in a number of forms:

- Four Casinos, each owned and operated by companies publicly listed on the Stock Exchange: located in Cairns, Townsville, Gold Coast and Brisbane. The net profits are returned to the companies and distributed to their shareholders. One Casino company, Jupiters, also has the rights to providing networked Keno services to clubs, hotels and TAB agencies across the State, with its net profits returned to the shareholders of Jupiters Ltd.;
- Hotels, which are allowed to own and operate up to 30 gaming machines (increasing by 5 a year to 45 by 2001), as well as offering TAB and Keno services in their facilities. The net profits are returned to the individuals or companies which own these facilities;
- Bookmakers who are licensed to offer on-course wagering services at racetracks around the State.

4.1 The concept of community-owned gaming

Licensed clubs were permitted to operate gaming machines and other forms of gambling (ie TAB and Keno) to ensure that the net proceeds of gaming were re-distributed back to the community to provide enhanced recreational facilities for their members and patrons, to provide direct funding to community groups for sport, recreational and welfare programs and to encourage employment in local communities.

Community-based gaming had its origins in various state governments using lotteries to raise necessary state revenue to fund public works projects such as hospitals. Local community organisations have always been permitted the opportunity to use art unions and other minor gaming activities to fund community activities and services.

Gambling, as a form of popular entertainment, has been utilised to affect social and community benefits for decades in Australia.

4.2 *Social benefits of community owned gaming in Clubs*

- Clubs utilise the income from their gaming operations for the provision of sporting facilities and services, especially for junior players;
- The building of function facilities and meeting areas establishes community centres which act as a focal point in the community for activities and functions;
- Clubs provide an organisational structure for people to have ownership of, achieving a sense of belonging to a group and working together to achieve improvements and benefits for their families, neighbours and other community members;
- The income generated by Clubs enables them to offer a range of community services directly to their members such as social committees, education and training programs, recreation amenities and activities, etc;
- Because of the 'family' nature of clubs, they provide safe, comfortable and affordable venues for socialising and entertaining of many people who would otherwise be isolated in their own homes, such as older widows, disabled adults, etc;
- Clubs have an obligation to the welfare of their members and tend to be more responsive to the welfare and best interests of members. They do not wish to engage in activities which could be harmful to the best interests of their community;
- Club board structures ensure that the direction of and focus of club activities is strongly community focussed. They operate a balance between professional management and the community focus of the board;
- Clubs provide tens of thousands of jobs in local communities across the State and are major employers of young people. They also provide their facilities for training and work experience programs and build close relationships with schools, TAFE Colleges and other training providers;

4.3 *Social impact of gaming*

The Club industry of Queensland recognises that there are some people within the community who have difficulty in controlling their gambling activities and limiting their expenditure to manageable proportions of their income. There is no accurate data to ascertain the exact extent of this problem but it has been estimated that approximately one percent of the population has a severe problem and a further four – five percent have some level of

difficulty with gambling.

As a responsible sector of the community, the club industry seeks to work closely with government and welfare agencies to assist in the sensitive management of this issue. We do not seek to build our facilities or services at the cost of destroying individual families' lives or welfare. Clubs Queensland has been an active participant in the Responsible Gaming Committee established by the State Department of Family Services to develop appropriate policies and strategies to manage this problem. Our member clubs work closely with the relevant agencies funded by government from gaming levies to provide counselling and assistance to 'problem gamblers' and their families.

Recently, the Department commenced a trial of a new telephone 'help line' in three centres: Cairns, Mt Isa and Rockhampton. Our member clubs in those areas are actively cooperating with this trial, widely advertising the service in the club and participating in local committees to oversee the service.

Clubs Queensland is closely monitoring the trial of a new responsible gaming policy by the Registered Clubs Association of NSW and recently invited the author of the policy, Professor Jan McMillen to address our Conference in Mackay. The Board of Clubs Queensland has authorised the development of a similar approach and will be seeking to utilise the experience of Professor McMillen in this process. It will be important, however, for all relevant sectors of the State's gaming and wagering industries to be involved in the development of appropriate policies on this question.

It is understood by our Association that our members have a duty to promote the gaming component of our activities with sensitivity and responsibility. Our Clubs are entertainment and sporting venues, providing dining, recreation and entertainment, a friendly social atmosphere. This holistic approach was recently confirmed in extensive market research commissioned by Clubs Queensland which showed that the principal reasons for members to visit clubs was to socialise with their friends and to dine with their families. Participation in gaming activity was very low on the list. It is understood, of course, that many people would not list gaming as their principal reason yet would engage in some form of gaming during their stay at the club. The research clearly demonstrates that the main attractions of clubs are their amenities and range of facilities, and the safe relaxing environment. The gaming facilities are just one component of an overall package.

The vast majority of members of our Association understand this aspect and are very responsible in the promotion and marketing of their venues to members. Clubs have built a strong profile in local communities across the State as 'family-friendly' venues where people of all ages can gather to enjoy social interaction with others in their community. As explained earlier in this submission, the vast bulk of clubs are small venues with only a handful of machines. Two thirds of clubs with machines have less than 20. There is a clear misconception that most clubs are huge monoliths. Only 14 clubs in Queensland have more than 150 machines and these are spread across the State.

Clubs Queensland does recognise that the increased access to gaming facilities has increased the extent and severity of the problems experienced by some people in our community. It is

for this reason that we strongly believe that gaming machines should be confined to specific sites recognised as gaming venues and not be permitted in a host of other facilities whose primary purpose is not associated with gaming activity. Our Association does not support hotels or clubs or any other types of facilities operating gaming machines inside major suburban Shopping Centres. The primary purpose for visiting a Shopping Centre is to purchase foodstuffs, clothing or other essentials for individuals and families, and to pay bills. Access to gaming and wagering activities should be confined to specific sites where the patron clearly identifies the venue with that purpose.

4.4 Specific re-distributive mechanisms

As outlined earlier in this Submission, the State Government has legislated to establish three separate funds to assist in the redistribution of gaming revenue to community welfare, sporting and cultural organisations. These funds are designed to overcome the shortfall in revenue, previously raised by these groups through their own efforts, which has been due to the community's access to gaming machines in Clubs and hotels.

The Gaming Machine Community Benefit Fund is administered by the Department of Family Services. A Community Advisory Committee reviews all applications for funding and recommends to the Minister which grants should be approved. This Committee publishes the final list each quarter and operates in a very open and transparent way, with recommendations based on clearly defined criteria. Since the Fund's establishment, over \$ 70 million has been distributed in grants to thousands of community organisations and welfare groups.

The other two Funds, the Charities and Rehabilitation Fund and the Sports and Recreation Benefit Fund are directly administered by Government, with no community input into the distribution of grants to welfare groups or sporting organisations.

Through our own survey data of member clubs, Clubs Queensland is able to calculate that licensed clubs expend at least a further \$100 million each year from their own resources on:

- the provision of sporting facilities, grounds, coaching and competition for approximately half a million Queenslanders of all ages to play sport and lead a healthy lifestyle;
- donations of cash and goods & services to thousands of local schools, community groups and welfare agencies;
- free use of club meeting/function rooms and other facilities for community service clubs (Lions, Rotary, etc) and other community organisations to hold fund-raising functions, meetings, conferences, etc;
- provision of training opportunities, work experience programs, assistance with financial planning and management of community groups, access to club facilities for Fire & Rescue Authority community education programs, Health Department programs, etc;

- The RSL/Services Clubs donate large amounts of money each year for the provision of War Veterans Residential and medical accommodation, Legacy services for War Widows and their families, and other support for the veterans community.

Clubs also allow a number of local groups to run raffles and other minor lotteries in the bars and lounges of the clubs to raise funds for their activities and services.

4.5 Economic Impact of Clubs

More detailed analysis of the economic impact of the club industry in Australia will be contained in the national submission from the Council of Community Clubs.

In Queensland, there are some statistics which are of use in quantifying the economic significance of the club industry. Firstly, over 22 000 people work in the club industry, in either full or part-time positions and this number is increasing each month. Secondly, Clubs have invested over \$350 million in new and refurbished buildings in the past five years, creating thousands of additional jobs in the building industry and in the services sector and suppliers of furniture and materials. There are thousands of other jobs created in the wholesale, retail and service sectors supplying an increasing array of goods and services to clubs throughout the State.

The expansion in the range and quality of facilities provided by Clubs has boosted our tourism income as clubs cater for the needs of thousands of interstate and international tourists each month.

The State and Federal tax revenues from Clubs have been of some significance in addressing the range of economic and social policies and programs of each level of Government.

5 Outcomes from this Inquiry

It is understood that the Productivity Commission, in conducting this Inquiry, does not intend to make any specific recommendations to government. Should, however, the Federal Government determine to take the findings of the Productivity Commission to the next stage and formulate some proposals for changes to the administrative, regulatory or taxation arrangements which currently apply, Clubs Queensland would like to place on record our preferred outcomes from such a process. We would elaborate on each point when and if the need arises.

- Maintenance of state based regulatory model and state based tax system
- GST - if introduced, must be at least cost neutral to clubs
- Maintenance of principle of mutuality and exemption for sporting expenditure
- Maintain distinction between community and private ownership of gaming machines, and the differentials regarding gaming tax rates and numbers of machines
- Restrictions of private group owned machine numbers (eg Hotel chains controlling

over 2000 gaming machines in their venues).

- Greater assistance from government re employment training and development of community programs
- Federal regulation of Interactive Gaming (Internet) legislation.
- Greater flexibility in operation of workplace agreements in clubs
- Greater competition in the provision of satellite services eg racing on Sky
- breaking exclusivity of Casinos over certain games: use of the NCP review process to end Casino monopoly