

**[Submission from the Australian Hotels Association (NSW)]**

## **TERMS OF REFERENCE:**

In conducting the Inquiry the Productivity Commission will investigate:

- a) the nature and definition of gambling and the range of activities incorporated within this definition;
- b) the participation profile of gambling;
- c) the economic impacts of gambling industries, including industry size, growth, employment, organisation and interrelationships with other industries such as tourism, leisure, other entertainment and retailing;
- d) the social impacts of the gambling industries, the incidence of gambling abuse, the cost and nature of welfare support services of government and non-government organisations necessary to address it, the redistributive effects of gambling and the effects on community development and provision of other services;
- e) the effects of the regulatory structures - including licensing arrangements, entry and advertising restrictions, application of the mutuality principle and differing taxation arrangements - governing the gambling industries, including the implications of differing approaches for industry development and consumers;
- f) the implications of new technologies (such as the internet) and the effect on traditional government controls on the gambling industries;
- g) the impact of gambling on Commonwealth, State and Territory budgets; and
- h) the adequacy of ABS statistics involving gambling.

# INTRODUCTION

The Australian Hotels Association (NSW) welcomes this inquiry by the Productivity Commission of Australia's gambling industries.

The AHA (NSW) agrees with the first sentence under the Commission's heading "The Nature and Definition of Gambling". That first sentence states:

*"Gambling involves staking money on uncertain events driven by chance."*

The AHA (NSW) also notes that the prime forms of gambling in Australia are:

- gaming machines
- multi terminal games such as horse racing machine games
- table games in casinos
- betting and wagering on racing
- betting and wagering on sporting events
- lotteries; and
- numbers games such as Keno and Bingo

The AHA (NSW) submission will detail:

- a short history of the NSW hotel industry;
- a short history of the gaming industry in NSW;
- the vexed question of gaming taxation;
- the Federal taxation of registered clubs;
- the mutuality principle;
- community protection and regulation;
- the social effects of problem gamblers; and

- hotel industry licensing and training initiatives.

Naturally all of this will relate back to the overall structure and taxation of the gambling industry and its relationship to the Federal and all State Governments and their budgets.

The AHA (NSW) has a vital interest in the Productivity Commissions investigation and report as 1999 will see **hotel gaming turnover in NSW reach \$11 billion**. This figure makes NSW hotel gaming the biggest in Australia.



# NEW SOUTH WALES HOTEL INDUSTRY

NSW hotels are the oldest hospitality form in NSW. Until the 1950s when registered private clubs first appeared hotels offered the most extensive services to the public over a period of some 160 years.

However, hotels paid the NSW Government highly for the privilege that they were extended in the way of the State's highest licence fees.

The oldest liquor licence in NSW belongs to the Woolpack Hotel, which is still trading at Parramatta. The Woolpack first served liquor in 1796. The oldest building licensed as a hotel is the Macquarie Arms at Windsor, which still operates as a hotel after first being licensed in 1815.

The oldest continuous licence in the same building is the Surveyor General Hotel, at Berrima, which was first licensed in 1835.

The famous Rocks pubs the Lord Nelson and the Hero of Waterloo were licensed in 1842 (as The Shipwrights Arms) and in 1845 respectively. These hotels, which have been stripped back to the original sandstone building blocks, are some of the most popular in Sydney.

Until the late 1980s, the great majority of hotels were owned by the State's breweries. However, a number of corporate crashes led to the breweries selling the freeholds of individual hotels, with the purchasers often being the former lessees. Indeed, in 1966 some 43% of the State's hotels were in the hands of the breweries. In many cases much needed renovations or refurbishments were neglected during this period.

Of 2,022 hotels in 1993/94, some 1,225 were freeholds and a further 663 were private leaseholds. Only a very small number of brewery-owned hotels remain.

The State's hotels are, therefore, overwhelmingly owned by small-to-medium size businesses. Many hotels are run by individual families, with all members of the family working in, and often living at, the business.

**THE AUSTRALIAN  
HOTELS  
ASSOCIATION  
(NSW)**

The AHA itself can trace its beginnings back to 1873, when the Licensed Victuallers Association of NSW was formed. Mr Charles Darton was the first appointed President with F Bonfield as the paid secretary working from 10.00 am to 12.00 noon each day. The new Association set out rules and objectives and opened an office at 106 Elizabeth Street on 25 November 1873. By 1875 the Association had 427 members.

**THE FUTURE**

The NSW hotel industry faces many challenges as part of a rapidly changing Australian hospitality industry. This rapid evolution ranges across all sectors of our service industries as Australia comes to grips with the fact that we no longer live off the sheep's back but are part of the greater tourism and hospitality industry that has now become the number one industry in Australia.

In our more affluent society, expectations of Australian people continue to change as families strive for a higher standard of living and a better environment for their children and grand-children.

The Australian tourism and hospitality industry has thus seen dramatic growth in domestic tourism and an increase in international tourists from around half a million in the early 80s to 3.9 million in 1997. (Source: International Visitors Survey 1997, Bureau of Tourism Research) Further, this expansion will continue as our international inbound tourists are projected to increase to over 10 million by 2005. Whilst there are slightly differing views on projected tourism figures the above growth figures are not at the high end of expectations.

The hotel industry has needed to move with these rapid changes, although in NSW the hotel industry has faced other challenges that has set this State aside from the rest of Australia.

In the years ahead, NSW hotels will most definitely look different and be more complex businesses than they were at the turn of the century and even comparing the same hotels to a mere 20 years ago.

NSW hotels will be a mix of business, depending very much on the region and the clientele they serve. The hotel of the future will continue to offer a wide range of sophisticated services, although many hotels will most likely specialise in one or more profit centres including, fine dining or food in general, liquor, accommodation, gaming, entertainment, or a high profile sporting orientation, as well as continuing the great Australian hotel tradition of offering a friendly community atmosphere for a quiet drink and fellowship.

# A HISTORY OF GAMING IN NEW SOUTH WALES

**Gambling and gaming has been an accepted part of the cultural history of the Australian way of life**, with little social stigma attached. Rather, it has been seen much like the role sport plays in society.

This view of gambling is somewhat different from other countries such as Britain and the United States of America, where gambling historically has been seen more like a vice (McMillen, 1996).

In 1956, NSW registered clubs gained the right to exclusively operate gaming machines so that funds could be used for the community benefit. According to Breen and Hing, in the Australian Journal of Hospitality Management, 1998, this saw an increase in the number of establishments and a growth in the size of members and guests. This was helped by the fact that there was *“little legislation controlling (the club movement) and it enjoyed exclusive rights to operate gaming machines”*.

For the next 41 years, the NSW Club movement enjoyed a virtual monopoly, with many clubs growing into huge commercial enterprises, from the misuse of the mutuality principle, under the guise of community benefit.

In 1984, the NSW Government allowed hotels to operate five (5) Approved Amusement Devices (AADs), giving the hotel industry their first introduction to gaming. In 1988/89, hotels were allowed a further five (5) machines, bringing the total allowable number of AADs to 10.

It was not until April 1, 1997, that hoteliers were given the chance to compete in the gaming industry, when the Government allowed hoteliers to operate up to 15 poker machines. These had to be coupled with equal numbers of AADs making it commercially restrictive.

Whilst we have used the word “compete” above, the **competition is still very unequal and unfair**. Clubs have unlimited gaming with the total number of poker machines exceeding 66,000, while hotels face onerous restrictions under existing hotel gaming legislation.



Further amendments to the Liquor Act 1982, in June 1998 enabled hotels to operate 15 poker machines, without the need for coupling with AADs. The new amendments to the Liquor Act also allow the Treasurer to sell or otherwise provide permits that enables hoteliers to acquire up to 15 permits per hotel, thus providing 30 poker machines as a maximum.

The NSW Government recently sold 2,300 permits through a tender process. The outcome is that nearly 100 hotels will have the maximum of 30 poker machines and a range of hotels will have between 15 and 25 poker machines in operation.

Even with the NSW Government allowing gaming in hotels on a restrictive level, the NSW club movement has maintained its competitive advantage with its casino-like gaming rooms and access to unlimited gaming machines.

It should also be noted that the registered clubs have had full gaming for 42 years, whilst the hotel industry has only had access to poker machines since April 1, 1997. Therefore, it is disturbing to see that in over four decades, the registered club movement has not undertaken any initiatives regarding problem gamblers.

In contrast, the hotel industry, through the AHA (NSW), has developed a number of products and is pursuing these vigorously in order to bring the highest quality service and gaming operations for the enjoyment of all hotel patrons.

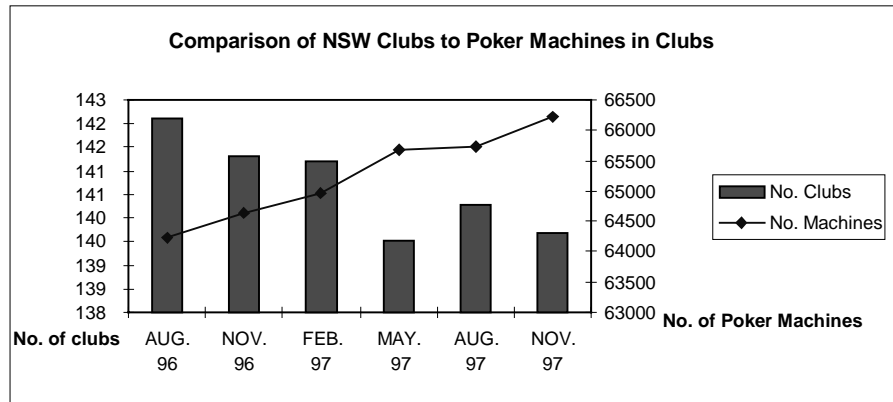


# GAMING TAXES IN NSW

## REGISTERED CLUBS

As noted previously, the gaming industry in NSW is a sophisticated and mature market. Registered clubs in NSW have had legal gaming for 42 years and have had a virtual monopoly on gaming activities in this State for most of that time.

Registered clubs have unlimited access to poker machines and whilst the number of clubs with gaming machines has declined in recent years, the number of poker machines held in registered clubs has increased to 66,287 (Source: Department of Gaming and Racing November 1997).



(Source: Department of Gaming and Racing November 1997).

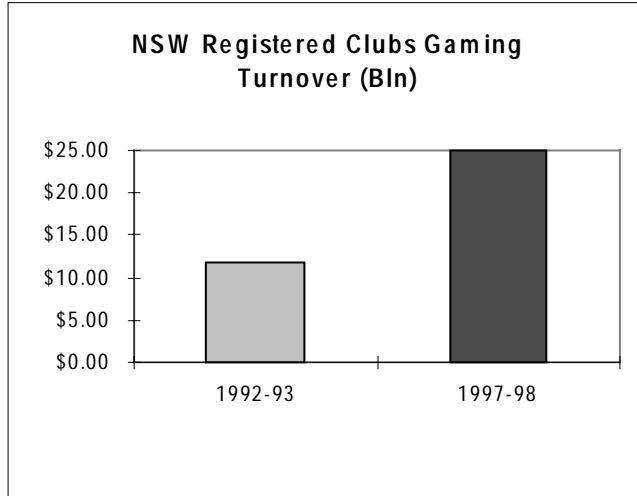
Many of the bigger clubs are now nothing more than commercial operations competing in the market place across a range of businesses.

*“Given that the gaming operations of large clubs are essentially commercial in nature, the tax rate applying to these clubs will be increased to help ensure competitive neutrality.”* (Source: NSW Government Budget Information 1997/1998)

However, the registered clubs have a substantial advantage in gaming, with a preferential taxation system and payment of little company tax which, in turn, allows the club to heavily subsidise other areas of operation such as their bar and restaurant activities.

**Many clubs have entered the commercial world by operating businesses in accommodation, gymnasiums, hair dressing saloons, butcher shops, cinemas and a range of activities that have sent many small businesses in the State of NSW to the wall, whilst their external community benefit has been minimal.**

Estimates for the present financial year show gaming turnover in Registered clubs in NSW at around \$25 billion. Gaming in registered clubs has increased by around 111 percent over the past 5 years or an increase in money terms from \$11.9 billion in 1992/93 to an estimated \$25 billion in 1997/98.



(Source: Department of Gaming and Racing November 1997).

The profit from this turnover will be approximately \$2.5 billion. This will return a gaming tax to the State Government of \$549 million in 1998/99 (Source: NSW Budget Papers 1998/99).

It is interesting to note that the very small clubs pay no gaming tax whilst the tax scale allows a club with \$1 million profit to pay only 16.1 percent.

Indeed, sporting clubs do not even need to lodge a tax return.

**HOTELS AND TAXES** The hotel industry has a progressive taxation system starting at 15 percent and rising to 40 percent. Hotel gaming taxes paid to the State Government should be close to \$277 million in 1998/99 (Source: NSW Budget Papers). In a full year under the present hotel gaming regime, the State Government should collect around \$320 million from hotel gaming.

This hotel gaming taxation emanates from a very restricted regime, legislated for hotels in this State.

Hotels are currently only allowed to own and operate 15 poker machines. However, a further 2,300 poker machines are presently being sold through permits issued from the Government. At the conclusion of this process there will probably be a little over 100 hotels operating 30 poker machines and a smaller number owning around 20 poker machines.

The unfettered nature of gaming in registered clubs contrasts to the very restrictive hotel gaming regime.

**This is contrary to the National Competition Policy agreed to by the Federal and all State/Territory Governments in Australia.**

GAMING PROFIT	CLUB TAX %	HOTEL TAX %
\$100,000	0.0	22.5
\$500,000	12.2	26.5
\$1,000,000	16.1	30.75
\$5,000,000	23.02	38.15
\$20,000,000	24.32	

Through the overall taxation regime, the hotel industry contributes more indirectly to the community. This is by way of:

- State gaming taxes
- various other State taxes
- Federal Company Tax
- Federal Income and Provisional Tax; and
- Wholesale Sales Tax (rebated to States because of the abolition of State liquor licence fees)

**TAXATION  
- A COMPARISON**

	CLUBS	HOTELS
Gaming Turnover <sup>1</sup>	\$26 billion	\$11 billion
Gross Profit Gaming <sup>1</sup>	\$2.6 billion	\$1.1 billion
State Gaming Taxes <sup>1</sup>	\$549 million	\$330 million
W/Sale Sales Taxes <sup>2</sup>	\$46 million	\$103 million
Company Tax <sup>3</sup>	\$30 million	\$396 million
Income / Provisional Tax	-	\$100 million
<b>TOTAL TAXES</b>	<b>\$625 million</b>	<b>\$929 million</b>
<b>NET REVENUE</b>	<b>\$1.975 billion</b>	<b>\$171 million</b>

*\*\*For Calendar year 1999\*\**

for State gaming figures for hotels and clubs are based on the NSW Budget Papers 1998/1999.<sup>1</sup>

Wholesale sales tax based on the Federal Government rebate to State Government in lieu of liquor licence fees.<sup>2</sup>

Estimated total Company Tax for NSW hotels based on taxable income, inclusive of profits from other hotel sources, at 36%. Company tax for clubs is a generous estimate arrived at following a review of large registered clubs.<sup>3</sup>

**DESIRED OUTCOME** Under Federal taxation, the registered club movement cannot hide behind the mutuality principle anymore

The Australian taxpayer is entitled to believe that super clubs making super profits will pay the normal amount of Company / Income Tax for those profits.

**State taxes on all gaming in NSW should be on a level playing field. If registered clubs in NSW were taxed in exactly the same manner as NSW hotels the State Government would collect \$309 million more revenue.**

This vast sum of money could be used for hospitals, schools, roads and other community benefits.



# CLUB BENEFIT TO THE COMMUNITY

The AHA (NSW) appointed **Mr Kevin O'Rourke from Firmstone & Feil** to undertake a review of the gaming taxes relating to registered clubs and the hotel industry in NSW.

Mr O'Rourke also looked at the registered clubs contributions to the community and how that related to the overall economic benefit for the State of NSW.

The following is his report:

## **THE NSW CLUB INDUSTRY A NET COMMUNITY BENEFIT?**

The purpose of this paper is to outline briefly whether, in financial terms, the NSW club industry provides a net community benefit.

Our analysis is relatively straightforward. We have examined what the community "gives" the clubs through state tax subsidies. And we have examined what the clubs "give" the community through community contributions (in June 1997, the clubs used their community contributions as an argument against gaming machine tax increases).

We have obtained our data from a 1995 report by Arthur Andersen which provides a detailed analysis of 11 NSW clubs. Included in that report are details of gaming machine profits and community contributions for each of the 11 clubs. We have used these contributions as a measure of what each club "gave" to the community.

Also included in the Arthur Andersen report are details of gaming machine profits for each of the 11 clubs. We have measured what the community "gives" the clubs by reference to the relative tax subsidies given to the clubs by the NSW Government. This is the difference between the tax payable on machine profits using concessional club tax rates.

The current rates are set out in the following table:

HOTEL TAX RATE		CLUB TAX RATE	
Up to \$25,000	15%	Up to \$100,000	0%
\$25,001 to \$400,000	25% + \$3,750	\$100,001 to \$200,000	1%
\$400,001 to \$1 million	35% + \$97,500	\$200,001 to \$1 million	20% + \$1,000
Over \$1 million plus	40% + \$307,500	Over \$1 million	24.75% + \$161,000

We have used current tax rates for clubs and hotels in calculating the relative tax subsidies given to clubs by the NSW Government.

CLUB	MACHINE PROFIT \$	CLUB TAX \$	HOTEL TAX \$	TAX SUBSIDY \$
Canterbury Leagues	25,943,362	6,334,482	10,284,844	3,950,362
Rooty Hill RSL	21,786,171	5,305,577	8,621,968	3,316,391
Blacktown Workers'	16,738,660	4,056,318	6,602,964	2,546,646
Eastern Leagues	13,138,871	3,165,371	5,163,048	1,997,677
Harbord Diggers	12,189,760	2,930,466	4,783,404	1,852,938
Club Marconi	11,957,016	2,872,861	4,690,306	1,817,445
Canterbury RSL	11,088,933	2,658,011	4,343,073	1,685,062
Revesby Workers'	10,476,515	2,506,437	4,098,106	1,591,669
Gosford RSL	4,643,451	1,062,754	1,764,880	702,126
Tweed Heads GC	2,941,339	641,481	1,084,036	442,555
Matraville RSL	2,858,054	620,868	1,050,722	429,854



When community contributions are compared to tax subsidies, the results are startling.

In every case, the clubs took from the community more than they gave back. Rooty Hill RSL took more than \$3.1 million from the community, even allowing for community contributions. The Blacktown Workers Club took more than \$2.5 million from the community - and gave back nothing.

Canterbury RSL returned to the community about 1/16th of what the community gave to it. Matraville RSL returned about 1/13th of what it was given. And so on.

Even so, this analysis ignores the other benefits clubs enjoy: minimal, if any, company tax; no restrictions on the type, nor number, of gaming devices they can operate; and massive cross-subsidisation of food and beverage and other services. Further, if the 1994 figures were updated they would most likely paint a worse picture of the clubs because of the large increase in machine profits in recent years and, hence, the relative tax subsidy which clubs enjoy.

We conclude that if “community contribution” is the rationale (either wholly or in part) for the NSW Government to give massive tax subsidies to clubs, then the level of taxation should be urgently reviewed. In financial terms, there is no net community “benefit”, as the following table illustrates:

<b>Club</b>	<b>Community Contributions</b> \$	<b>State Tax Subsidy</b> \$	<b>Net Community Benefit</b> \$
Rooty Hill RSL	215,071	3,316,391	-3,101,320
Blacktown Workers'	0	2,546,646	-2,546,646
Harbord Diggers	256,829	1,852,938	-1,596,109
Canterbury RSL	104,679	1,685,062	-1,580,383
Revesby Workers'	223,189	1,591,669	-1,368,480
Canterbury Leagues	2,616,766	3,950,362	-1,333,596
Club Marconi	520,301	1,817,445	-1,297,144
Gosford RSL	76,253	702,126	-625,873
Matraville RSL	32,983	429,854	-396,871
Eastern Leagues	1,752,550	1,997,677	-245,127
Tweed Heads GC	222,517	442,555	-220,038

# THE MUTUALITY PRINCIPLE

In NSW, competition within the hospitality industry has been significantly distorted and heavily skewed in favour of the registered club sector of the industry. This distortion has resulted from the continued application of the mutuality principle from an era when clubs were essentially organisations comprised of members joined for a common interest where membership fees were the main source of income.

However, the club movement has developed substantially over the last 20 years turning hundreds of clubs into large commercial and impersonal, wealthy gaming and liquor outlets. This unsatisfactory state of affairs has arisen mainly as a result of two factors:

- a) the generous income tax advantage afforded by the mutuality principle;
- b) the unfettered growth of machine gaming activities permitted to clubs in NSW.

The Inquiry by the Productivity Commission is the first major initiative to examine the philosophy of the mutuality principle and its extension to large gaming and liquor outlets virtually by default. This particular term of reference is one where the imbalance can be redressed solely by the Commonwealth Government taking the necessary legislative action without the need for complementary State Government action.

The attached analysis of the 1996/1997 financial year for the top performing clubs in NSW (*Registered Clubs Quarterly Gaming Analysis*, Department of Gaming and Racing), highlights the advantages and perks that benefit registered clubs. These benefits includes:

- They pay minimal, if any, company tax;
- Have the lowest state poker machine levy in Australia;
- Receive preferential treatment regarding local planning matters;
- Return little of their profits to the local community;
- Have no restrictions on the type of, nor the numbers of, gaming devices they can operate; and
- Run food, beverage, accommodation, and other businesses and services at massive losses to minimise taxes for State and Federal Governments.

**THE PROPOSED  
GOODS AND  
SERVICES TAX  
("GST")**

The Federal Government is proposing a new taxation system for Australia. As part of this new taxation system a Goods and Services Tax ("GST") is proposed.

The Federal Government's official document titled "Tax Reform, Not a New Tax, a New Tax System" covers 207 pages on the Federal Government's new taxation proposals.

Under the heading "Price Effects" (by industry), sport, gambling and recreational services will increase 0.9 percent. Whilst it is of concern for the industry, the greater concern are other statements in the document. On page 98 which states "gambling and lottery activities will be included in the tax base ... there may need to be corresponding reductions in State gambling taxes".

Further on page 100, the document states "the estimates (that is the 0.9 percent increase) reflect an assumption that the States will reduce tax on gambling by an amount equivalent to that raised by the GST."

The above must hold some concern to the gambling industry in that there has obviously been no discussions or any agreement with the State Government of NSW on this matter. The hotel industry does not believe that the States will be able to fully reduce their State gambling taxes across the board of the full amount of the GST.

Therefore, a greater rise than 0.9 percent would be anticipated if the GST were to come into law.



# THE ECONOMIC IMPACT OF GAMING IN HOTELS

Gaming has certainly had great economic and social impacts throughout Australia. The money the gaming industry currently generates has had a significant impact on a variety of areas - community services, health, and education to name a few.

In NSW, gaming and betting play a significant part in the State economy, earning the NSW Government a total of \$1.554 billion in taxes in 1998/1999, which is 11% of the State's total taxes. Hotel gaming machine tax revenue alone has increased four fold since the introduction of poker machines into the hotel industry.

In fact, the NSW State Budget estimates that the State Government will gain \$277 million in gaming taxes from the NSW hotel industry in the 1999 financial year.

This large contribution accounts for 19% of all State Government Gaming revenue and almost 2% of total State taxes. However, the State Government also received a further \$115 million windfall from the hotel industry with its sale of 2,300 poker machine permits.

Therefore, the hotel industry in 1998/1999 will contribute 25.23% of all State gambling taxes or nearly 3% of all taxes in NSW.

Of all other gaming operators, the registered club movement contributes 38% of total State gambling taxes, lotteries provide 18%, racing contributes 13% and the Star City Casino and other forms of gambling such as Keno making up the rest.

These State taxes - along with payroll tax and land tax as well as the increased payment in Federal taxes such as wholesale sales tax and company tax - are an added bonus for the community as they go a long way towards better education facilities, more hospitals and improved community services for the community and general government services.

Without the opportunity for hotels to operate poker machines, the State and Federal Governments would more than likely have to increase existing taxes or add new taxes to make up any shortfall. In fact, South Australian Premier, John Olsen, has recently said that without poker machines, other taxes or charges would have to rise or services be cut.

## AN EMPLOYMENT OPPORTUNITY

The introduction of gaming into hotels has also had a dramatic impact on investments by the hotel industry, hence a significant boost to employment. This increase in employment is not restricted to purely the hotel industry but other areas such as the construction industry.

While there is no firm figures on the numbers employed in the hospitality industry, estimates suggest that there are currently around 120,000 employed by the State's hotels. This figure has increased over the past year from 100,000. In fact the hospitality industry is far outstripping any other industry in terms of employment.

While not all this can be attributed to gaming, it is a commonly held view that with the advent of gaming in hotels, there has been a conservative 10 percent increase in direct employment.

"In the Gaming room, we have had to employ an extra six permanent staff and we have had to increase numbers of people employed for bar duties etc. In fact since hotels gained poker machines, we have almost doubled our bar staff."

*The St George Tavern*

"Just on the gaming room floor there would be an increase of between 30 to forty percent in employees."

*The Bondi Hotel*

"We have employed an extra 16 people, double the number we employed pre-poker machines."

*The Kookaburra Hotel*

Other hotels with gaming operations - big and small - also suggest they have had to significantly increase the level of employees due directly to the introduction of poker machines. One hotel reports its wages for gaming machine operations have risen from \$2,000 to \$4,200 per week and other areas of its operation can now be maintained through the hotels increased gaming revenue.

# THE CONSTRUCTION BOOM

As mentioned earlier, the employment impact has not only been that of direct staffing in hotels, but also in other associated industries. One of the largest associated industries affected by the growth of the industry is the construction industry, which has enjoyed significant refurbishment, renovation and redevelopment work from the hotel industry since the inception of poker machines.

A survey undertaken by the AHA (NSW) in March of 1998 indicated that 272 hotels in NSW had started or planned renovation/refurbishment works totalling around \$221.3 million over an 18 month period. Another 87 respondents had also undertaken significant work, however costs were not made available. The research also showed:

- The average amount spent by each hotel on renovations was \$630,000 (excluding the Cronulla Hotel see note below)
  - \* It should also be noted that there are a substantial number of \$1 million plus refurbishments occurring throughout the industry.
- Almost 20 percent of renovations were costed at over one million dollars
- The largest renovation(\$50 million) is occurring at the Cronulla Hotel
- Of all renovations, 51 percent were in the Sydney metropolitan area and 49% were in country NSW.

Leading design and construction companies in the hotel industry, say that this figure could easily be doubled and would still be a conservative picture of the investments hotels were making in their properties.

Well known designers in the NSW hotel market, Design Troupe, says that since December last year - when hotels started to see the benefits of gaming - the number of hotels that have undertaken renovations through them has doubled. This building boom is not only being witnessed in the Sydney metropolitan area, but also in regional NSW from the far south such as Albury and Tumut, to the far north coast.

KGB Design and Construction says it has witnessed a similar growth. It says that not only has the numbers of hoteliers making inquiries grown by 200 to 300 per cent, but the amount hoteliers are willing to spend has more than doubled.

Such estimated increases far exceed that of the national average growth in construction of 7.5% for non-residential buildings. This increase has certainly had a dramatic effect on the employment in the construction and related service industries.

This can also be backed up by research undertaken in Victoria, by Arthur Andersen for the Victorian Casino and Gaming Authority, which concluded that gaming venues spent on average, \$700,000 on refurbishments. It says: "Total gaming and casino related construction expenditure has grown from \$38 million in 1992-93 to \$639 million in 1995-96.

According to industry estimates, a \$1 million spend in the construction industry would provide positions for 10 -15 employees a year, both directly and indirectly. Therefore, with figures available to the AHA (NSW), the hotel industry has created at least 5,000 to 7,500 positions in the construction industry.

The introduction of poker machines have also seen additional employment opportunities created in other associated industries from entertainment through to gaming manufacturers, bar suppliers, maintenance, security, catering, accounting and auditing.

## THE ECONOMIC IMPACT TO THE INDIVIDUAL

While the AHA (NSW) concedes that on an individual basis there is a small number in the NSW population whose finances may be adversely affected, it believes that for the majority of the population there has been no adverse affect on their financial situation.

While there is no hard figures available, given the above, it could be argued that overall, the majority of the population has benefited from gaming given the increases it has provided to the State and National Economies.

A report undertaken by the Victorian Casino and Gaming Authority - *Impact of the Expansion in Gaming on the Victorian retail Sector March 1997* - shows that the introduction of gaming machines has had no adverse affect in the expenditure on retail goods and services at a State level.

While it also suggests that there was a rapid decline in personal savings since the introduction of poker machines, there strong and complex reasons why this has occurred. These include:

- As quoted in the above mentioned report ... “The majority of the reduction in Victorian household savings (more than two thirds) between 1990 and 1996 was taken up by increased expenditure in services and retail” ; and,
- At the same time poker machines were introduced, Victoria was suffering a substantial depression. This meant that people were using their savings to maintain their lifestyle.

In fact, the above points are justified, given that the average personal savings is currently on the increase, while at the same time the average spend on poker machines are also on the increase.

Furthermore, there is an added benefit to the community and that is the individual community contributions that NSW hoteliers are making. Research pre and post poker machines by the AHA (NSW) shows that NSW hoteliers currently contribute an average of \$13,770 to community groups either directly, in-kind or through fund-raisers. This is an increase of over 30% compared to pre-poker machines when the average was \$10,995 per hotel.





# RESPONSIBLE GAMING

## HOTEL INITIATIVES

The NSW hotel industry recognises that there are a small number of people adversely affected by gaming. This has led to the industry, through the AHA (NSW), developing a number of products and pursuing these vigorously in order to bring the highest quality service and gaming operations for the enjoyment of all hotel patrons.

**It should be noted that the registered clubs have had full gaming for 42 years, whilst the hotel industry has only had access to poker machines since April 1, 1997.** Therefore, it is disturbing to see that in over four decades, the registered club movement has not undertaken any initiatives regarding problem gamblers or the responsible service of gaming in this State.

These initiatives undertaken within the short time of hoteliers operating poker machines include activities such as a code of practice and a player information booklet.

## CODE OF PRACTICE

The AHA (NSW) introduced a NSW Hotel's Gaming Code of Practice in April 1997. Currently this code of practice is undergoing a review and when formulated, the new code will form an integral part of the entire patron care program being developed. It is intended the new edition will be made available to all AHA (NSW) members and will be part of a broader awareness campaign being undertaken by the AHA (NSW) within weeks. An example of the earlier Code is attached (Appendix A).

## PLAYERS GUIDE

In May 1997, the AHA (NSW) "Players Guide" was launched by Richard Face, Minister for Gaming and Racing. This guide provides details regarding the introduction of poker machine style gaming devices into the NSW hotel industry. The Players Guide also includes, helpful suggestions regarding sensible participation in recreational gaming, and a list of agency's which provide counseling and financial advice to individuals who may identify that they have a gaming abuse problem.

The Players Guide was welcomed by the State Government, commending the AHA (NSW) for initiating a concept that promotes responsible gaming.

The AHA (NSW) was the first industry association in NSW to develop this type of informative Players Guide. In the development stage of this material, the association sought consultations with a wide range of interested groups, these included:

- the Department of Gaming and Racing
- the AHA (SA)
- Mr Paul Symond, St Edmund's Private Hospital
- Star City Casino

Contact was also established with:

- Gam-Anon (Family and Friends of Compulsive Gamblers)
- Gamblers Anonymous
- Gamblers Counseling Service
- Centacare Catholic Family Services
- Creditline and Lifeline
- The Psychiatry Research and Teaching Unit
- Macquarie Drug and Alcohol Service
- Odyssey House
- William Booth Institute

#### **OTHER INITIATIVES**

In 1997 the AHA (NSW) planned a number of other initiatives to further assist with social problems that are associated with gaming. These were submitted to the Casino Community Benefit Fund for financial assistance in:

- Developing a responsible service of gaming course.
- Conducting a survey of Association members to gather statistical information, identifying gaming related problems and to deliver a series of State-wide seminars focusing on gaming related problems and issues.
- Developing a self barring or exclusion program for problem gamblers.

The 1997 round of funding from the Casino Community Benefit Fund has been placed on hold pending a review of the allocation system.

**THE WAY FORWARD** The AHA (NSW) is currently developing a comprehensive package to address the responsible service of gaming patron care. This will include such things as training, hotel gaming accreditation, a self barring/exclusion program, code of conduct, player hotline, and the promotion of gaming support services to both employees and the industry.

**MANAGEMENT AND ACCREDITED VENUES** The main thrust of the hotels plans is for the development of gaming venue management and accreditation of gaming venues. This certificate will be issued to hoteliers who:

- Undertake the appropriate responsible service of gaming and Responsible Service of Alcohol courses, (this will also include a percentage of their staff).
- Display the appropriate signage.
- Adhere to the NSW hotels gaming code of practice.
- Display appropriate player assistance material including lists of counseling agencies.
- Adhere to responsible marketing and promotions guidelines.
- Participate in on-going employee responsible gaming education programs and maintenance of a responsible service of gaming employee register.
- Participate and actively support player self exclusion programs.

**PATRON CARE TRAINING** This course will be available to all people working in the hotel gaming sector and will also be relevant to other gaming industry personnel.

A draft copy of the teaching manual for the course was recently presented to the Liquor Administration Board, the NSW Department of Gaming and Racing and the NSW Gaming Inquiry.

The initial feedback has been extremely positive, with accreditation likely in the new year.

Instruction on the illegality of the provision of credit for the purpose of Gaming is an integral component in the course. Signage is also being developed to advise patrons of the legality of providing credit for gaming purposes. This signage will also assist and reinforce hotel gaming venue staff in regard to their obligations in this matter.

**SELF BARRING**

The AHA (NSW) is currently developing a self barring / exclusion program. This program will assist individuals who identify they have a gaming problem and who wish to be excluded from gaming venues. The program's development will include input from counsellors and will seek to provide an easily accessible and non-threatening exclusion program that can relate to all sectors of the gaming industry.

**COMPLAINT  
RESOLUTIONS**

The AHA (NSW) intends to establish a complaints action program. This mechanism will allow patrons to lodge complaints if they are dissatisfied with the level of professional responsibility, or with serious problems or concerns related to payment of winnings. The complaints action program would be linked to the professional certification of hotel gaming venue managers. The contact phone a 1800 line and or address information would be identified on the AHA (NSW) accreditation of venue signage displayed in all AHA (NSW) members premises.

**INDUSTRY LICENCE**

**The hotel industry would like to see the licensing of managers and shift supervisors, and all other employees who work in a separate gaming room.**

This accreditation should, in part, be obtained by the undertaking of a patron care gaming course. This should, in turn, be regulated through the Department with course accreditation by VETAB.

Therefore, the hotel industry does seek tighter control, and more training accreditation throughout the gaming industry in NSW. This would give the Government a far greater sense of security with the industry. From the industry's view point these new training accreditation procedures would assist the industry move to a higher level of service to enhance its reputation in the community as a good corporate citizen.

#### **HOTEL GAMING MARKETING**

The AHA (NSW) supports the concept of responsibility in marketing and promotion of gaming and gaming facilities. Signage outlining appropriate and approved marketing campaigns will be included in the hotels signage package. The responsible service of gaming course will also contain details of approved / appropriate marketing and promotion information as required by the Department of Gaming and Racing.

The AHA (NSW) is developing a hotel gaming signage program. This will include:

- the hotel gaming code of practice.
- NO credit for gaming
- notice of warning to minors
- problem gambling assistance information
- AHA (NSW) accreditation of gaming venue
- self exclusion program
- complaint resolution

The above signage is currently being developed by the AHA (NSW) and will be distributed in a packaged format to all AHA (NSW) members when completed.

#### **UNDER AGE GAMING**

Current licensing regulations exclude minors from entering licensed gaming areas and / or participating in the use of gaming devices. The AHA (NSW) currently provides members with appropriate signage in this regard. A specific minors poster will be included in the hotel gaming signage pack.

**EDUCATING MINORS** An educative training package is also currently being prepared by the AHA (NSW). This project is being developed in cooperation with the NSW Department of Education and Training. The package will provide information on a broad range of hospitality issues. It will also outline issues of underage accessibility to licensed areas, including Gaming facilities, and is being developed for distribution throughout the entire NSW School system.

**PLAYER ASSISTANCE** The AHA (NSW) has already developed the "Players Guide". A new edition of this informative booklet will be produced with updated information including details of the G- Line, which had not been established in NSW prior to the introduction of this material.

It is envisaged a smaller brochure outlining issues of gambling abuse and its impact on; the individual, family and friends, and the broader community will also be developed for distribution to the hotel industry. Signage outlining agencies who offer counselling services will be included in the hotel gaming signage package distributed to all AHA (NSW) members.

**Promoting Counseling Agencies** The AHA (NSW) will continue to discuss various issues relating to problem gaming with representatives from the various gambling support agencies.

The AHA (NSW) responsible service of gaming course will be developed in accordance with requirements as set down by the Department of Gaming and Racing and with input from a variety of counseling agency representatives.

Approval for display of signage and brochures containing agency contact details will be sought prior to production. The AHA (NSW) is also available to participate in industry / agency forums that discuss issues relating to gaming abuse problems.

**Community  
Education**

The AHA (NSW) gaming signage package will be available to all Association members. The signage package will have a significant amount of educative information. They will also cross reference with the Players Guide and the counsellor / agency brochures that will be available. The hospitality information package being developed for the school system will also provide an early educative intervention for individuals regarding gaming and other hospitality industry issues, such as the Responsible Service of Alcohol and the ServeSafe program for food handling and hygiene.

**Responsible  
Gaming**

While the AHA (NSW) would like to progress with its planned activity it is felt that a whole of industry approach should be established with involvement from the Government to address the social issues that may arise with gaming.

As demonstrated, the hotel industry, through the AHA (NSW), has undertaken a number of initiatives already - within a year of operating poker machines. This is more than that of clubs which have had gaming for a lot longer but have done little to address the problem.

# PROBLEM GAMBLING SUPPORT

As previously mentioned, NSW hoteliers through the Players Guide and signage promotes the services of gaming support agencies. It has also, through the AHA (NSW), held consultation with these services when developing initiatives to provide an environment which minimizes the social impact of gaming.

## SUPPORTING SERVICES

The industry recognises the need for these services to provide support to the small minority of people who are affected negatively by the provision of gaming.

Therefore it is now working to further improve the awareness of these agencies, both to the community and hotel staff, through activities outlined above.

## COMMUNITY BENEFIT FUND

The industry also recognises that there is a need for services to address the social impact of gaming to be funded.

The AHA (NSW) in its recent submission to the NSW Gaming Inquiry supported the creation of a NSW community gaming levy.

The appropriate section on the community benefit fund from the AHA (NSW) submission to the NSW Gaming Inquiry follows for your information:

*The levy would be industry-wide and would take ½ percent of gaming revenue across the State from all clubs, hotels and the Star City Casino.*

*Therefore, Star City Casino, will move from 22.5 percent plus two percent to 24 percent plus ½ percent.*

*The above levy should raise around \$19 million each year. All money should be channelled to an appropriately named community fund which should be overseen by a board representing key community providers such as Wesley Mission, Salvation Army and St Vincent de Paul to name a few. This board should be established with the help of the Department of Community Services.*



*Funds raised should be used exclusively to address the issue of, and fund services related to, the social impacts of gaming such as counselling and health advice.*

The AHA (NSW) is presently undertaking research into the support of problem gamblers. However, the AHA (NSW) suggests the Productivity Commission refer to the Victorian Casino and Gaming Authority document titled "*Definition and incidence of problem gambling, including the socio-economic distribution of gamblers*", dated August 1997. This report details a substantial amount of information.

The Productivity Commission should also note a recent study undertaken in NSW titled "*An examination of the socio-economic effects of gambling on individuals, families and the community, including research into the costs of problem gambling in NSW - 1997 Study 2 Update*", Prepared by the Australian Institute for Gambling Research, University of Western Sydney Macarthur, dated June 1998.

A summary of the major findings follows:

## **TWO MAIN FINDINGS**

The two main findings of the survey results (compared with the survey completed in 1995) are:

1. The economic costs of the negative impacts arising from gambling have remained relatively stable at about \$50 million per annum.
2. There has been a small increase from 56,250 to 64,100 in the total population of players (up 4.4% when accounting for the rise in population per se) who participate in gambling weekly or more often, who are 'at risk' of significant gambling problems.

## MOTIVATION

The groups commonly endorsed a positive theme describing their gambling as pleasurable, exciting, relaxing, a hobby and an interest.

*Compared with 1995 reports of the negative impacts of gambling were less frequently reported.*

## FAMILY EXPERIENCE OF PROBLEM GAMBLING

11.8% of respondents reported that a member of their family had experienced difficulties with excessive gambling - this is **a fall from 14.5% in 1995**.

## PROBLEM GAMBLING AND THOSE “AT RISK” OF SEVERE GAMBLING RELATED PROBLEMS

There is a prevalence of ‘at risk’ regular gamblers of 1.30% of the adult population in NSW, i.e. a total of 64,000 which, accounting for the rise in the adult population from 1995 - 1997, represents an increase of 4.4% from 1995.

This increase is *mainly due to an increase in the prevalence of ‘at risk’ gamblers amongst regular LOTTO ONLY players* and to a lesser extent, to an increase in the proportion of the population who play gaming machines weekly.

## COMMUNITY ATTITUDE TO GAMBLING

- \* gambling is viewed as an important leisure activity by 32% of women and 37% of men.
- \* 93% of men and 91% of women agree that gambling results in serious problems for some people.

## **SURVEY SAMPLE**

For this survey the gamblers were divided into those who preferred regular weekly or more frequent participation in 'softer' forms of gambling (e.g. lotto, lottery, instant lottery) this group was called LOTTO ONLY and comprised 9.3% of the sample. This compared with those who preferred 'harder' forms (e.g. gaming machines, racing, casino gaming) this group was called OTHER and comprised 14.5% of the sample.



**[from Australian Hotels Association (NSW)]**

**THE NSW CLUB INDUSTRY  
Good Samaritans or Just Good  
Profit**

**November 1998**

# Executive Summary

- Small community orientated clubs are rapidly becoming extinct due to the powerful and wealthy “super-clubs”. In fact in a ten year period, 145 registered clubs have either been forced to cease operating or amalgamate with larger clubs **Page 4**
- Almost one in every five clubs surveyed paid no company tax, yet those clubs turned over between \$12-\$75 million **Page 5**
- On average the multi-million dollar clubs surveyed paid company tax of less than 10 percent on gross profit. In fact, the top clubs surveyed paid out only 8.1 million, an average of \$289,285 per club - a pittance given that these clubs’ turnover ranged between \$12 and \$86 million **Page 5**
- If the State Government’s poker machine taxes was set at the same level as NSW hotels, it is estimated a **further \$309 million would be added to State Revenue in 1998/1999**. *This massive amount of money would be available for more schools, hospitals and community facilities in New South Wales.* **Page 6 - 7**
- The leading clubs surveyed contributed no more than an average of 2 per cent of their total revenue to charity and sporting clubs. When sporting donations were excluded, the clubs on average gave an average of just 0.6 per cent of their total turnover to outside community organisations - a national scandal. **Page 10-11**
- While the number of clubs with gaming machines has declined in recent years, the number of poker machines held in registered clubs has increased to 66,527 **Page 12-13**
- More than one in every three of the clubs that provided relevant information, show significant losses in bar trading, due to cross-subsidisation. **Page 14-15**
- More than half the clubs that provided the necessary information made substantial losses on their restaurant and bistro operations in an attempt to attract patrons in order to entice them to play club poker machines. **Page 14-15**

# The Club Movement - An Overview

Privately registered clubs were first established post-World War II when servicemen began to set up their own licensed clubs.

While offering added competition to the hotel industry, the relationship between each was reasonably amicable - especially with the genuine local sporting clubs, which provided excellent service for their members and the community.

Then in 1956, the club movement moved into a new era, with the introduction of gaming devices to their licensed premises, setting them apart from the hotel industry and introducing them to a new revenue stream.

Clubs were places that saw persons with common interests meet and enjoy their own premises, and where the profits were ploughed back into the community and the club for the benefit of members.

Now, over half a century after clubs started to form, it has become evident that the original reasons for the establishment of clubs has been lost on many NSW clubs. Many have become major commercial operations that are enjoying numerous perks and rorts to the detriment of the entire community.

A report by Arthur Andersen, commissioned by the AHA (NSW), highlighted the generous concessions enjoyed by the NSW club industry in the 1994 tax year. While it is several years old, the findings are still relative and paint the same picture of clubs today. Attached is a copy of the Arthur Andersen report (Appendix A), which gives a full rundown of 11 NSW clubs.

Furthermore, the attached analysis of the 1996/1997 financial year for the top performing clubs in NSW (*Registered Clubs Quarterly Gaming Analysis*, Department of Gaming and Racing), highlights the advantages and perks that benefit registered clubs.

These benefits include:

- They pay minimal, if any, company tax;
- Have the lowest state poker machine levy in Australia;
- Receive preferential treatment regarding local planning matters;
- Return little of their profits to the local community;
- Have no restrictions on the type of, nor the numbers of, gaming devices they can operate; and
- Run food, beverage, accommodation, and other businesses and services at massive losses to minimise taxes for State and Federal Governments.

**In essence, the evaluation clearly disputes the rhetoric of the “community” clubs in NSW.**

# The Great Club Divide

It has become increasingly evident that the club industry is becoming rapidly fragmented due to the rorts and perks that are available to NSW registered clubs.

There are now two distinct groupings in the registered club movement. These are:

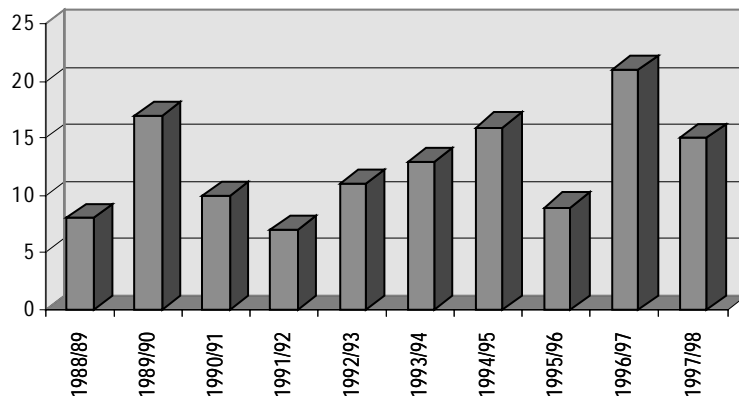
- The clubs, such as bowling clubs, golf clubs and racing clubs, which have an obvious common interest, appropriate membership fees and close community links.
- The large “super-clubs” which have less obvious common interest shown by their mass membership, ease of entry amounting to public access, and large numbers of poker machines.

The group more closely aligned with the original concept of a club, is however becoming smaller in number, as many are forced to close. Ironically, the reason for this is due to the powerful and wealthy “super-clubs”.

According to Department of Gaming and Racing statistics (Appendix B), 145 clubs in total have either been forced to cease operating or have had to amalgamate with larger clubs in the period from January 1988 to May 1998.

While some have suggested this has been due to the introduction of poker machines to hotels, the following graph shows such suggestion is total nonsense. In fact, more registered clubs were forced to close or amalgamate in the year prior to the introduction of poker machines into hotels (April 1997), than at any time in the last decade.

Number of club closures



**Note: 1997/98 is the first year hotels installed poker machines**

*Source: Department of Gaming and Racing*

# Company/Income Tax

The NSW club movement enjoys an extremely low taxation regime, with the multi-million dollar clubs paying an average of less than 10 percent on gross profit.

In fact, the top clubs surveyed paid out only \$8.1 million, an average of \$289,285 per club - a pittance given that these clubs' turnover ranged between \$12 and \$86 million. What's more, **five of these top performing clubs paid no company tax at all.**

The following taxation percentages are a percentage of club taxation to gross profit.

Parramatta Rugby League Club	0%
Manly Warringah Rugby League Club	0%
South Sydney Juniors Rugby League Club	0%
Mingara Recreation Club	0%
City Tattersalls Club	0%

In its 1996 annual report, Manly Warringah Rugby League Club states:

*“under present legislation income derived by the company from members is not assessable to income tax. Income tax liabilities arise in respect to income derived from non-members and investments less certain allowable deductions”.*

This is due to, what is called the mutuality principle - an agreement which the House of Representatives Standing Committee on Banking, Finance and Public Administration found to be unfair (Taxing Relaxing, March 27, 1995) - Appendix D.

The report said that taxation advantages enjoyed by the clubs have:

*“benefited some clubs to a degree where they are able to compete unfairly with businesses which do not have a similar taxation advantage”.*



# State Poker Machine Taxes

NSW registered clubs enjoy the lowest State poker machine tax rates for poker machines and other gaming devices throughout Australia.

<b>NEW SOUTH WALES</b>			
<b>HOTEL TAXATION</b>		<b>CLUB TAXATION</b>	
Up to \$25,000 \$25001 and up to \$400,000 \$400,001 and up to \$1mil \$1mil	15% 25%+\$3,750 35%+\$97,500 40%+\$307,500	Up to \$100,000 \$100,001 up to \$200,000 \$200,001 up to \$1mil \$1mil	0% 1% 20%+\$1,000 24.75%+\$161,000
<b>VICTORIA</b>			
Paid by hotels	33.3% (recurring) + 8.3 % CSF*	Paid by Clubs	33.3% (recurring)
<b>QUEENSLAND</b>			
Metered earnings	45 %	Up to \$10,000 \$10,001 up to \$75,000 \$75,001 up to \$150,000 \$150,001 up to \$300,000 \$300,001 up to \$1.4 mil \$1.4 mil	10% 27% 30% 33% 35% 45%
<b>AUSTRALIAN CAPITAL TERRITORY</b>			
Metered earnings	35%	Up to \$8,000 \$8,001 up to \$25,000 \$25,001	1% 22.5% 23.5%
<b>SOUTH AUSTRALIA</b>			
Up to \$399,000 More than \$399,001 up to \$94,5000 More than \$945,001	35% 43.5% 50%	Up to \$399,000 \$399,001 up to \$94,5000 \$945,01	30% 35% 40%
<b>NORTHERN TERRITORY</b>			
<b>Gaming Machines</b> of Gross Profit	47% + 25% levy to CBF**	<b>Gaming Machines</b> of Gross Profit	47%
<b>Draw Card</b> levy on turnover	6%	<b>Draw Card</b> levy on turnover	3%

\* Community Service Fund

\*\* Community Benefit Fund

This preferential State tax regime for registered clubs in NSW has meant that NSW clubs have paid little compared to the NSW hotel industry and the rest of Australian gaming operators.

On average, some of the highest performing clubs - with multi-million dollar profits from gaming - paid just 23% for poker machine duty, while NSW top performing hotels paid an average of 36 %.

**If the State Government's poker machine levy was set at the same level as hotels, it is estimated that a further \$309 million would be added to State Revenue in 1998/1999.**

*This massive amount of money would be available for more schools, hospitals and community facilities in New South Wales.*

Under the NSW hotel poker machine tax, one of the largest clubs in NSW, Canterbury Bankstown, would be paying almost double what they currently do.

Canterbury Bankstown Leagues Club's Gross profit - takings after payouts - was \$37,340,461 and their poker machine duty paid was \$8,932,446.

Under the hotel poker machine tax regime, the tax rate is \$307,500 for the first 1 million + 40 per cent for all earnings over \$1 million.

Therefore:

$$(\$307,500 + (\$36,340,461 \times 40\%)) = \$14,843,684.40$$

There is no doubt that the State poker machine tax provides NSW clubs with an unfair advantage over NSW Hotels. It also provides them with an unfair advantage over their interstate colleagues.

Taking the same example as above, Canterbury Bankstown Leagues Club would be required to pay:

- \$12,434,373.51 under the Victorian club poker machine tax level, and;
- Under the Queensland system it would have to pay \$16,803,207 – almost 7 million more than taxed in NSW.

***“It would seem wise for the NSW Government to bring its poker machine taxes closer to those of other States.”***

*- Editorial, Sydney Morning Herald, June 6 1997*

## A Taxing Advantage

The current Federal and State tax regimes enjoyed by the NSW club movement means that not only is the NSW hotel industry at a distinct disadvantage, but, more importantly, the community is losing out on valuable services - such as health and education - through lost taxes.

This is most easily demonstrated by the following two cases. The following gives a comparison of total profit, and taxes paid, between a hotel and club earning \$1 million and \$500,000 gross profit on a poker machine. This does not consider such added costs as staffing and machine depreciation etc. The company tax applied to the club case is the average tax paid by clubs according to the Arthur Andersen survey.

NSW Hotel		NSW Club	
<u>Poker Machines</u> <b>Gross Profit</b>	<b>\$1,000,000</b>	<u>Poker Machines</u> <b>Gross Profit</b>	<b>\$1,000,000</b>
Duty	\$307,500	Duty	\$161,000
Total after Duty	\$692,500	Total after Duty	\$839,000
Less Company tax @36%	\$249,300	Less income tax @7%	\$58,730
<b>Total after tax</b>	<b>\$443,200</b>	<b>Total after tax</b>	<b>\$780,270</b>
NSW Hotel		NSW Club	
<u>Poker Machines</u> <b>Gross Profit</b>	<b>\$500,000</b>	<u>Poker Machines</u> <b>Gross Profit</b>	<b>\$500,000</b>
Duty	\$132,500	Duty	\$61,000
Total after Duty	\$367,500	Total after Duty	\$439,000
Less income tax @36%	\$132,300	Less income tax @ 7%	\$30,730
<b>Total after tax</b>	<b>\$235,200</b>	<b>Total after tax</b>	<b>\$408,270</b>

As clearly demonstrated, the difference between the hotels profit and clubs profit is enormous due to the tax concessions at both a State and Federal level, giving the clubs a massive competitive advantage.

Furthermore, the taxation concessions means that a club which makes \$1 million from its poker machines, would pay an additional \$337,070 in State and Federal taxes if taxed at the same rates as hotels.

It is claimed that the tax relief is due to community contributions - but this must be seriously questioned when the contributions are considered!

# Community Contributions

The club movement is always willing to talk about the enormous contribution it makes to the local community and use it as an argument for the massive tax breaks it receives. In fact in June 1997, the clubs used their community contributions as an argument against poker machine tax increases.

But, examination of the club movement and its claims reveal that community contributions are a pittance in relation to the money they turn over each year. Commenting on this the *Sydney Morning Herald*, 5 June 1997 said:

*“The clubs claimed community organisations would lose up to \$700 million in donations if legislation went ahead. As it turned out, however, independent research showed that ‘external donations’ totalled just \$56 million.*

*Yet Treasury’s own records show that in 1996, only 12 of the 1450 registered NSW clubs claimed rebates for spending more than 1.5 percent of their after-tax profit on community services.*

*According to treasury, of those claimants: Mortdale RSL claimed for 20 donation to St George Hospital; Illawarra Catholic Club claimed a \$80 donation to the Camp Quality scheme for young cancer patients, and; North Ryde claimed for \$300 given to Rotary”*

This is just one example of the outrageous assertions that the club movement is contributing greatly to the community. While it is recognised some clubs do have an important place in the local community, the larger clubs have provided little in relation to their massive turnover.

In fact the leading clubs surveyed contributed no more than an average of 2% of their total revenue to charity and sporting clubs. **When sporting donations were excluded, the clubs on average gave an average of .6% of their total turnover to outside organisations (See next page for full detail).**

Of the clubs, only 11 actually made any contribution to sporting related activities, with four of those paying under two percent of total turnover. As put by some social commentators - and widely reported in the media - the vast bulk of profits made by the club industry is put towards refurbishment, new ventures, and the subsidisation of their other operations.

In reality rather than profits from clubs being returned to the community it seems that a number of Clubs have undertaken extensive refurbishment plans for their Clubs with elaborate results.

It is also widely accepted that profits made are used to subsidise other areas of club operation such as food and beverage.

“Everybody who has ever visited a club knows that the main beneficiaries of the revenues of poker machines are the drinkers who use the club” -**Padraic P McGuinness, *Sydney Morning Herald*, 12 June 1997**

Following is the community contributions, excluding sporting donations, as a percentage of turnover and in dollar terms for some leading clubs in NSW.

CLUB	% of Turnover	Total in \$
Bankstown District Sports Club	not disclosed	
Club Marconi	not disclosed	
Blacktown Workers Club	0.03	9,611
Mingara Recreation Club	0.04	14,314
Manly Warringah Rugby Leagues Club	0.06	13,093
Parramatta Rugby League Club	0.1	12,001
Eastern Suburbs Rugby League Club	0.13	31,887
Burwood RSL	0.14	21,689
North Sydney Rugby League Club	0.14	34,295
Mount Pritchard Community Club	0.14	102,681
Cabra-Vale Servicemen's Club	0.16	38,570
Western Suburbs Leagues Club	0.2	44,355
Canterbury-Hurlstone Park	0.21	47,531
Revesby Workers Club	0.25	61,999
Western Suburbs Rugby League Club (Newcastle)	0.3	80,256
Canterbury Bankstown Rugby League Club	0.41	176,139
Rooty Hill RSL	0.44	198,869
Twin Towns Services Club	0.52	255,822
Marrickville RSL	0.61	94,242

The argument that community contributions makes the tax breaks enjoyed by the clubs fair, has also been widely criticised by the media (see Appendix C).

# Gaming Devices in NSW Clubs

Registered clubs in New South Wales have had legal gaming for 42 years and have had a virtual monopoly on gaming activities in this State for most of that time. Many of the bigger clubs are now nothing more than commercial operations competing in the market place across a range of businesses.

Yet, registered clubs have unlimited access to poker machines and whilst the number of clubs with gaming machines has declined in recent years, the number of poker machines held in registered clubs has increased to 66,527 (Source: November 1997 Department of Gaming and Racing figures).

On the otherhand, hotels have a strict limit on the number and type of gaming machines that their establishments can have. Section 182C of the Liquor Act 1982, states:

- s1) *It is a condition of a hotelier's licence that not more than 15 poker machines may be kept, used or operated on the premises to which a hotelier's licence relates, unless the licensee holds a permit issued by the Minister for each poker machine in excess of that number that is kept, used and operated on those premises*
  
- s3) *Nothing in this section affects the overall limit, imposed by section 161, of 30 approved gaming devices per hotelier's licence.*

Recently the State Government made available 2,300 permits on a competitive tendering basis, which provided a minimal number of hoteliers the chance to operate the number of machines allowable, without having regard to market forces.

A proposed club in the Liverpool area highlights the discrimination that presently applies to the non-competitive situation that exists between Hotels and clubs. Despite the proposal being described as a virtual casino with 1,000 machines and electronic machines mirroring casinos table games, there is no legislature that can stop it from proceeding.

Furthermore, Penrith Rugby League Club is reportedly planning to increase its number of machines to 1,500 - the same as Star City. The Casino however is taxed at normal corporate tax rates, pays State gaming taxes, and paid over \$350 million up front for the privilege of the casino licence.

*“Ironically, several US casino operators on a tour of Sydney three years ago when the Sydney casino licence was up for grabs, privately remarked on the similarity of Canterbury Leagues Club and Penrith Panthers to Las Vegas operations.” - Sydney Morning Herald, 16/11/97*

In the period since poker machines were introduced in to hotels, clubs increased their poker machines, becoming more like casinos. The growth of poker machines and other gaming devices from February 97 to November 97 for the clubs surveyed is outlined below.

<b>Registered Club</b>	<b>February 97</b>	<b>November 97</b>	<b>Increase</b>
Penrith Rugby Leagues Club	780	822	42
Canterbury-Bankstown	405	402	(3)
Parramatta Rugby League Club	337	336	(1)
South Sydney Junior's	495	491	(4)
Rooty Hill RSL	471	499	28
Mt. Pritchard Community Club	403	460	57
Twin Towns Services Club	662	672	10
Bankstown District Sports Club	395	422	27
North Sydney Leagues Club	331	332	1
Club Marconi	272	337	65
Eastern Suburbs Leagues Club	259	277	18
Blacktown Workers Club	423	430	7
Cabra-Vale Servicemen's Club	324	350	26
Western Suburbs (N'CLE)	382	423	41
Revesby Workers Club	377	383	6
Mingara Recreation Club	335	335	-
Western Surburbs Leagues	248	263	15
Canterbury-Hurlstone Park	220	264	44
Manly Warringah Rugby League	319	289	(30)
Liverpool Catholic Club	227	243	16
Campbelltown Catholic Club	284	286	2
North Ryde RSL	227	239	12
Dee Why RSL Club	205	195	(10)
Harbord Diggers Memorial Club	364	426	62
Marrickville RSL	300	295	(5)
City Tattersalls Club	158	207	49
Burwood RSL	171	171	-
Gosford RSL	152	165	13
<b>TOTAL INCREASE</b>			<b>488</b>



# Cross-Subsidisation

NSW clubs, through their massive subsidisation of food, beverages and other ventures such as ever-increasing accommodation facilities, have managed to avoid paying taxes to State and Federal Governments.

The level of cross-subsidisation is evident when comparing the massive amount of turnover clubs make with the paltry profits they return. In any other company – which according to the Registered Clubs Act a registered club is – such losses would not be acceptable.

Following is a list of the turnover by the clubs analysed, their gross profit and its percentage to turnover.

<b>Registered Club</b>	<b>Turnover \$</b>	<b>Gross Profit \$</b>	<b>GP/ T.Over %</b>
Penrith Rugby Leagues Club	86,466,000	573,000	0.66
Canterbury-Bankstown	42,576,514	6,846,448	16.00
Parramatta Rugby League Club	12,124,042	17,644	0.14
South Sydney Junior's	75,324,000	(218,000)	-0.20
Rooty Hill RSL	45,660,594	6,682,037	14.60
Mt. Pritchard Community Club	71,319,118	6,686,221	9.3
Twin Towns Services Club	49,149,717	5,495,689	11.1
Bankstown District Sports Club	34,602,276	4,069,253	11.7
North Sydney Leagues Club	25,373,135	4,017,472	15.8
Club Marconi	31,356,983	2,031,741	6.47
Eastern Suburbs Leagues Club	25,365,219	2,472,230	9.7
Blacktown Workers Club	31,704,777	1,895,827	5.9
Cabra-Vale Servicemen's Club	26,401,725	5,340,843	20.2
Western Suburbs (N'CLE)	24,295,634	5,421,396	22.3
Revesby Workers Club	24,394,335	1,199,739	4.9
Mingara Recreation Club	34,498,244	1,479,118	4.2
Western Surburbs Leagues	22,077,649	3,009,266	13.6
Canterbury-Hurlstone Park	22,318,994	1,597,686	7.1
Manly Warringah Rugby League	21,625,077	2,561,784	11.8
Liverpool Catholic Club	22,540,457	2,631,953	11.6
Campbelltown Catholic Club	23,894,505	4,009,080	16.7
North Ryde RSL	41,547,863	3,018,701	7.2
Dee Why RSL Club	16,594,334	1,980,606	11.9
Harbord Diggers Memorial Club	23,785,153	1,360,454	5.7
Marrickville RSL	15,568,981	660,550	4.2
City Tattersalls Club	22,707,033	2,156,186	9.4
Burwood RSL	15,905,505	2,223,542	13.9
Gosford RSL	15,313,218	647,610	4.2

As previously mentioned, the profits are largely affected by cross-subsidising food, beverage and other services, in an effort to attract patrons in order to entice them to play club poker machines.

In many cases, clubs are selling food and alcohol at prices far below what it costs to serve them. This is evident in the following examples:

### BEVERAGES

Clubs	Bar Sales \$	Bar NP \$	Bar NP/Sales %
Canterbury-Bankstown	2,353,846	(353,396)	-15.01
Mt. Pritchard Community Club	4,418,061	(456,620)	-10.34
Cabra-Vale Servicemen's Club	2,328,413	(137,018)	-5.88
Western Surburbs Leagues	1,285,373	(186,807)	-14.53
Canterbury-Hurlstone Park	2,182,613	(49,947)	-2.29
North Ryde RSL	3,285,504	(12,895)	-0.39
Marrickville RSL	1,655,832	(160,384)	-9.69

*\* 1996 - 1997 Financial Year*

### FOOD

Clubs	Food Sales \$	Food NP \$	Food NP /Sales \$
Canterbury-Bankstown	1,779,001	(498,629)	-28.03
Rooty Hill RSL	3,963,822	(267,890)	-6.76
Bankstown District Sports Club	4,366,135	(1,004,335)	-23.00
Eastern Suburbs Leagues Club	2,360,282	(328,480)	-13.92
Blacktown Workers Club	4,167,670	(288,513)	-6.92
Cabra-Vale Servicemen's Club	1,017,931	(340,185)	-33.42
Revesby Workers Club	2,228,851	(423,869)	-19.02
Western Surburbs Leagues	952,775	(4,374)	-0.46
Canterbury-Hurlstone Park	2,775,675	(382,957)	-13.80
Liverpool Catholic Club	3,736,050	(50,578)	-1.35
Campbelltown Catholic Club	3,115,222	(284,172)	-9.12
North Ryde RSL	3,829,375	(124,957)	-3.26
Marrickville RSL	74,445	(75,845)	-236.21
Burwood RSL	2,019,765	(310,102)	-15.35

*\* 1996 - 1997 Financial Year*