

INTRODUCTION

Leagues Clubs Australia (The Association) welcomes this opportunity to provide a submission on behalf of its 82 Member Clubs to The Productivity Commission for its review of the contribution of the not-for-profit sector.

The Registered Club industry generally, and Member Clubs of the Association specifically, deliver enormous value to their members and the communities in which they operate through their primary operations (providing social, entertainment and sporting facilities to their communities) and through the extensive contributions they make to a range of stakeholders in their communities.

Member Clubs of the Association play a vital role in fostering the sport of Rugby League at all levels in NSW and Queensland. They provide substantial support in the form of funding, equipment, infrastructure and facilities to more than 400,000 seniors and juniors that play Rugby League across these states, and bring untold joy to the many fans that support the game.

Our Member Clubs also provide similar substantial support for a wide range of other sporting activities – rugby union, soccer, cricket, hockey, netball, swimming, athletics, cycling, tennis, Australian rules, and a number of indoor sports. This financial support and provision of facilities enables everyday Australians, whether they are senior citizens, adults or children, with affordable and accessible sporting options, thereby contributing significantly to the overall fitness, well being and good health of our nation.

As well, Member Clubs provide financial and in-kind support for numerous organisations, charities, schools and support groups within each of their communities.

It should be in the interests of the Federal and State Governments to foster a healthy and financially vibrant not for profit Clubs industry throughout Australia to ensure Clubs are able to continue to deliver services directly to their local communities.

HISTORICAL BACKGROUND

Rugby League has been played in NSW and Queensland since the early 1900's at senior and junior level in competitions of varying standards including National Rugby League, Optus Cup and Super League (now defunct), Metropolitan Cup, State Cup, Country Groups, Primary and High Schools, Junior Representative and Junior League.

The game is now played in all states and territories of Australia at varying levels including the National Rugby League ('NRL') competition.

The first licensed Leagues Clubs in NSW commenced operations in the mid 1950's with very humble premises, which were mainly old houses donated by supporters of the game.

Many Leagues Clubs only commenced operations with the active assistance of The NSW Leagues Club and other Leagues Clubs.

All commenced with similar aims and objectives in their Articles and Memorandum of Association which were generally to:

"To propagate the game of Rugby League at senior and junior levels and to generally support the community"

Leagues Clubs were granted licenses to operate gaming machines and sell liquor by the Licensing Court on that basis.

Over time, Licensed Leagues Clubs have progressed to become much larger and more efficient. However, they have never lost sight of their original aims and objectives.

Originally known as The Registered Leagues Clubs Association of New South Wales, the Association was formed in 1961 for the express purpose of ensuring that the interests of licensed Leagues Clubs were better represented in both Government and Industry forums, as well as encouraging the growth and development of the game of rugby league.

The Association later changed its name to the Leagues Clubs Association of NSW, and in November, 2008, with the acceptance of Queensland Leagues Clubs as Members, the Association became Leagues Clubs Australia. Membership in Queensland has steadily grown since then.

Although our Member Clubs number 82, the actual number of licensed premises stands at 114, with these extra 32 Clubs being amalgamated entities.

RUGBY LEAGUE AND ITS VALUE TO THE COMMUNITY

Overview

The predominant objective of Member Clubs of the Association, by virtue of membership, is to foster the ongoing development of Rugby League in NSW and Queensland on behalf of their combined membership of more than 1.7 million.

RUGBY LEAGUE AT THE NRL LEVEL

Member Clubs provide enormous support to the funding of the NRL, and are considered by the NRL to be critical to the future success of the NRL competition. Clubs that are supported by Leagues Clubs are:



BRISBANE BRONCOS



NORTH QUEENSLAND COWBOYS



ST. GEORGE ILLAWARRA DRAGONS



CANTERBURY BULLDOGS



SYDNEY ROOSTERS



CRONULLA SUTHERLAND SHARKS



PARRAMATTA EELS



MANLY WARINGAH SEA EAGLES



WESTS TIGERS



PENRITH PANTHERS



NEWCASTLE KNIGHTS

Each of these clubs also fields a National Youth (Under 20's) team in the Toyota Cup competition, the first national youth competition of any of the major Australian sporting competitions. It provides young athletes with some outstanding opportunities not only on the field but just as importantly the chance to pursue further education or vocational careers off the field. Last year mandated non-training hours saw 98% of all Toyota Cup players either working or studying – 28% of players in full-time study, 19% in apprenticeships, 16% in traineeships and 34% in general employment.

Member Clubs of the Association are key contributors to the operation of the NRL in the state. Each club employs a large number of people in administration, coaching, development and medical staff, marketing and event staff, game day ground and security staff, as well as contracted catering and beverage staff. This in itself provides a significant direct benefit to the economies of each state, not to mention the huge financial stimulus of the NRL games attracting up to 50,000 fans to competition games, and up to 80,000 for major finals games and State of Origin fixtures.

There can be little doubt that Rugby League at a senior level is a key part of NSW and Queensland culture, just as AFL is a key part of Victorian culture. The weekly focus on the game in the media alone and in all its forms serves as a constant reminder. To many people in NSW and Queensland, a love of Rugby league is their No.1 focus

Statistically, it is easy to demonstrate the passion and pulling power of the NRL:

- For the first 3 rounds in 2009, almost 450,000 people (or an average of more than 150,000 people each week) have attended NRL games.
- In 2008, NRL provided 64 of the top 100 rating pay TV programs nationally.
- More than 2.5 million people across Australia watched the 2008 NRL Grand Final live on free-to-air television.

In addition the NRL provides employment for 20,500 people in the management, administration and operation of the game of rugby league.

RUGBY LEAGUE AT OTHER LEVELS

Across NSW and Queensland more than **400,000** players pull on their team jersey and play the game of Rugby League.

New South Wales

The **New South Wales Cup** is the premier State based competition run in NSW. Featuring 11 sides from throughout the state, and one team from New Zealand the NSW Cup is a feeder competition to many of the sides that participate in the National Rugby League.

The **Bundaberg Red Cup** is a semi-professional development level rugby league competition in New South Wales (NSW), Australia run jointly by the NSW Rugby League and the NSW Country Rugby League. The competition is run concurrently with the National Rugby League and comprises 11 teams drawn from both the Sydney metropolitan area, the NSW Central Coast and one team from Western Australia.

The **S.G. Ball Cup** and **Harold Matthews Cup** are the two major junior representative competitions played throughout the state of NSW.

Queensland

The **Queensland Cup** is the major senior rugby league competition in Queensland and features 12 teams from Brisbane, Gold Coast, Sunshine Coast, Mackay and Central Queensland.

The **FOGS Cup** is the Brisbane A Grade competition, featuring 10 clubs, as does the Colts Challenge competition, which is Under 20's.

Junior Rugby League

All up there are approximately 1200 junior rugby league clubs throughout Australia, with 1130 of those in NSW and Queensland.

More often than not they have received significant assistance from a Member Club of the Association, including:

- Junior League jumpers, shorts and socks, trophies, insurance, grants to clubs, medical kits, administration
- Referees outfits, fees, training, insurance
- Junior representative teams outfits, insurance, kits, training, trophies, travel and accommodation
- Junior Coaching Clinics both in and out of local communities
- Scholarships, both educational and sporting
- School funding
- Development officers/school liaison officers

- Ground improvements at both senior and junior level including: lighting, change rooms, council fees, ground rentals, maintenance

Beyond being the breeding ground for tomorrow's NRL stars, Junior (and non-NRL Senior) Rugby League provides enormous benefits to those that participate, those that support, those that volunteer to assist, and those whose businesses are based around Rugby League (gym's, physiotherapists, caterers, etc).

The benefits arising from Junior (and non-NRL Senior) Rugby League include:

- Increased participation in local community activities for players, officials, spectators, coaches, volunteers and their families;
- Improved health and reduced obesity levels (and potentially reduced smoking and illicit drug use) amongst young people and regional communities actively involved in training for and playing the game;
- Coaching staff and Club Management fulfilling "role model" roles for boys and young men, something that may not be present in the home environment. The training and game day schedule also keeps these young men involved in a positive and rewarding environment.
- Increased use of parks and sporting facilities across the state.

CLUBS – THEIR ROLE IN THE COMMUNITY

Beyond the enormous value to the community from their support of Rugby League, Member Clubs of the Association along with the wider Registered Club industry in NSW and Queensland play a unique role in their communities.

Independent and mutual, Member Clubs of the Association provide a range of programs for their members and their local communities that contribute directly to the well being of those communities.

Upon limited review of their operations, it is difficult to determine any aspect of the activities of Member Clubs that do not provide benefits to their Communities. For example, at a very elementary level it can be said that:

- Club buildings provide safe and comfortable drinking, eating and entertainment venues for their members and their guests. Food and beverages prices have historically been very competitive and entertainment, in various forms is either provided for free or at heavily subsidised rates. This secure environment and affordable Club offerings are particularly attractive to elderly citizens who may be intimidated in often less welcoming hospitality environments.
- Club sporting facilities provide an opportunity to members and their guests to become involved in a range of activities that promote interaction, involvement, social discourse, and promote good health through sport. Club-sponsored sport encourages participation by younger members of the community, and provides the opportunity for involvement by older citizens (eg, healthy active retirees).
- Club administration provides employment in local communities in the form of full-time, part-time and casual jobs. In smaller communities, these are jobs that would otherwise not exist.

Due to their mutual commitment to pursuing the objects of their members, (rather than maximise shareholder returns), Clubs channel profits from their operations directly into their community. In a survey of Member Clubs of the Association conducted to support this submission, a selection of these additional programs included:

- Donations to local charities;
- Running local counselling services;
- Running local community support groups;
- Supporting activities that encourage minority groups to engage with their community (eg Muslim Youth Projects, sponsorship of the Vietnamese festival)
- Provision of services to disabled people;
- Sponsorships of disabled individuals to achieve despite their disability;
- Provision of local community transport services (supplementing public transport);
- Providing and supporting community health programs;
- Providing support and facilities to local schools;
- Hosting inter-school competitions;
- Providing sponsorship to encourage participation in sports beyond Rugby League;
- Providing Club facilities (eg meeting rooms, auditoriums, sporting facilities) to a range of local groups to use free (or at subsidised rates); and
- Provision of entertainment for senior citizens (bingo, shows, free tea and coffee etc).

Community benefits are provided in many forms, including:

- direct financial assistance to individuals and charitable associations;
- full-time, part-time and casual employment in local communities, particularly vital in regional areas of the state;
- entertainment in a safe and friendly environment that is valued by many senior citizens of NSW;
- subsidised meals and beverages;
- provision of sporting facilities, uniforms, funding and equipment that encourages involvement, health in children, and assimilation in communities;
- direct support for local schools; and
- safe accommodation and relief in times of natural disaster.

The role not for profit Clubs play in NSW and Queensland is demonstrated increasingly through programs which involve active partnerships between Member Clubs, State Governments and Local Authorities.

Programs involving effective partnerships between Registered Clubs, State Governments and Local Authorities (in areas where their charters meet) are highly likely to be an ideal mechanism for the development of community infrastructure into the future.

In its review of the Registered Clubs Industry in NSW, IPART estimated the value of Clubs' contribution to social infrastructure in 2007 to be \$811 million, with this figure not including the indirect or intangible contributions made by clubs which are difficult to quantify consistently and reliably.¹

The Community Development and Support Expenditure (CDSE) Scheme - NSW

The CDSE provides registered clubs in NSW with tax rebates (up to 1.5% of their gaming machine profits over \$1million) when they spend an equivalent amount on community development and support.

The CDSE Scheme was first introduced in 1998. Since then over \$538 million has been provided by registered clubs participating in the Scheme to their local communities to support schools, charities, sporting groups, agencies working with the disadvantaged and health services.

Historically Member Clubs of the Association have far exceeded their statutory obligations for this vital community funding. This is consistent with IPART's(1) acknowledgement that although Clubs in 2007 were obligated to contribute \$40.2 million to CDSE, they were recognised for making eligible contributions worth \$71.5 million, some \$31.3 million extra. It is the opinion of the Association that this excess is in fact far greater as a number of Clubs do not accurately record all community contributions over their CDSE statutory obligation.

¹ Review of the Registered Clubs Industry in NSW – IPART – June 2008

The Gambling Community Benefit Fund – Queensland

Established in 1994, the Gambling Community Benefit Fund aims to enhance the capacity of community organisations to provide services and activities to Queenslanders. The fund is part of the Queensland Government's commitment to ensure that on balance, the whole State benefits from gambling. Since its inception, the fund has distributed in excess of \$377 million to over 32,900 community projects.

LEAGUES CLUBS AND GAMING MACHINES – COMMUNITY GAMING

Leagues Clubs were originally founded to help develop the game of rugby league at every level and in 1956 poker machines were approved in NSW to help Leagues Clubs fund these objectives. Over the years the game grew and grew, not only at the elite level, but junior competitions flourished. Leagues Clubs also grew over time, resulting in increased employment opportunities, a level of offerings to members never available to the "working class" before, and an engagement with the community which has continued until today. Along the way the Clubs paid their fair share of taxes, with all profits being reinvested in the Club, resulting in even more growth.

LEAGUES CLUBS in 2009

The Impact of Recent Reforms

Clubs have historically held a unique position in NSW and Queensland.

Being mutual collectives of like-minded people within a local community, Clubs were generally formed to promote specific purposes. They have historically enjoyed special concessions from respective State governments. Concessions like the exclusive right to host gaming machines, and (until 2003) fair levels of tax on gaming revenues was a measure of the recognition by former state governments that Clubs add benefit to the communities in which they operate.

Recent changes to these concessions have impacted on Registered Clubs broadly, and Member Clubs of the Association specifically. The changes which have impacted the industry most include:

- the introduction of gaming machines into Hotels;
- increases in gaming machine tax;
- increasing harm minimisation measures;
- the introduction of indoor smoking bans and
- the emergence of internet and wireless gambling, in an unregulated and insecure environment

In September, 2008, Chartered Accounting firm, PKF, finalised a Financial Survey of Association Members. This report was commissioned to analyse the future sustainability of our Clubs, following the significant poker machine tax increases imposed by the NSW Government from September, 2004, with the full impact being felt subsequent to the last incremental increase in September, 2007. These poker machine tax increases

represented an increase of over 50% in the top rate payable, and up to 35% in the lower tier tax bands.

Also contributing to this financial deterioration was a number of other factors:

- The implementation of full smoking bans on July 2, 2007.
- Record petrol prices throughout 2008.
- High interest rates in 2008.

In essence the key findings of this report, based on responses from 34 Leagues Clubs (7 of which were NRL Licensed Leagues Clubs) were:

- Between 2004 and 2008 profitability dropped from a collective \$55 million profit to a collective \$29 million loss.
- Revenue was down \$56 million but gaming tax had increased \$44 million (or 38%).
- 41% of these Clubs faced some form of financial distress based on EBITDA.
- In 2004, 70% of these clubs posted a profit. Based on the 2008 projected performance, only 35% would post a profit.
- There would be major impacts to the funding of rugby league at every level.
- There would be a reduction in extra Community financial support above CDSE statutory obligations.

The resultant impacts have been:

- Reduction in employment
- Major reductions in Rugby League grants (NRL, Senior & Junior).
- Reduction in Community financial support above CDSE obligations
- Review of prices for Catering, Beverage & Entertainment
- Reduced Capital Expenditure
- Likelihood of amalgamations for worst performing Clubs

It is the belief of the Association that the current State Government Club gaming taxation rates are unsustainable.

The Club Industry model in Australia is unique throughout the world, with the profits generated by Community gaming being reinvested back into that Community. There is a lack of acknowledgement and understanding by some governments of the role played by Clubs, and obviously these governments then treat them like any profit orientated commercial organisations, and therefore subject them to higher taxes.

In assessing what constitutes financial viability in the registered clubs industry in NSW, IPART(2) posed the following 3 criteria:

- Can the club generate sufficient funds from its trading activities to enable it to cover its costs and provide service to its members and the community
- (can it) meet all of it's financial obligations
- and (can it) over the medium to longer term provide the financial capacity to continually re-invest in the club to remain relevant and competitive.²

² Review of the Registered Clubs Industry in NSW – IPART – February 2008 page 95

Sadly, so soon after the release of the IPART Report the majority of clubs are answering "No" to at least one of those criteria, with many saying "No" to either two or three.

The future sustainability of the Registered Clubs Industry is reliant on a review of the current State Government gaming tax schedules.

FEDERAL GOVERNMENT - TAXATION

The Principle of Mutuality

The principle of mutuality provides that where a number of persons contribute to a common fund created and controlled by them for a common purpose, any surplus arising from the use of that fund for the common purpose is not income.

Registered Clubs are taxed by the mutuality principle which means they are not taxed on income derived from members. Clubs are only required to pay income tax on profits earned from non-members (i.e. temporary members and guests of members) as well as on investments.

This principle allows the Club Industry to be treated in a different manner to other commercial profit driven sectors of the hospitality and gaming industry. It reinforces the role that Clubs play in the wider community, and provides a clear delineation between community gaming and private gaming. **The principle of mutuality provides the cornerstone for the Club Industry and any future review to remove its applicability to the Club Industry would have dire consequences for the Industry's future sustainability.**

Our Association has made submissions to the NSW State Government for it to embrace the notion of a Category 3 CDSE, allowing a direct rebate from Gaming Taxes paid by Clubs to reward Clubs for the funding of their Constitutional core purpose activities, as well as any community donations falling outside or in excess of the current CDSE guidelines. This Category 3 rebate would guarantee current levels of funding for Rugby League (Senior & Junior), a wide range of other sports, RSL veteran welfare, Community groups and charities, and more than likely provide the incentive for an increase in those allocated funds.

TAXATION EXEMPTION STATUS – SPORTING CLUBS

A number of sporting clubs receive a tax Exemption status as a result of their main purpose being the provision of that sporting activity e.g. bowls, golf etc.

Through their constitutions Leagues Clubs provide significant funding primarily for the sport of rugby league, but also a number of other sporting activities. Although each constitution may vary slightly the "core" constitutional objective of these Leagues Clubs is to:

"To propagate the game of Rugby League at senior and junior levels and to generally support the community."

In respect to NRL Licensed Leagues Clubs the Constitution will focus on the support of Rugby League in their defined district whether it be Manly Warringah, Newcastle, Parramatta, Cronulla Sutherland and so on. In the case of South Sydney Juniors Leagues Club their focus is their direct financial support of junior rugby league in the defined South Sydney district.

The sport of Rugby League is their “reason for being”, and their licensed venues operate to provide a surplus trading fund to sustain those rugby league teams in those districts.

Without Leagues Clubs funding those Football Clubs would not be able to continue to operate as they do today. Either private funding would be required, or a user pays system would have to be implemented. Either of these two funding options would equate to severely reduced participation in these Clubs, and an uncertain future for most clubs.

Indeed, without the current level of funding provided by Leagues Clubs for the myriad of other sports – netball, soccer, hockey, cricket, athletics, swimming etc – similar impacts would occur.

Therefore, **Leagues Clubs Australia requests a review of the current eligibility criteria for tax exemption status for sporting clubs, and promotes consideration of a scaled approach for tax relief to embrace different Club constitutions or funding models. At the same time this review could embrace a number of options to provide Clubs tax incentives to maintain or even increase levels of funding, not only for Rugby League, but for all other sports.**

Thank you for the opportunity to present this submission for your consideration.

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