



Clubs Australia

**SUBMISSION TO THE
PRODUCTIVITY COMMISSION INQUIRY INTO
AUSTRALIA'S GAMBLING INDUSTRIES**

31 March 2009

TABLE OF CONTENTS

Chapter 1 Introduction and executive summary

| | |
|--|----|
| 1.1 Introduction | 1 |
| 1.2 Executive summary | 4 |
| 1.3 Access to cash and ATMs | 11 |
| 1.4 Pre-commitment | 15 |
| 1.5 Regulation of Internet gambling and other emerging gambling technology | 26 |
| 1.6 Gambling policy, club viability and jobs | 39 |
| 1.7 The way forward- recommendations | 44 |

Chapter 2 Purpose, profile and history of clubs

| | |
|--|----|
| 2.1 Number of clubs | 52 |
| 2.2 Value of the industry | 53 |
| 2.3 Club memberships | 53 |
| 2.3.1 Members and patrons benefit from a wide range of club services | 54 |
| 2.3.2 Club goes value more than just the services | 56 |
| 2.3.3 Clubs with large membership bases play an important role | 56 |
| 2.4 Membership profile of clubs | 57 |

Chapter 3 The nature of gambling in clubs

| | |
|--|----|
| 3.1 Main changes to gambling industry structure and conduct | 59 |
| 3.1.1 Internet gambling | 59 |
| 3.1.2 Growth in hotel gaming | 59 |
| 3.1.3 Club industry consolidation | 60 |
| 3.1.4 Amalgamations: future paths | 61 |
| 3.1.5 New gaming ownership structure planned for Victoria | 62 |
| 3.2 Changes to gaming machine numbers, locations and characteristics | 63 |
| 3.2.1 Number and location of gaming machines | 63 |
| 3.2.2 Increases in hotel gaming | 64 |
| 3.2.3 Ratio of gaming machines to population | 65 |
| 3.2.4 Movement of gaming machines | 66 |
| 3.3 Trends in gambling expenditure and the maturing market | 67 |
| 3.3.1 Expenditure trends and maturing market | 67 |
| 3.3.2 What affects expenditure growth? | 67 |
| 3.3.3 Expenditure growth mirrors disposable income growth | 68 |
| 3.3.4 Expenditure impact of gaming machine accessibility is negligible | 69 |
| 3.3.5 Evolution of gambling consumption | 72 |
| 3.3.6 Harm minimisation | 74 |
| 3.3.7 Gaming machines' increased share in total gambling expenditure | 75 |
| 3.4 Future gambling expenditure changes | 75 |

Chapter 4 Participation profile: who gambles and why?

| | |
|---|----|
| 4.1 A review of problem gambling instruments | 76 |
| 4.1.1 Quality and the productivity commission's meta-analysis | 76 |
| 4.1.2 Adequacy of south oaks gambling screen (SOGS) | 77 |
| 4.1.3 Adequacy of the Canadian problem gambling index (CPGI) | 84 |
| 4.1.4 Reviewing claims on gambling expenditure | 87 |
| 4.2 Profile and prevalence of problems gamblers | 93 |
| 4.2.1 Incidence of problem gambling reducing | 92 |

| | |
|---|----|
| 4.2.2 Prevalence trends from Australian states | 93 |
| 4.2.3 The NSW experience | 93 |
| 4.2.4 Increased gambling spend does not mean increased gambling problems: the Queensland experience | 94 |
| 4.2.5 Trends from international prevalence studies | 95 |
| 4.3 Changes in problem gambling trends | 96 |
| 4.4 Other surveys on prevalence and profiles | 96 |

Chapter 5 Economic impacts of gambling

| | |
|---|-----|
| 5.1 Economic impacts of the club movement | 98 |
| 5.2 Industry characteristics | 99 |
| 5.3 Revenue | 99 |
| 5.4 Employment | 105 |
| 5.5 Taxation | 118 |
| 5.6 Club expenditure | 120 |
| 5.7 Debt | 126 |
| 5.8 Clubs produce significant flow-on economic benefits | 129 |
| 5.9 Linkages to tourism | 130 |
| 5.10 Aged care | 134 |
| 5.11 Diversification | 134 |
| 5.12 Alignment with community needs | 140 |
| 5.13 Impact of clubs in rural and regional development | 143 |
| 5.14 Partnerships with local government | 144 |
| 5.15 Clubs and new/planned communities | 146 |
| 5.16 Clubs and environmental sustainability | 147 |
| 5.17 Gaming research conducted since 1999 | 149 |

Chapter 6 Social contribution of clubs

| | |
|--|-----|
| 6.1 IPART's analysis of the social contribution of clubs | 150 |
| 6.2 Classifying the nature and beneficiaries of clubs social contributions | 151 |
| 6.3 What is social capital? | 153 |
| 6.4 Clubs contribution to social capital | 153 |
| 6.4.1 Gaming revenue and "compulsory" community support | 153 |
| 6.4.2 Non-compulsory support | 158 |
| 6.5 Sporting infrastructure and support | 164 |
| 6.6 Ageing population | 170 |
| 6.7 Support for people with disabilities | 174 |
| 6.8 Support for young people | 175 |
| 6.9 Promoting social connections | 176 |
| 6.10 Volunteering | 178 |
| 6.11 Club tax | 181 |
| 6.12 Clubs are safe venues | 181 |
| 6.13 Problem gambling | 183 |
| 6.13.1 Decline in problem gambling prevalence | 183 |
| 6.13.2 Gambling and its impacts on significant others | 185 |
| 6.13.3 Differences between recreational and problem gamblers | 189 |
| 6.13.4 Gambling is not a deviant behaviour | 189 |
| 6.13.5 At-risk and pathological progression | 191 |
| 6.13.6 Repeated consumption and the role of habit | 195 |

Chapter 7 Taxation and Regulatory Arrangements

| | |
|---|-----|
| 7.1 State and Territory arrangements | 198 |
| 7.1.1 Taxes paid by clubs | 198 |
| 7.1.2 Gaming machine tax by jurisdiction | 199 |
| 7.1.3 Average gaming machine tax rates | 200 |
| 7.1.4 Gaming tax is a tax on revenue, not profit | 201 |
| 7.1.5 Gaming machine tax in NSW | 201 |
| 7.1.6 ACT | 204 |
| 7.1.7 Queensland | 204 |
| 7.1.8 Victoria | 205 |
| 7.1.9 South Australia | 206 |
| 7.2 Mutuality | 206 |
| 7.2.1 Support for clubs as not for profit entities | 206 |
| 7.2.2 Clubs are membership run | 208 |
| 7.2.3 Not for profit status | 208 |
| 7.2.4 Case Law | 208 |
| 7.3 Trends in State and Territory tax revenues | 209 |
| 7.3.1 GST | 209 |
| 7.3.2 Smoking bans | 211 |
| 7.4 Tax treatment of different gambling forms | 212 |
| 7.4.1 Tax differential between hotels and clubs is justified | 212 |
| 7.4.2 Casino gaming tax | 212 |
| 7.5 Harmonisation of tax arrangements | 214 |
| 7.6 Appropriateness of gambling tax levels | 214 |
| 7.6.1 Gambling tax itself is efficient | 214 |
| 7.6.2 Administrative simplicity | 216 |
| 7.6.3 Equity | 216 |
| 7.7 Impact of gambling taxes on consumers | 216 |
| 7.8 Developments in state and territory gambling regulations | 220 |
| 7.8.1 Steadily increasing burden | 220 |
| 7.8.2 Improving the regulatory process | 220 |
| 7.9 Impact of technological change | 221 |
| 7.9.1 Regulation has not kept pace with technology | 221 |
| 7.9.2 Impact of non-technological regulations | 222 |
| 7.9.3 Impact of regulations concerning types of games and equipment | 222 |
| 7.9.4 Impact of technical regulations concerning game design | 223 |
| 7.9.5 Server-based gaming | 223 |
| 7.10 Regulation of different forms of gambling | 224 |
| 7.10.1 Case study: NSW | 224 |
| 7.10.2 Harmonisation of regulations | 225 |
| 7.11 Gaming machine national standard | 225 |
| 7.12 Regulatory and policy-making processes and institutions | 226 |
| 7.12.1 Changes to state and territory frameworks | 226 |
| 7.12.2 Research basis for regulation | 227 |
| 7.12.3 Future research | 227 |

Chapter 8 – Consumer Protection Measures

| | |
|--|-----|
| 8.1 Harm minimisation measures and codes of practice | 228 |
| 8.1.1 Voluntary responsible gambling programs | 228 |
| 8.1.2 Self exclusion | 234 |
| 8.1.3 Identification of a problem gambler | 234 |
| 8.2 Litigation and consumer protection | 235 |

| | |
|---|-----|
| 8.3 Mandatory codes of practice | 237 |
| 8.4 National snapshot and other initiatives | 238 |
| 8.5 Adherence to best practice in regulatory development | 238 |
| 8.6 Inconsistencies in harm minimisation measures | 241 |
| 8.7 Impact of smoking restrictions | 241 |
| 8.7.1 Bans led to universal drop in revenue | 242 |
| 8.7.2 Clubs can reconfigure premises but require certainty and equal access | 245 |
| 8.8 Assessing the effectiveness of harm minimisation measures | 247 |
| 8.9 Comorbidities | 250 |
| 8.9.1 Correlations between gambling and mental health | 250 |
| 8.9.2 The “deviant paradigm” and mental health | 250 |
| 8.9.3 Mental health in Australia | 251 |
| 8.9.4 Evidence of the comorbidity confound in gambling research | 252 |
| 8.9.5 Motivations research | 254 |
| 8.9.6 Implications for gambling research | 255 |
| 8.9.7 An ethical consideration over structure of questions | 255 |
| 8.10 Evaluations of harm minimisation measure’s effectiveness | 256 |
| 8.10.1 IPART, NSW Government, 2004 | 256 |
| 8.11 New technologies | 257 |
| 8.12 Regulation of access to gaming machines | 257 |
| 8.12.1 Studies conducted since 1999: the need for quality data | 258 |
| 8.12.2 Ethics and transparency are required of all | 259 |
| 8.12.3 Confidence and statistical rigour | 260 |
| 8.12.4 Recognising and avoiding publication bias | 260 |
| 8.12.5 The challenges of gambling definitions | 261 |
| 8.12.6 An Australian definition of gambling problems | 262 |
| 8.12.7 The Canadian definition | 262 |
| 8.12.8 The validation gap in Australian gambling prevalence studies | 263 |
| 8.12.9 The quality of research | 265 |
| 8.12.10 Remarks requiring empirical justification or qualification | 265 |
| 8.12.11 Flaws in Australian gambling research | 266 |
| 8.12.12 Statistical test requirements | 268 |
| 8.13 Regulation of access and impact on problem gambling | 272 |
| 8.14 New gambling technologies | 273 |

Appendices

| | |
|---|-----|
| Appendix A | 275 |
| – UMR Research Pty Ltd, “NSW Clubs in their Local Communities – A Case Study” | |
| Appendix B | 331 |
| – Biography, Dr Rohan Miller | |
| Appendix C | 332 |
| – ClubsACT Case Study, “The Vikings Group” | |
| Appendix D | 336 |
| – ClubsACT Case Study, “Ainslie Football and Social Club” | |
| Appendix E | 347 |
| – ClubsACT Case Study, “Canberra Southern Cross Club” | |

| | |
|---|-----|
| Appendix F | 348 |
| – <i>ClubsACT Case Study, “The Hellenic Club”</i> | |
| Appendix G | 363 |
| – <i>IPART’s Methodology For Recording and Valuing Clubs’ Social Contribution</i> | |
| Appendix H | 372 |
| – <i>Australasian Gaming Council, Summary of Responsible Gambling Policies</i> | |

TABLE OF FIGURES

| Chapter 1 Introduction | Page |
|--|-------------|
| 1.1 Average monthly gambling expenditure, by country and type | 27 |
| 1.2 Rates of problem gambling, internet and non-internet gamblers | 30 |
| 1.3 ACT Vikings Group economic contribution | 33 |
| 1.4 Gambling inducements, ranking of internet gambling companies | 36 |
| 1.5 NSW clubs’ sources of profit by club size | 40 |
| 1.6 Scenario 1 - levels (employment = persons; grp, \$m, 2007-08 prices) | 43 |
| Chapter 2 Purpose, profile and history of clubs | |
| 2.1 Percentage of registered/licensed clubs by State and Territory | 53 |
| 2.2 Most important reasons for selecting a club | 55 |
| 2.3 Aspects of club enjoyment and importance | 56 |
| 2.4 Club type in 2007, NSW | 57 |
| 2.5 Club type in 2007, ACT | 58 |
| Chapter 3 The nature of gambling in clubs | |
| 3.1 NSW hotel gaming machine revenue growth, 1997–2008 | 60 |
| 3.2 Number of gaming machines by State and Territory | 63 |
| 3.3 Electronic gaming machines in NSW clubs, hotels 1995-2008 | 65 |
| 3.4 Gaming machine to adult population ratios by State and Territory | 65 |
| 3.5 Club and hotel gaming machines movements | 66 |
| 3.6 NSW club EGM revenue and NSW household disposable income | 68 |
| 3.7 Relative % trends in club EGM revenue & household disposable income | 69 |
| 3.8 % change in real per capita expenditure in NSW 1990-2006 | 70 |
| 3.9 % change in real per capita expenditure in Victoria 1990-2006 | 70 |
| 3.10 % change in real per capita expenditure in QLD 1990-2006 | 70 |
| 3.11 % change in real per capita expenditure in SA 1990-2006 | 71 |
| 3.12 NSW casino, hotel and club EGM revenues | 71 |
| 3.13 Relative changes in NSW EGM revenue | 72 |
| 3.14 Australian total real EGM expenditure 1981-2006 | 73 |
| 3.15 By State and Territory real per capita EGM expenditure 1981-2006 | 73 |
| Chapter 4 Participation profile: who gambles and why? | |
| 4.1 % of respondents with +5 SOGS and + 8 CPGI in Australia | 94 |
| 4.2 Gaming machine expenditure vs prevalence rates, Queensland | 95 |
| 4.3 Overview of past prevalence studies | 98 |

Chapter 5 Economic contribution of clubs

| | | |
|------|--|-----|
| 5.1 | State and Territory comparisons, all organisations | 99 |
| 5.2 | Division of income across the states and territories | 100 |
| 5.3 | Selected sources of income, all organisations | 100 |
| 5.4 | Sources of revenue, NSW | 101 |
| 5.5 | Sources of revenue for each club size (percentage of total revenue) | 102 |
| 5.6 | Representation of clubs by size in NSW | 103 |
| 5.7 | Revenue by types of revenue- ACT clubs | 104 |
| 5.8 | Key characteristics by organisation size, all organisations | 106 |
| 5.9 | Share of club (hospitality) employment by jurisdiction | 106 |
| 5.10 | Number and type of employment over time | 107 |
| 5.11 | Type of employment by club size | 108 |
| 5.12 | Age of employees by NSW club size | 108 |
| 5.13 | Age of employees by ACT club size | 109 |
| 5.14 | Current positions and total employment at Revesby Workers Club | 111 |
| 5.15 | Positions that are most difficult to fill | 112 |
| 5.16 | Wage bills and contract payments by club size | 114 |
| 5.17 | Training expenditure over time | 115 |
| 5.18 | Formal and informal training expenditure by club size (\$ million) | 116 |
| 5.19 | Gambling taxes as % of total State revenue | 119 |
| 5.20 | Clubs average rates (total tax including GST and community levy) | 120 |
| 5.21 | Sources of expenses for NSW clubs | 121 |
| 5.22 | Sources of expense (percentage) by NSW club size, 2007 | 121 |
| 5.23 | Total value of assets over time by NSW club size | 122 |
| 5.24 | Proportion of total assets held by clubs, by NSW club size | 122 |
| 5.25 | Club assets by NSW type | 123 |
| 5.26 | NSW club assets by type of asset (\$ million) | 123 |
| 5.27 | Proportion of clubs reporting capital expenditure over time by NSW club | 124 |
| 5.28 | Capital expenditure of NSW clubs over time size | 124 |
| 5.29 | ACT club expenses by types of expense | 125 |
| 5.30 | ACT club assets by type of asset | 126 |
| 5.31 | Total value of debt by club size in NSW — over time | 126 |
| 5.32 | Total debt split by debt instruments, by NSW club size, 2007 | 127 |
| 5.33 | Total interest payments over time by NSW club size | 128 |
| 5.34 | Club performance ratios by club size | 128 |
| 5.35 | Number of venues licensed for and amount spent on live music by jurisdiction | 133 |
| 5.36 | Response strategies – next five to ten years all clubs | 135 |
| 5.37 | Business diversification; legitimacy of business options- all clubs | 135 |
| 5.38 | New lines of business – preference | 136 |
| 5.39 | Sources of revenue - comparison 2003 to 2007 | 137 |
| 5.40 | Master plan- mixed use development of Revesby Worker's Club site | 139 |

Chapter 6 Social contribution of clubs

| | | |
|-----|---|-----|
| 6.1 | Categorisation of clubs social contributions | 151 |
| 6.2 | Type and number of sporting facilities provided by clubs, by club size | 167 |
| 6.3 | Directors – time in industry | 178 |
| 6.4 | NSW G-line calls | 184 |
| 6.5 | Observed distribution versus NBD-derived (expected) distribution of use of buyers | 196 |

Chapter 7 Taxation and regulatory arrangements

| | | |
|------|--|-----|
| 7.1 | Estimated tax receipts related to operation of gaming machines 2006-07 | 199 |
| 7.2 | Gaming tax as a percentage of State tax and revenue | 200 |
| 7.3 | Clubs average rates (total tax including GST and community levy) | 201 |
| 7.4 | Total taxation paid over time by NSW clubs | 202 |
| 7.5 | Type of taxation paid by NSW clubs | 203 |
| 7.6 | Taxes paid by NSW club size in 2007 (percentage of total) | 203 |
| 7.7 | Percentage of taxes paid in 2007 — by club size | 204 |
| 7.8 | Gaming tax rates in Queensland | 205 |
| 7.9 | Proposed tax scale for Victoria | 205 |
| 7.10 | Gaming tax rates, South Australia | 206 |
| 7.11 | NSW Government revenue from club gaming machine tax | 210 |
| 7.12 | Revenue from club gaming machine tax with GST included | 210 |
| 7.13 | Relative comparison of real club gaming machine revenue with real gaming machine taxes | 211 |
| 7.15 | Casino duty from 1 July 2008 | 213 |
| 7.16 | Return to player rates | 217 |
| 7.17 | RTP in NSW clubs, 1997-2008 | 217 |

Chapter 8 Consumer protection measures

| | | |
|-----|---|-----|
| 8.1 | Indoor smoking ban – commencement dates | 241 |
| 8.2 | Impact of smoking bans on gaming machine revenue | 242 |
| 8.3 | Revenue decline in first year of smoking ban in clubs and hotels, Victoria | 244 |
| 8.4 | Revenue decline in first year of club and hotel smoking ban, Queensland | 244 |
| 8.5 | Correlates of problem gambling: problem gamblers by age and gender | 253 |
| 8.6 | Distribution of SOGS scores for 82 pathological gamblers | 264 |
| 8.7 | The accuracy with which SOGS scores identify players at risk of significant gambling related problems | 264 |

Chapter 1: Introduction & Key issues

1.1 INTRODUCTION

Clubs form an essential part of the social fabric of Australian life. As not-for-profit organisations, clubs have utilised their revenue to build sporting and community infrastructure, support charities and provide a comfortable and affordable place to meet, eat, drink and enjoy entertainment. With respect to registered clubs, governments of all persuasions have generally regarded them as the preferred model for the delivery of gaming due to the many benefits that flow to the community rather than to individuals or corporations. The social contribution of clubs is significant and growing, being measured at \$811 million in NSW and estimated at \$1.2 billion nationally. This is in addition to their substantial contribution to economic activity and employment.

Clubs provide a variety of gambling services to members, including wagering, Keno and of course gaming machines. Gaming machines, or poker machines as they are popularly known, were first approved in New South Wales registered clubs in the mid-1950s and since then have been progressively introduced in other States and Territories. Western Australia is now the only jurisdiction that does not allow clubs to have access to gaming machines.

ClubsAustralia regards gaming as a legitimate leisure and entertainment activity, enjoyed by millions of club members throughout the country over five decades. Since 1999 gaming machines have experienced growth in participation and revenue. Testimony to the good work of governments and venues, there is also a lower percentage of problem gamblers. Through the provision of gaming, the Club Movement has been able to provide services to communities that governments do not. Numerous charities have come to rely upon clubs. From sporting fields and swimming pools to aged care and childcare facilities, community transport and social interaction, clubs have helped grow and sustain communities. Clubs are unique to Australia and there is no similar model anywhere in the world. Without the revenue from gaming, this would not have been possible and clubs as we know them would not exist.

This submission details:

- The purpose, profile and history of clubs;
- The club industry's position on a number of key gambling policy issues;
- The nature and participation profile of gambling in clubs;
- Impacts from gambling on Australia's economy and social capital;
- Taxation and regulatory arrangements;
- Existing harm minimisation measures; and
- Suggestions for the future of gambling and harm minimisation.

The data and analysis presented by ClubsAustralia in this submission has been drawn from a range of sources. The Australian Bureau of Statistics 2004/05 figures are the only available national data; however, they provide an incomplete picture of clubs nationally. This is addressed to a degree by work commissioned by State and Territory club associations including that of the Allen Consulting Group which has undertaken Socio-Economic Impact Studies of clubs in NSW, Queensland and the ACT. An SEIS of Western Australian clubs is underway and will be available before public consultation takes place.

The Review of the Registered Clubs Industry in NSW, conducted by the Independent Pricing and Regulatory Tribunal (IPART) in 2008, provides additional, independent and authoritative analysis. This Review is a comprehensive and valuable investigation into the Club

Movement's social and economic contribution, and also includes important examinations into the role played by gaming machines and gaming revenue in this contribution. IPART also investigated key policy areas of interest to the Commission including the impact of gaming regulation on both clubs' finances and the community, the role of mutuality, and diversification.

The submission also refers to a report conducted by KPMG in February 2009, *The Implications for NSW Regional Economies from a Decline in the Registered Clubs Industry*. In this report, commissioned specifically to assist in the Club Movement's submission to the Productivity Commission's review, KPMG has provided analysis on how policy changes can affect clubs and the community, by modelling the economic impact of a downturn in club revenues as a consequence of policy or other factors. ClubsAustralia believes the findings should be considered to be of key significance to the Commission.

Lastly, ClubsAustralia has drawn on an expert opinion paper developed by Dr Rohan Miller (MAcc, MBA, PhD), of HarvestData. Dr Miller, also a Lecturer at the University of Sydney, is a recognised authority on consumer behaviour and economics, with particular interest in and numerous publications on problem gambling (among other related areas). His input provides expert analysis in response to a number of questions posed by the Commission in relation to the effectiveness of gambling instruments, the prevalence of 'problem' and 'at-risk' gambling, the theory of technology-based pre-commitment, and several other technical issues.

While the upside from gaming revenue has produced demonstrably positive results for the quality of life of everyday Australians, clubs also recognise and acknowledge the potential down side which accompanies any form of gambling. Unfortunately, as a consequence of a very complex set of personal and/or behavioural circumstances, a small proportion of individuals gamble to excess, and this can have a significant impact not only on the person directly involved but also on that person's family and friends. Gambling is not alone in that sense. Excessive consumption can accompany any facet of human behaviour, from eating habits to drug use or spending on consumer goods. While studies have repeatedly shown that the vast majority of people enjoy gaming machines and gambling generally for the entertainment value that they present, a small minority of the adult population are described as problem gamblers.

Since the 1999 Productivity Commission inquiry into Australia's Gambling Industries, apart from steps by governments, clubs throughout Australia have introduced a range of harm minimisation measures. These include codes of conduct, self-exclusion programs and responsible conduct of gambling training for staff to name a few. State and Territory governments have also been active, mandating caps on machine numbers, conducting gambling surveys, limiting access to credit, reviewing technology and ensuring information is easy to find for counselling hotlines and services. Some of the many steps taken have reduced the prevalence of problem gambling in Australia, without overly impacting the recreational gambler or affecting the financial viability of clubs.

However, the history of harm minimisation measures taken by governments across Australia has been somewhat chequered in that too often governments have implemented measures that may appear politically attractive but in practice are minimally effective in achieving their intended objective of reducing the incidence of problem gamblers or gambling-related harm. A feature of this approach has been the 'leap frogging' that has taken place between States to have the 'toughest anti-gaming laws in the country'. The common feature of these kinds of 'populist', reactive measures is that they are not supported by solid research to indicate they have a chance of real success or will make a real difference. This causes great concern to ClubsAustralia and other stakeholders.

While ClubsAustralia supports measures that can make a real difference for problem gamblers, proposals for legislative or administrative change must be backed by rigorous cost-benefit analysis. ClubsAustralia believes regulatory intervention to assist problem gamblers must be proven through rigorous trials and research because experimentation leads to the unavoidable degradation of clubs' ability to maintain services, as well as a loss of amenity for the vast majority of people who play poker machines responsibly and as a form of recreation.

Examples of proposed measures which ClubsAustralia believes will be ineffective and should not be supported include voluntary pre-commitment and banning ATMs from gaming venues. A range of more effective, targeted and less intrusive proposals includes: family intervention, improved Responsible Conduct of Gambling training; nationally coordinated gambling research, bans on credit betting and credit accounts, improved counselling accreditation and delivery, and establishing a national peak body to review research and guide the development of benchmarks and minimal standards into the future. These measures and the reasons they are not supported are explained in great detail in this submission.

Unregulated online gambling is a matter of great concern, requiring an effective policy response. The aim of that response should be to apply the same harm minimisation measures and safeguards to the internet that have been implemented in land-based gaming venues. This approach will ensure consistency in regulation and avoid any competitive advantage of one over the other, while protecting consumers.

Great steps forward have been taken since 1999 and more can be done. ClubsAustralia is keen to ensure that adequate protections are implemented and has publicly made a number of proposals to responsibly improve safeguards, while recognising there will always be a small percentage of people who are problem gamblers no matter how many safeguards are implemented. Every measure has potential monetary and administrative costs which must be assessed against the benefits which flow to the community from clubs' provision of gaming. The challenge for the Productivity Commission when assessing any proposed harm minimisation measure is to balance the likely benefit for a limited number of individuals with the impact upon the enjoyment and amenity of the 99 per cent of people who play gaming machines safely.

1.2 EXECUTIVE SUMMARY

GAMBLING IN GENERAL AND KEY ISSUES

Gambling as recreation

Gambling is a legitimate leisure activity that is engaged in safely by millions of Australians as a form of recreation and entertainment. It is important that the discourse surrounding gambling not assume that everyone who gambles is participating in perverse behaviour.

Community owned gaming

Clubs were first allowed to provide gaming in NSW in 1956 and have since been approved in all jurisdictions other than WA. ClubsAustralia believes that government policy should recognise that community-owned gaming, as delivered through not-for-profit clubs, provides a significant social dividend and should be the preferred model for delivery of gaming.

Gaming allows clubs to build social capital

Clubs provide direct cash and in-kind support for community groups, facilities for and promotion of sport at all levels, and create opportunities for volunteering. They offer affordable or free meeting rooms, facilities, entertainment and safe social outlets for the whole community. This is especially the case for people with disabilities, the socio-economically disadvantaged, and both senior citizens and youth. Although these contributions are very difficult to quantify, based on IPART figures for NSW, ClubsAustralia estimates this contribution is worth over \$1.2 billion a year nationally.

Gaming is central to clubs' success and contributions

Gaming clearly plays a crucial role in clubs' financial success and community contributions. For instance, clubs with gaming account for \$2.022 billion of the \$2.121 billion total wage bill calculated by the ABS in 2004/05. Likewise, clubs with gaming account for the bulk of the industry's economic activity, from employment to tax and community support. In NSW the top 38 per cent of clubs account for 97 per cent of the total tax bill and provide the vast bulk of facilities, employment and community donations. Larger clubs are also more dependent on gaming revenue. It is important that government avoid tax or regulatory policies that may jeopardise club revenue and hence their ability to remain viable or continue their economic and community contributions.

Gaming in clubs has significant economic benefits

Clubs play a significant role in our economy, supporting local suppliers of food and drink, entertainment of all types, sporting supplies and services, and, importantly, construction through major capital expenditure programs. The ABS found hospitality clubs in 2004/05 employed 64,000 people and generated \$7.3 billion in revenue; the current figures for clubs across Australia are likely to be higher.

Access to cash and ATMs

ATMs are commonly located in registered clubs because they are cash businesses and are convenient, safe places to withdraw cash. About 25 per cent of Australia's ATMs are located in a club or pub, comprising about \$9 billion in withdrawals per year. Removing access to cash in clubs would make it more difficult for patrons to purchase goods and may lead to reduced trade. Interventionist measures will not only have significant revenue implications for clubs but will dramatically impact on the amenity enjoyed by club patrons.

Pre-commitment

ClubsAustralia has strong concerns about the use of technology-based 'pre-commitment'. Technology-based measures of this kind have not been proven to help problem gamblers, while attractive at a superficial level, it is fraught with significant practical difficulties in implementation and monitoring.

The expense of wide-spread introduction of the required new technology would be quite prohibitive, with substantial costs associated with its introduction and maintenance. No other form of gambling or recreation in Australia requires the punter to electronically pre-select the amount of time or money they wish to play. In our view, pre-commitment fails a cost-benefit analysis and should not be supported.

Internet gambling

Internet gambling fosters people staying at home gambling on their credit card in a totally unregulated environment, away from any watchful eye, and is in our view the most significant area for the future growth of problem gambling. Australians are now able to gamble on over 1,800 websites or wherever they can take a 3G mobile telephone.

Compared to online gambling, traditional land-based gaming is very heavily regulated. Clubs are subject to extensive mandatory and voluntary harm minimisation practices, including regular review and inspection. In contrast, web-based providers are able to operate 24/7 with little to no regulatory scrutiny. There have been numerous cases of fraud and theft, for which players have little protection.

ClubsAustralia is particularly concerned about the risk posed by these new gambling providers to young adults and underaged youth, who are the heaviest internet users, are more susceptible to aggressive advertising, and can access these sites with relative ease. Another concern is the pervasiveness of advertising for online gambling operators in all media and during high-profile sporting events. Internet and mobile gambling also presents increased risk to those who are already problem gamblers or at risk; evidence indicates that these groups are more likely to be internet gamblers.

The Federal Government has the power and the responsibility to legislate mandatory harm minimisation measures for internet gambling.

Club viability and jobs

Clubs generate economic activity and jobs in regional areas where unemployment is relatively high and local economies are not as well supported. However, this contribution can be diminished by ill-conceived government policy, especially relating to gambling. A reduction in gaming revenues for clubs will have large, negative impacts on regional economies and the economy more broadly. At a time of increasing unemployment and likely recession, caused by the Global Financial Crisis, ClubsAustralia strongly advocates against measures which may further reduce employment and delay Australia's economic recovery.

A way forward – recommendations

ClubsAustralia in June 2008 made the following recommendations to the Australian Government.

1. Improve and Co-ordinate National Gambling Research

ClubsAustralia calls for a single national body, federally funded but run in co-operation with the States, to conduct and direct gambling research and collect essential data.

2. **Ban All Forms of Credit Betting**
ClubsAustralia calls for a ban on credit betting in all forms of gambling as well as a ban on withdrawals from ATMs on credit in all gambling venues.
3. **Regulate All Forms of Gambling**
New forms of gambling, on the internet, television and mobile phones should be regulated as a priority.
4. **Improve the Training of Staff**
ClubsAustralia calls for mandatory training of frontline staff in responsible conduct of gambling, in all forms of gambling.
5. **Strengthen the Safety Net**
Family interventions, improved training and national accreditation of counsellors as well as education on gambling and financial literacy for young people would greatly assist in limiting problem gambling.
6. **Establish a National Peak Body**
ClubsAustralia advocates the Government establish a national peak body comprising industry, independent researchers and Government representatives to foster evidence-based dialogue to reduce the incidence of problem gambling and set minimum standards against which benchmarks can be assessed.

THE NATURE OF GAMBLING

Gaming machine expenditure

Growth in gaming machine expenditure does not produce increasing rates of problem gambling. Revenue growth tracks inflation and growth in household disposable income as well as increasing numbers of gaming machine players. IPART found in 2008 that:

Despite the strong contribution by gaming machines to gambling expenditure, a greater incidence of gaming machines in a state does not necessarily lead to higher level of per capita gaming machine expenditure.¹

Government policy should reflect that in some jurisdictions, such as Queensland, the rate of problem gambling has declined at the same time as expenditure increased.

Links between accessibility and prevalence

It has been assumed that there is a significant connection between greater access to gaming machines and a higher prevalence of problem gambling. IPART found in 2008 that:

In 1999, the Productivity Commission found that overall, the evidence appeared to suggest there was a significant connection between greater access to gaming machines and a higher prevalence of problem gambling. Based on more recent studies... it appears that greater access to gaming machines between states does not necessarily translate into a higher incidence of problem gambling.²

¹ Independent Pricing and Regulatory Tribunal of NSW, *Review of the Registered Clubs Industry in NSW*, Final Report, June 2008, p.233

² Independent Pricing and Regulatory Tribunal of NSW, *Review of the Registered Clubs Industry in NSW*, Final Report, June 2008, p.235

...the rates of problem gambling in NSW are slightly higher but still comparable with the rates in other states where clubs operate significantly fewer gaming machines. [IPART] also found that clubs do not affect the total amount of gambling in NSW, but may influence the form of gambling and where it occurs.³

Impact of harm minimisation on growth

Many harm minimisation measures do not affect the level of harm caused by problems with gambling, but merely reduce access to gaming for the broader community. It is likely that the growth in unregulated internet gambling combined with further efforts to limit access to conventional gaming will encourage substitution away from clubs into internet gambling. ClubsAustralia advocates that all forms of gambling should be treated equally by regulators to avoid substitution.

PARTICIPATION PROFILE

Definition of a problem gambler

It is generally acknowledged, including by the Productivity Commission, that there is no universally accepted definition of a 'problem gambler'. While an agreed standard may remain elusive for such complex disorders, it is also important that the Commission's examination not rely on indexes that are demonstrably unsound.

Gambling instruments: clinical tools

Many of the screening indexes and instruments used to identify and quantify problem gambling have been shown to be fundamentally flawed, such as the South Oaks Gambling Screen. There is also a lack of consistency over the scores that should be used, making it hard to compare 'apples with apples'. CPGI is the best available tool, though a more accurate measure is needed and should be used regularly in comprehensive surveys.

Self-reporting

There is a popular misconception that self-reporting of gambling activity leads to lower estimates of problem gambling. The converse is actually true, with self reporting equating to 2.1 times the amount actually gambled.

Breaking down popular misconceptions

The Productivity Commission needs to recognise that misinformation often pervades the discussion surrounding 'problem gambling' in Australia, and many myths are propagated by anti-gambling activists. For example, Australia does not have 21 per cent of the world's gaming machines but only 2.5 per cent, state and territory governments are not addicted to gambling revenue and the majority of gaming machine revenue is not derived from problem gamblers.

Internet gambling increases the risk of problem gambling

While the rate of problem gambling in Australia has declined as the land-based market has matured, the exponential growth in internet and mobile gambling poses a real risk to the public and particularly to those at risk of gambling-related disorders. Worldwide, internet gambling revenue has increased from US\$2.2 billion in 2000 to US\$15.2 billion in 2006, and

³ Independent Pricing and Regulatory Tribunal of NSW, *Review of the Registered Clubs Industry in NSW*, Final Report, June 2008, p.41

mobile-phone-based gambling revenue has grown from \$1.5 billion in 2005 to an expected \$19.6 billion in 2009.

Research indicates the rate of problem gambling is three to four times higher among internet gamblers than non-internet gamblers. Problem gamblers are also more likely to prefer internet gambling. Even those who prefer land-based gambling venues are likely to use internet sites when land-based ones are unavailable.

IMPACTS OF GAMBLING

Club diversification

Many clubs are attempting to diversify their activities to reduce their dependence on gaming, as well as broadening the services they offer their members and local communities. In many cases this supports government policy goals, such as increasing the availability of aged care services. Although there are attendant risks in this, and it is unlikely and undesirable that they should replace gambling altogether, ClubsAustralia believes governments should actively support clubs in their diversification efforts.

Club industry consolidation

Amalgamations are an increasingly popular way of preserving the facilities and other community benefits offered by clubs that would otherwise be forced to close due to economic conditions. ClubsAustralia believes the facilitation of amalgamations should be assisted by government policy to help ensure clubs' long-term survival.

Gambling expenditure

In the recent past two Australian researchers⁴ claimed that:

*...on our estimates, problem or at-risk gamblers spent about 53 per cent (AU\$1.3 billion) of the money expended on hotel and club EGMs in 2005–06 in Victoria. The [Productivity Commission]'s 1999 estimate was that severe and moderate problem gamblers contributed about 33.7 per cent and 8.7 per cent, respectively, of total [electronic gaming machine] expenditure—a total of 42.4 per cent.*⁵

ClubsAustralia argues there are serious flaws with the methodology used that invalidate this claim. Arriving at an accurate estimate is extremely difficult and has not been achieved to date, though is believed to be substantially lower than estimated. This is the case, in part, due to decreasing prevalence and increasing participation rates.

TAXATION AND REGULATORY ARRANGEMENTS

Clubs are major taxpayers

Clubs pay a range of Commonwealth, State and Territory and local government taxes and charges. According to the ABS in 2004/05, Australian clubs paid over \$1.1 billion in gaming machine tax and \$1.4 billion in other taxes on revenue derived from and activities associated with gaming. These taxes provide for government expenditure on health, transport and education.

⁴ Livingstone, Charles and Richard Woolley, "Risky Business: A Few Provocations on the Regulation of Electronic Gaming Machines," *International Gambling Studies*, Volume 7, Issue 3, December 2007, pp.361-367

⁵ Ibid, at p.365

Mutuality remains relevant

Healthy surpluses are necessary for the longevity and continued community benefit provided by not-for-profit, mutual clubs. Studies have found there is extensive public awareness of and support for clubs' mutual status. ClubsAustralia submits this special status must be preserved, allowing clubs to remain membership-run mutual organisations and to continue to exist for the benefit of members and the community.

Impacts of higher club gaming tax

Increases in club gaming taxes have been shown by both experience (especially in NSW) and expert modelling to have substantial deleterious effects on clubs, the economy and the community. Clubs are unable to absorb the increases or pass them on in changes to return-to-player. Impacts include:

- Job cuts;
- Increases in the price of food and drink, and eradication of subsidised meals;
- Reduced donations to charities and local community groups;
- Reduced funding to junior and amateur sporting teams and professional sport;
- Cuts to capital expenditure; and
- Club closures.

Tax differential between community and privately owned gaming

The tax differential between club and hotel gaming machine tax rates is justified. While clubs are community focused and not-for-profit, hotels are run for the profit of their private owners. When hotels support local charity it is only a tiny fraction of the community support and other social capital provided by clubs. Governments must recognise the value of this contribution in opportunity cost as well as the fabric of everyday life.

Regulatory burden has grown

The regulatory burden on clubs concerning gaming has increased steadily since the Commission's last report. In 1999 there was no dedicated gaming legislation. The subsequent decade has seen substantial increases in the volume, breadth and rigour of gaming regulation in every State and Territory. This has led to a level of required compliance that is difficult for many clubs to meet, given their non-profit community status and heavy dependence on voluntary management.

The regulatory process itself has become more open and transparent, with more productive working relationships between industry and government and more community and industry consultation.

Need for solid research base and consultation

Many new regulations are not supported by high quality research. ClubsAustralia remains concerned by policy introduced as a knee-jerk reaction and/or based on flawed research. Harm minimisation measures should be introduced only if:

- There is a strong evidence and research base in support of its effectiveness; or
- There is strong stakeholder consensus for the measure.

There have been several cases where government has been prepared to consider on its merits and accept rigorous research commissioned by the industry into the cost-benefit of

proposed measures before introducing them. ClubsAustralia believes these should be regarded as success stories and a model for future policy-making.

CONSUMER PROTECTION MEASURES

Legislative controls

Gaming in clubs is now highly regulated with strict legislative provisions in each jurisdiction.

Voluntary measures

Clubs across Australia have also introduced a range of voluntary responsible gaming programs, many of which were established well in advance of legislation and go above and beyond regulatory requirements. Clubs' near-blanket adoption of these programs, as well as the codes, demonstrates the industry's willingness to work proactively in practical ways to improve practices and ensure member wellbeing.

Because clubs are not for profit organisations, they have the motivation to do the right thing without the need for heavy-handed legislation or case law. It appears that the future direction of responsible gambling policy will involve a mixture of regulation and self-regulation. Under these circumstances there is no reason to mandate Industry Codes of Practice.

'Best practice' and evidence supporting new problem gambling regulations

An enormous amount of harm minimisation legislation has been introduced since the Commission's last review in 1999. To a degree, the Commission's report partly contributed to a perception that the potential harm from gambling was sufficiently great that it justified immediate introduction of legislative measures.

ClubsAustralia believes it is questionable that all of the measures can be described as 'reflecting regulatory best practice'. There are numerous cases where the measures are not 'evidence based' in a genuine scientific sense. We are concerned that a climate remains in which concerns voiced by the media and anti-gambling activists precipitate policies which are not founded in good science or consultation.

Problem gambling rates have declined

ClubsAustralia believes that there is now strong evidence to suggest that the incidence of problem gambling has declined since that first measured by the Productivity Commission. Queensland is a particularly good example.

Some measures, particularly those that contribute to increased awareness of gambling issues among gamblers and the general population, have assisted in reducing the prevalence rate. However, other factors have been significant – in particular, a more mature and educated industry and gambling population than existed in 1999, particularly in the hotel gaming machine and casino industries, which were in their infancy a decade ago.

Mental health, comorbidities and problem gambling

As the Commission acknowledged in 1999, there is strong and increasing evidence of links between gambling problems and alcohol, drug and tobacco abuse, as well as mental health problems such as depression. However, much of the research conducted into problem gambling prevalence is based on flawed methodologies that do not consider these comorbidities. With growing evidence that mental disturbance or substance abuse is a predictor for gambling, it is important that this causal relationship be recognised rather than claiming gambling leads to such problems.

1.3 CASH ACCESS AND ATMS

The issue of ATM placement in gaming venues is currently receiving active consideration by a number of State and Territory Governments as well as the Federal Government. This is an area where regulators need to tread carefully and should rely on research before adopting interventionist measures which will not only have significant revenue implications for clubs but will dramatically impact on the amenity enjoyed by club patrons for use of this in-house facility.

About 25 per cent of Australia's 26,500 ATMs are located in a club or pub, comprising about \$9 billion in withdrawals per year.⁶ A poll of 1,000 people in September 2008 by UMR Research found that 56 per cent of people oppose the idea of banning ATMs in clubs and pubs while only 29 per cent of people support it. The percentage that supports the ban drops below 25 per cent if those who never visit clubs and pubs are removed from the respondents. The poll further found that 52 per cent of the entire adult Australian population use club or pub ATMs at least occasionally.

The 29 per cent of the entire mainland population that uses ATMs in clubs or pubs at least once every three months on average say they mostly use the money for food (76 per cent), drinks (70 per cent), spending money outside the club (also 70 per cent), gambling (35 per cent) and cigarettes (17 per cent). This means that just over 10 per cent of the population (35 per cent of the 29 per cent who withdraw from club or pub ATMs every three months) use ATMs in clubs or pubs to withdraw money for gambling; these people are most likely to be aged between 50 and 69.

ATMs are commonly located in registered clubs because they are cash businesses and are convenient, safe places to withdraw cash. Cash is used in clubs for transactions relating to:

- Meals;
- Drinks;
- Snacks;
- Entertainment;
- Merchandise;
- Transport home (taxi or public transport);
- Fundraising raffles;
- Donations to community groups;
- Gaming;
- Keno;
- TAB;
- Access to sports and health facilities;
- Accommodation; and
- Membership application and renewal.

Removing access to cash in clubs would require expensive changes to the way in which goods and services are billed and may lead to reduced demand, with consequential impact on revenue and jobs.

A proposal suggested by those who believe ATMs should be removed from gaming venues is that EFTPOS is a sufficient alternative. It is not. An example typical of clubs in regional areas around Australia is Crescent Head Country Club in NSW. Crescent Head has a population of 1,000 and is 20 kilometres from its nearest town, Kempsey. The club has the

⁶ ATM Industry Reference Group, comprising The Banktech Group, Customer's ATM, Cashcard (First Data International) and Pulse International, assessment of ATM numbers as at June 2008

only ATM in the region. The local supermarket and petrol station have EFTPOS facilities that may allow a withdrawal if a purchase is made, but they both close at 6pm, meaning without the ATM in the club the town would be without access to cash at night. The people of Crescent Head would face a 40km round trip drive for cash facilities. The loss of these facilities would affect other local night trading businesses such as restaurants.

Without cash, which is essential in clubs for efficient low-value transactions, queues for service would be significant. EFTPOS transactions have a minimum spend requirement of approximately \$10. If a member does not have cash and there were no ATM available, they would have to perform an EFTPOS transaction for a \$2 coffee and potentially pay \$10 for it. At a later time, if they wanted a \$3 sausage roll, another transaction must be performed.

A switch to solely EFTPOS cash withdrawal in clubs would be highly problematic. Clubs would require significantly more cash on hand, causing concerns about robberies, theft by staff, accidental loss and OH&S as well as requiring valuable time of busy bar staff.

The proposal to remove ATMs from gaming venues would also create significant competitive disadvantages for venues without ATM facilities nearby. There are some clubs and hotels where ATMs are located very close to the venue. Those venues would be advantaged over others without easy access to cash if ATMs were banned from gaming venues.

Two government reports have found there is no tangible benefit to reducing problem gambling by removing ATMs from gaming venues. The Department of Family and Community Services commissioned KPMG to perform a study in 2002 into the link between problem gambling and ATM/EFTPOS facilities following the 1999 Productivity Commission inquiry.⁷ The study recommended:

That the agreed approach shift emphasis away from the control of problem gambling through device focussed strategies towards a broader focus on the individual's access to accounts for the means of securing cash and/or credit [and] That the Commonwealth government, in conjunction with the states and territories, negotiate with the financial services sector to develop a strategy that supports self-help strategies for banking consumers who require assistance in managing finances as a result of gaming issues.⁸

In other words, the only previous national study in relation to the link between problem gambling and access to cash in gaming venues found the link to not be conclusive. Instead the study directed the Government towards the banking sector to ensure broader account settings and self-help strategies are available and implemented.

Options already exist to reduce the maximum daily withdrawal from ATMs for individual accounts. Banks currently allow account holders to reduce their maximum daily withdrawal by visiting any branch, upon request over the phone, and in some cases via internet banking. In other words, an account holder need only call a 1800 telephone number and they can request their daily withdrawal limit be reduced to, for example, \$100. This limit would be in effect at every ATM in the country. This option would also be effective for those venues which have ATMs within a short distance of the venue. The problem gambler would be unable to access the full daily withdrawal limit (usually \$1,000) from an ATM prior to attending the venue. Promotion of the opportunity to limit daily withdrawals and how to do it should be a focus of harm minimisation. This would empower all consumers, not just those who gamble.

⁷ KPMG Consulting, *Problem Gambling: ATM / EFTPOS Functions and Capabilities*, September 2002

⁸ Ibid, recommendations 3 and 11

As opposed to the proposal to remove ATMs from gaming venues, which would cause significant inconvenience for ordinary club patrons, the personal bank account option places responsibility in the hands of the problem gambler and provides them with an effective means to reduce their access to funds without harming the 99 per cent of Australians who need easy and secure access to cash in clubs for the range of services available.

ClubsAustralia is aware that patrons often enter a club solely for using the ATM facility. Clubs in this instance are providing a 'banking' facility because of either a scarcity of such facilities in that area or other reason such as personal security and safety.

For example, Dubbo RSL Club has ATMs within the club. The nearest ATMs outside the club are several blocks away. This presents very serious security issues for patrons, who at night might be forced to walk alone to take out money for a meal or drinks. Elderly patrons in particular would find this very distressing.⁹ Particular problems would also be faced by physically disabled patrons.

In recent times, ATMs located on the street have become common targets for thieves who use gas to 'explode' ATMs and take the money from inside them. A unit within the NSW Police Force, called Strike Force Piccadilly II, has been formed to investigate and track the thieves but has not been successful at the time of writing. The number of incidents has become so great as to lead the Australian Banking Association to offer a \$50,000 reward and the NSW Police Minister to offer a \$100,000 reward for information leading to arrests and convictions.¹⁰

A press release from the Minister notes that significant damage has been caused by the explosions to nearby and surrounding premises. It also expresses concern that innocent members of the community might be injured in these dangerous attacks. It is important to note that not one of the ATM explosion attacks has occurred on an ATM inside a pub or club despite pubs and clubs having approximately 25 per cent of all Australian ATMs. An ATM inside a venue can also not be 'ram-raided'. Therefore ATMs within licensed venues are extremely safe for both ATM operators and those who wish to withdraw money.

The ACT Government commissioned Professor Jan McMillen of the ANU Centre for Gambling Research to do a study into the benefit of removing ATMs from gaming venues in 2004. That study found there was no tangible benefit for problem gamblers but there would be a significant level of inconvenience to other club patrons.¹¹

The most commonly mentioned reason for using gaming venue facilities to withdraw money is access – 22 per cent of gaming venue ATM users and 29 per cent of venue EFTPOS users say there are no other facilities in their local area. For other gaming venue ATM and EFTPOS users it is an issue of security, with 19 per cent of venue ATM users and 14 per cent of venue EFTPOS users concerned about travelling with money in their wallet.¹²

The ATM Industry Reference Group, comprising the four major independent ATM providers, reported that the average withdrawal at a bank ATM is \$170 while at a club or pub throughout the nation it is an average of \$110. The ATM providers further reported that ATM withdrawals from pubs and clubs in Western Australia are also \$110 on average, despite

⁹ UMR Research Pty Ltd, "NSW Clubs in their Local Communities – A Case Study", commissioned by ClubsNSW, 27 February 2009, p.39

¹⁰ Kelly MLC, The Hon Tony, NSW Minister for Police, Lands, Emergency Services, Leader of the House in the Legislative Council, Media release: "Government Reward Offered Over ATM Attacks", 16 December 2008

¹¹ McMillan, J, D Marshall and L Murphy, *The Use of ATMs in ACT Gambling Venues: An Empirical Study*, Australian National University Centre for Gambling Research, September 2004, p.15

¹² Ibid (emphasis not added), p.12

clubs and pubs in WA not having gaming. This raises the question whether problem gamblers commonly withdraw their money from club and pub ATMs.

The theory that problem gamblers seek cash before arriving at a gaming venue is supported by the Tasmanian experience. Tasmanian clubs and pubs cannot operate ATMs by law. Yet the prevalence of problem gambling in Tasmania is higher than jurisdictions such as South Australia and Queensland that allow ATMs in gaming venues. Tasmania's per capita spend on gambling is lower than other jurisdictions, but, as seen by the similar prevalence rates to other States, this almost certainly reflects the impact on recreational gamblers of removing ATMs. Lower per capita income in Tasmania than the rest of the country may also be a factor.

Indeed, the Tasmanian Treasury's Social and Economic Impact Study of Gambling in Tasmania, completed in 2008, found that over 20 per cent of Tasmanians who play gaming machines more than once a month used ATMs before they gambled, compared with only 5 per cent of occasional players (less than monthly).¹³ In other words, removing ATMs from gaming venues is not a panacea for problem gambling because the problem gamblers continue to access money before they gamble but recreational gamblers are highly impacted by the lack of access to cash, to the detriment of the venues and the person's entertainment options.

There may be additional steps the financial sector is capable of pursuing to identify problem gamblers, such as warning systems on accounts which advise when an account is dwindling rapidly or when a certain amount has been spent with a nominated recipient, such as a gaming venue or TAB.

ATMs are already banned from gaming areas in all jurisdictions, and gaming venue ATMs cannot provide cash from a credit card. ClubsAustralia believes sufficient restrictions are in place on ATMs without causing detriment to the general public.

ClubsAustralia understands from the Australian Bankers Association that the imposition of restrictions on ATMs will inevitably increase the cost to consumers of conducting ATM business. In our opinion it would be irresponsible to impose charges on the general public, especially those who already struggle with high bank fees and charges, when alternative measures exist which are targeted to combat problem gambling.

ClubsAustralia believes a voluntary approach is best. For example, Wests Tamworth offers a "mind your ATM card" service for "people who may be feeling tempted to go and withdraw more money and make up for their losses".¹⁴

ClubsAustralia believes the call to limit access to cash in clubs through restrictions or bans on ATMs and EFTPOS is a suggestion that independent research shows is ineffective public policy and would severely restrict the ability of clubs to provide the full range of services to members. Further, any such change would lead to unintended consequences to the detriment of those who are not problem gamblers, without sufficiently restricting problem gamblers' access to cash to merit the change being made.

ClubsAustralia advocates that the Government lead discussions involving stakeholders, such as the banking and gaming sectors, to examine options of facilitating safeguards for individuals. ClubsAustralia rejects calls to further restrict access to cash within clubs.

¹³ South Australian Centre for Economic Studies, *Social and Economic Impact Study into Gambling in Tasmania, June 2008*, commissioned by Tasmanian Gaming Commission, December 2008, available at <http://www.tenders.tas.gov.au/domino/dtf/dtf.nsf/v-liq-and-gaming/019422A0FDAB5832CA25748E00810386>, pp.45-46

¹⁴ "Fight to wipe out problem gambling", *Northern Daily Leader*, 7 February 2009, p.9

1.4 PRE-COMMITMENT

While technology-based pre-commitment is attractive at a superficial level, it is fraught with significant practical difficulties in implementation and monitoring. Setting aside the cost-related issues of implementation, which are substantial, there are questions as to the impact on recreational gamblers, gamblers setting excessive limits, lack of solid evidence that the measure reduces problem gambling, and likelihood of substitution into other forms of unregulated gambling.

No other form of gambling or recreation in Australia requires the punter to electronically pre-select the amount of time or money they wish to play. No other measure for reducing problem gambling is so clearly aimed at reducing gaming spend as opposed to altering player behaviour. ClubsAustralia believes that requiring pre-commitment for poker machine play will not be particularly effective for problem gamblers, who will set high limits, borrow cards from others and attempt other means of avoiding restrictions. However, pre-commitment will deter a large percentage of casual and recreational gamblers who will rightly argue they can engage in other forms of gambling without such impositions. This is particularly relevant if pre-commitment is introduced as a defacto 'licensing scheme' that is used to discriminate between players – for example, if players wishing to play without a card are subject to lower play limits or lower jackpots than those who choose to play with a card. ClubsAustralia believes that any such policy would unjustifiably discriminate between players and have significant negative implications for both patrons and clubs.

In the context of this submission, pre-commitment is understood to be a technology-based option which allows a player to select in advance the amount of money they wish to gamble or the amount of time they wish to play. For poker machines, it can work either by selecting options on a gaming machine or through use of a player identification card together with a suitable player interface which allows various options to be selected. These options can be stored on a card (smart card or other card type) or a central system and applied whenever and on whatever gaming machine the player chooses to gamble on.

The Victorian Government has announced¹⁵ it intends to introduce pre-commitment in two stages. Stage 1 to be introduced by 2013, involves a 'machine based' solution that allows players to select their spend limit with the machine 'ceasing operation' once the limit is reached followed by a 'more stringent' regime (yet to be developed) and rolled out in 2015-16. Pre-commitment is also being trialled by the South Australian and Queensland Governments as well as in some international jurisdictions such as Nova Scotia, Canada.

In its 1999 report, the Productivity Commission suggested that pre-commitment may be an effective tool to aid gamblers in managing their spending.¹⁶ This view was later supported by Dickerson's 2003 study.¹⁷ Central to the Productivity Commission's recommendations was the view that gamblers can potentially gain control over their gambling, or avoid excessive expenditure, by planning their gambling sessions and finances more carefully through using pre-commitment. Further, it has been suggested that with the move away from cash-based transactions this form of control would assist in the new gambling environment, especially for electronic gaming machines (EGMs).

¹⁵ Victorian Minister for Gaming, The Hon Tony Robinson MP, Media release: "Brumby Government Takes Action for a More Responsible Gaming Industry", 31 March 2009

¹⁶ Productivity Commission of Australia, *Australia's Gambling Industries 1999*, AusInfo, Canberra, 1999, Volume 2, pp.16.71-16.76

¹⁷ Dickerson, MG, "Exploring the limits of 'responsible gambling': Harm minimization or Consumer protection?" *Gambling Research (Journal of the National Association for Gambling Studies Australia)*, Volume 15, 2003, pp.29-44

Player choice is important, and any measure which is proven to reduce problem gambling should be considered. However, ClubsAustralia holds strong concerns about the use of technology-based 'pre-commitment' on two grounds: first, technology-based measures of this kind have not yet been proven to help problem gamblers but would pose a disincentive to recreational gamblers to play and may reduce how much they play; and second, the cost of widespread introduction of the required new technology would be prohibitive.

In our view, pre-commitment fails a cost-benefit analysis and should not be supported.

The Productivity Commission's 1999 research

Various harm minimisation measures were recommended by the Productivity Commission in 1999. The Commission suggested that potential pre-commitment measures may be an effective tool to aid gamblers in managing their spending.¹⁸ Central to the Productivity Commission's recommendations is the view that gamblers can potentially gain control over their gambling, or avoid excessive expenditure, by planning their gambling sessions and finances more carefully by using pre-commitment strategies.

To revisit some earlier analyses from the Commission's 1999 research:

1. Only n=65 respondents to the Commission's 1998 survey reported chasing their losses (or approximately 0.61 per cent of the 10,609 sample). This suggests that limiting time and money may not be a major problem.
2. Only n=141 respondents to the Commission's 1998 survey reported they had a problem with their gambling (or approximately 1.3 per cent of the 10,609 sample).
3. A cross-tabulation of the data for the above two variables shows that only n=31 (or approximately 0.29 per cent of the 10,609 sample) respondents both chase their losses and think they have a problem with their gambling.

This research suggests the problem of chasing losses by gamblers who think they may have a problem – which would seem critical to the notion of pre-commitment in the gambling debate – is minuscule.

Indeed, there is considerable debate about the level of problem gambling and whether it is going down or stable, let alone whether pre-commitment will be the 'silver bullet'. In the absence of any substantial facts establishing that meaningful problems exist that may be addressed with pre-commitment, pre-commitment should not be imposed.

The argument in favour of pre-commitment

It is suggested by proponents of pre-commitment that the purchase point for the individual is removed from the emotionally engaging and rapid sequence of gaming choices. In other words, because the player must pre-commit time or money before they play, it is argued that they can not be 'drawn in' by the machine and lose the ability to control their spending or their awareness of time. Significant purchasing decisions can be made away from the gaming floor, calculating the acceptable rate of expenditure (losses) for the individual's preferred pattern of betting.

It is suggested by pre-commitment proponents that, for both the player and the club, such a system of consumer protection would remove the conflicting goals of each: the former is free to enjoy the gambling experience in safety because of the limit chosen, and the latter can develop venue themes and a greater variety of gaming machines that enhance the

¹⁸ Productivity Commission of Australia, *Australia's Gambling Industries 1999*, AusInfo, Canberra, 1999

attractiveness of gaming and entertainment for the player without concern for the impact on player self-control.

Pre-commitment may have some capacity to support self-exclusion while at the same time maintaining the anonymity of the player.

It is not known to what degree pre-commitment may reduce problem gambling, if at all. Without strong evidence that pre-commitment will actually reduce problem gambling, as opposed to a general principle that 'player options are likely to increase consumer protection', ClubsAustralia questions how the cost of installation and maintenance can be justified. However, to date there has been limited testing and research for these proposed systems anywhere in Australia or the world.

Pre-commitment as opposed to self-control

Pre-commitment is merely one topic in the debate over self-control and is not a new idea. For instance, Strotz found that people who use external mechanisms, such as pre-commitment, seek to impose self-control on their consumption.¹⁹

However, there is a renewed interest in the concept of self-control as a way of studying consumption-saving decision problems (e.g. Benhabib & Bisin, 2005; Bernheim, Ray & Yeltekin, 1999; Choi, Laibson, Madrian & Metrick, 2005; Gul & Pesendorfer, 2001, 2004; Otto, Davies & Charter, 2006).

People often exert self-control in order to indulge in luxuries that they would not ordinarily allow themselves.²⁰ An experiment by Kivetz and Simonson showed that people are more likely to choose a luxury promotional option (for example, a cruise) as opposed to a practical promotional option (such as a cash prize).²¹ Further, reducing the probability of winning the prize led to an increased selection of the luxury prize over the cash alternative.

The pragmatic prerequisite of a pre-commitment program is that it needs to be accepted by the individual to be successful. To this end, individuals who rely on self-imposed restrictions (deadlines for projects) have better outcomes and results (grades) than those who have restrictions imposed.²² More recently, experimental research has found that the higher the perceived cost of commitment, the less likely individuals subject to temptation will choose to commit.²³

So while pre-commitment as a concept may appear an attractive way to 'help' people manage consumption of gambling products, the extant research does not agree that imposing such restrictions will be successful, or that the individual's choice is required for successful outcomes.

¹⁹ Strotz, RH, "Myopia and inconsistency in dynamic utility maximization", *Review of Economic Studies*, Volume 23, Issue 3, 1955-56, pp.165-180

²⁰ Kivetz, Ran and Itamar Simonson, "Self-Control for the Righteous: Toward a Theory of Precommitment to Indulgence", *Journal of Consumer Research*, 29 September 2002

²¹ Ibid.

²² Ariely, D and K Wertenbroch, "Procrastination, deadlines and performance: Self-control by pre-commitment", *Psychological Science*, Volume 13, Issue 3, 2002, pp.219-224

²³ Casari, M, "Pre-commitment and flexibility in a time decision experiment", *Journal of Risk and Uncertainty*, Volume 38, 2009, pp.117-141

Australian research

The only Australian National Survey of Gambler Pre-commitment Behaviour was undertaken in 2005, by McDonnell-Phillips.²⁴ This study found that various factors can influence the degree to which an individual keeps to or exceeds limits while gambling. This can include the actual limit set for gambling, with gamblers typically either pre-determining how much to spend for the given session or setting 'goals' before or during the gambling session.

The McDonnell-Phillips study explored the underlying decision-making associated with pre-commitment behaviours of regular gamblers and how they individually set limits for their expenditure. The study suggests that nearly all gamblers have some monetary amount set in their mind during a gambling session. Most respondents in the study already had some sort of spend limit without needing a technological pre-commitment facility. In terms of pre-commitment measures, respondents (n=482) rated willpower as the most effective technique in 67 per cent of cases (n=322). For EGM players, 46 per cent rated willpower as very effective and 20 per cent as quite effective (n=98). ClubsAustralia has made public comment in support of including financial and other education in the school curriculum, which will help gamblers to set their own limits.

The study found that gamblers did not relate well to the pre-set limits and in particular did not respond well to term limits being effectively imposed upon them. Indeed, approximately 35 per cent of EGM players and 25 per cent of TAB punters said that they 'never' set any spend limit. Others admitted that they try to maintain a certain 'general' expenditure level during gambling. These players rely upon their luck during the session and keep playing while they are winning, even if they exceed the length of time originally intended to play, or rely upon their judgment to stop them if they have lost as much as they were willing to lose, even if they have not played as long as they might like. For these people, pre-set limits prevent them from reassessing mid-game and lead them to either shorten play or exceed their intended budget.

However, some of the analysis used in the study was not suitable for the sample size and the comments were of exploratory nature only. The study's authors acknowledged that the study's findings should be viewed as explorative and that greater research is required before implementation of pre-commitment strategies.²⁵

In 2008, the South Australian Government launched an inquiry into how smart card technology might be implemented and whether it would significantly reduce problem gambling. The research has been conducted during late 2008 to early 2009, testing the 'PlaySmart' card. The trial evaluation is examining what impact voluntary limit-setting has on a player's gambling activity and the effectiveness of players having an option to set limits. The results of this inquiry will not be available until 31 October 2009.

In New South Wales, all new electronic gaming machines are required to display both the number and dollar value of credits wagered and won on the machine. To date no data is available on how successful this measure has been. Since October 2002, legislation has required clubs that operate a card-based loyalty scheme to produce and store Player Activity Statements with daily session information containing details of amounts won and lost and grouped into monthly periods. Implementation of this measure required existing club systems to be upgraded at substantial cost to clubs. As a result of these costs, a majority of NSW clubs have chosen not to offer loyalty schemes. Further costs and complications were

²⁴ McDonnell-Phillips, *National Survey of Gambler Pre-commitment Behaviour*, 2005, accessed at <http://www.gamblingresearch.org.au/CA256DB1001771FB/page/The+Research+Library-GRA+Reports-Gambler+Pre-commitment?OpenDocument&1=30-The+Research+Library~&2=40-GRA+Reports~&3=0-Gambler+Pre-commitment~>

²⁵ Ibid, p.49, "Summary Conclusion"

incurred as a result of a requirement to store extensive amounts of data for a period of three years. Upon request, a club must be capable of reproducing a Player Activity Statement for any recorded person in the last three years. This measure was also supported by a legislated requirement to advertise the availability of Player Activity Statements.

Despite what may have been a well-intentioned harm minimisation measure, the feedback from clubs is that the usage of Player Activity Statements is negligible. In our opinion Player Activity Statements are an example of a technical measure that has not achieved its goal: its introduction was a significant and ongoing expense to clubs without any measurable impact on problem gamblers.

In Queensland, the Office of Liquor, Gaming and Racing has implemented trials into consumer pre-commitment using a card-based gaming system in electronic gaming machines. The trial was undertaken in two southeast Queensland venues in March and August 2008. This trial utilised technology to enable players to nominate an amount of money to spend on gambling in advance. Players can, for example, set a limit to the amount they want to spend in a day, or set a maximum amount on their card. Once the limit is reached, play using the card is suspended until the next day. To date the report on these trials has not been made public, though the level of problem gambling was not assessed before the trial and is not scheduled to be assessed during or after the trial. ClubsAustralia questions the value of the trial as justification for introducing pre-commitment Australia-wide if prevalence research is not conducted.

Canadian research – Nova Scotia

In relation to international pre-commitment research, a card-system²⁶ trialled in Nova Scotia, Canada, was a measure of demand reduction. That is, some of those people involved in the trial spent less than usual when gambling with pre-commitment. The authors recognise some bias into the results via the potential 'Hawthorne effect'. This means that because the participants were being observed they may have modified their behaviour. This study of respondents (n=88) involved eight who were identified as problem gamblers and found that, by imposing pre-set financial limits, 33 per cent of respondents (n=29) spent more than they had intended to or budgeted for. Perhaps by setting a limit they 'played to the limit' rather than relying upon their own willpower to finish their gambling session.

The Nova Scotia study found that the card system discouraged casual players from playing EGMs. There was also evidence that the card system encouraged EGM players to leave the area of the study to undertake play. There was evidence of players borrowing or sharing cards to play, which would be a particular concern for problem gamblers. Given these outcomes it is obvious that if the card-based pre-commitment measure was employed in Australia there are potentially detrimental and damaging effects for EGM play among both recreational and problem gamblers.

There were a number of recommendations from the Nova Scotia study, including that the smart card should only be available to those who choose to use it and not be mandatory. The study recommended against making the card system more stringent by enhancing the controls to reduce card sharing, without extensive further research and testing. The report also noted that respondents voiced concerns about privacy of the playing data and having to reveal personal information to obtain a card before play could commence.

In a recent visit to the Nova Scotia Gaming Corporation, ClubsAustralia learned that since the conclusion of the Nova Scotia study the Nova Scotia Government is proceeding to install

²⁶ Omnifact Bristol Research, *Nova Scotia player card research project (Stage III research report)*, 2007, available at: <http://www.nsgc.ca/pdf/Omnifacts%20Bristol%20Research%20Report.pdf>

a card-based pre-commitment system, with installation commencing around mid-2009. The smart card pre-commitment system will be called the Informed Player Choice System (IPCS), and a Nova Scotia-based company, Techlink, which developed the technology, has secured a patent on the system.

There are a number of important points to be aware of regarding the IPCS system that is being implemented, following arguably the most extensive research on pre-commitment that has been carried out to date. These include:

- While the policy is to make gaming machines ‘card-only by 2010’, the machines will initially allow for non-card operation. That is, initially, machines may be activated without a card. The card will only need to be inserted if a player wishes to access IPCS features. It is understood the card-only policy will be reviewed before the 2010 date, taking into account the experience gained.
- Use of the IPCS pre-commitment features will be voluntary, even if and when card-only machine activation is made mandatory. In other words, although the gaming machine may require a card to be inserted to initiate play, once it is inserted, a player does not need to activate and use IPCS features such as pre-selecting time or money.
- Privacy and other concerns have led to a decision that the IPCS will feature player anonymity. In practice, player registration will involve a dedicated registration device in each venue that will facilitate the issue of player cards. The normal process for issuing a card will require a player to ‘swipe’ their licence (or other suitable document) through the device. Selected identification details appearing on the licence will be used to generate a code (sequence of identifying letters/numbers) using an encryption process. The encrypted identifier will be unique for each card. If a licence is re-swiped, the IPCS will attempt to generate the same identifier.

Each Video Lottery Terminal (VLT), which is the equivalent of an Australian gaming machine, will have a card reader attached which is connected back to a central server/database. The unique encrypted identifier allows the IPCS central server to make decisions about preset limits being reached or exceeded when the card is used in any VLT at all IPCS-connected venues. It is understood that while the unique identifier and the information gathered under that identification is stored by the IPCS there is no way that the identity of the player (as printed on the licence details from which the card is generated) can be determined. That is, while there is a unique identifier on each card there is no way it can be linked by government or any other party to the actual player.

- There is no plan to utilise the system to track play and identify problem gamblers. The principle is to equip the player with tools that they can voluntarily use. Media reports²⁷ have suggested that identification of problem gamblers may be a feature of the system, and other reports have suggested that sophisticated software might be developed to analyse the data stored for playing patterns and thereby determine problem gamblers; however, this is not the case. ClubsAustralia believes that attempting to use a pre-commitment system to identify problem gamblers would be a breach of privacy and civil liberty.
- The Canadian Government is funding the cost of converting all of the VLTs (around 2,500) as well as the ongoing cost of operating the IPCS. These costs are

²⁷ “Cards could track problem players”, *The Chronicle Herald Nova Scotia*, 22 January 2008

understood to be around Canadian \$15 million for the retrofit of existing VLTs, with an ongoing cost of Canadian \$5 million annually to maintain and operate the IPCS.

- The IPCS requires a high-speed internet connection to the venue in order to operate. That may be possible in a small Canadian province with few gaming venues affected and only 2,500 affected gaming machines, but the same cannot be said of Australia.

Many Australian clubs are not currently connected to the internet. Even the NSW-based Central Monitoring System does not utilise high-speed internet. Connecting roughly 10,000 venues nationwide to an appropriate level of internet access, linked to a central database responsible for 200,000 gaming machines, each of which would either need a retrofit or replacement, would be a highly expensive undertaking. In addition, without a pre-existing national broadband or other high-speed internet network, it would be a potentially enormous infrastructure project that would affect cities and towns all over Australia.

- The two Nova Scotia casinos will not be required to install pre-commitment technology, despite operating gaming machines. Therefore those who do not want to use the card-based system will choose a casino instead of somewhere else to play. This is an obvious flaw in the pre-commitment policy settings. It is not clear to ClubsAustralia why every form of computerised gambling will not have it installed, from casinos to the internet, as the alternative is government-mandated substitution of gambling, which will impoverish some venues while enriching others.

Indeed, in its 1999 report the Productivity Commission recommended pre-commitment, if introduced, be applied to all online forms of gambling and not just to poker machines: "The Commission sees benefits in technical measures, such as a central database, that may enable a gambler to credibly pre-commit to time or money limits and self-exclusion (if they wish to do so) across all Australian licensed online gambling sites."²⁸ However, ClubsAustralia notes that non-electronic forms of gambling, such as wagering, sports betting and lotteries, are not proposed to have pre-commitment mandated. It is not apparent why a system considered appropriate consumer protection for electronic gaming would not be appropriate for other forms of gambling.

Comparison between Nova Scotia and Australia

It is difficult to estimate the cost of introducing and operating a system such as IPCS in each Australian jurisdiction for a number of reasons, including:

- Nova Scotia has a population of less than 1 million, covering an area of approximately 55,000 square km, and 2,500 VLTs. The difference between Nova Scotia and Australia is vast. At \$15 million for retrofitting machines and annual maintenance of \$5 million, it equates to \$6,000 retrofit and \$2,000 maintenance per machine. Applying the same rates to the Australian equivalent, excluding geographic distance challenges, thousands more venues and complications involving a system with 80 times more machines and 20 times the population, would be \$1.2 billion for retrofitting and \$400 million per year for maintenance. Trying to implement the system in a country the size of Australia, with so many gaming venues, would dramatically increase the technical complexity of the system as well as the cost of retrofitting, installation and maintenance.

²⁸ Productivity Commission of Australia, *Australia's Gambling Industries 1999*, AusInfo, Canberra, 1999, p.59

- The technology of the current installed gaming machine base in each Australian jurisdiction differs. Some jurisdictions may require not just new machines for every venue, but a whole new monitoring/tax assessment system. It would certainly require new venue staff training and may also require government inspector training.
- Each jurisdiction is likely to make different arrangements regarding the type of system to be used and how such a system would be operated. This would create complications for those living in border areas, tourists and non-English-speakers. It would also add to the national cost of installation and maintenance through duplication.
- In Nova Scotia, the Government owns the gaming machines. The cost of implementing pre-commitment is borne by the Government, and any loss of trade caused by such a change is largely borne by the Government. Additionally, with 2,500 VLTs in approximately 560 venues, the number of VLTs per venue is significantly lower than, for example, the 72,000 EGMs in approximately 1,300 NSW clubs. By extension, the revenue stream in Canadian venues from gaming is significantly lower. Australian clubs would suffer if pre-commitment led to a marked reduction in gaming revenue, and the facilities the club provides the community would disappear.

In relation to a centrally controlled system such as IPCS, an indication of the cost might be gained from the cost to clubs and hotels of the Central Monitoring System (CMS) in New South Wales. The CMS connects to every gaming machine and 'listens' to the meter and status information that is broadcast from each gaming machine. It is a passive data collector that allows the Government to calculate tax. The CMS utilises dial-up rather than high-speed internet connections for its communication with venues. While the exact cost of the CMS has never been disclosed, the cost to clubs and hotels over the 15 year exclusive licence period will be around \$600 million, or, averaged over all clubs and hotels with gaming machines, roughly \$200,000 per venue.²⁹ It is noted that small clubs would not be able to afford pre-commitment and are already recognised as not being able to afford CMS. Small clubs in NSW currently have CMS costs borne by the NSW Government.

In addition to the costs of developing and installing this type of technology, there is the question of player acceptance. There is no doubt that players do not like the idea of being centrally monitored. There is evidence emerging from other parts of Canada that players do not like the type of consumer protection mechanisms that are being mandated. Reports indicate players do not like having to use a card with a pre-determined limit before playing and will avoid venues that require it. In Quebec, the economic repercussions of this are reported to be severe: The Ludoplex³⁰ gaming hall has been able to achieve only 30 per cent of projected revenues, with the company attributing most of the shortfall to the type of machines mandated by the Government.

ClubsAustralia has commissioned KPMG to conduct an analysis of the impact of a ten per cent fall in gaming revenue for clubs. If pre-commitment caused even this modest fall in gaming revenue, the implications for club viability would be dire. This analysis is included in Chapter 1.6.

²⁹ This figure is based on current numbers, with 1,700 hotels and 1,300 clubs with gaming

³⁰ "A cure for gambling: Ludoplex the casinos" (Delean, Paul), *The Gazette*, 24 July 2008 accessed at <http://www.canada.com/montrealgazette/news/story.html?id=eb87fd0d-735b-46a6-a42e-aeb52670e1c0>

Pre-commitment as harm minimisation

Pre-commitment is fundamentally about the provision of information to players in regard to the amount of time and money that has been spent playing. However, gaming rooms in all jurisdictions are required by law to have clocks in them and all gaming machines identify both the dollar amount and credit amount on them. In NSW, mandatory consumer protection warnings on each machine add additional safeguards, and Player Activity Statements are available at venues for those who want them. Taken in combination, these features have the same effect as pre-commitment for determining time and money spent playing, but at substantially less cost and impact to recreational players. There is little apparent justification for requiring duplication through mandating pre-commitment.

There are three commonly mentioned aspects of harm reduction:³¹

1. Accepting that while the targeted substance or activity will continue in society, its harmful impacts can be reduced without necessarily requiring a decrease in its use;
2. Empowering users to minimise the risk of harm; and
3. Developing empirical evidence of the net reduction of harm.

To date, the research undertaken in terms of a formal pre-commitment strategy does not provide evidence that it will reduce harm on any of these measures. Indeed, it can be argued that technology-based pre-commitment is not a gambling harm minimisation strategy but rather a strategy to reduce the amount that people spend on gambling in the hope that it will reduce problem gambling.

Measures such as pre-commitment cards, reduction in ATM availability and self-exclusion are tools that may reduce gambling problems by reducing the individual's gambling involvement (be it demand or supply reduction).³² This condition is a pre-requisite for the measures to be effective and, therefore, it is argued that these programs should not be termed 'harm reduction', rather, 'supply reduction'. Cantinotti and Ladouceur argue that the current framework used to explore harm reduction initiatives in EGMs such as pre-commitment does not suit the event and impedes the development of gambling prevention research on EGM features. They further assert that using this framework may also misguide the objectives of the interventions proposed.

Furthermore, there is now easy access to other forms of unregulated gaming, such as via the internet. The internet offers no protection for players or benefit to communities. People who reject pre-commitment will substitute land-based gaming machines for unregulated internet gaming or other forms of gambling.

Pre-commitment may become, in effect, a 'licence to gamble' or, noting the number of people who play gaming machines, a pseudo 'Australia card'. Those with licences might receive positive discrimination through higher jackpots. Alternatively, without a card people will not be able to play. ClubsAustralia strongly opposes both of these outcomes. Not only would a 'licence' treat gambling differently to any activity other than driving, without any apparent justification let alone overwhelming need, but it would be a massive disincentive for recreational gamblers. For those who gamble very infrequently, the requirement for a card would be a barrier to the impulse decision to play. Players would potentially leave the venue

³¹ Stockwell, T, "Harm reduction, drinking patterns and the NHMRC drinking guidelines", *Drugs and Alcohol Review*, Volume 20, 2001, pp.121–129

³² Cantinotti, M and R Ladouceur, "Harm Reduction and Electronic Gambling Machines: Does this Pair Make a Happy Couple or is Divorce Foreseen?", *Journal of Gambling Studies*, Volume 24, 2008, pp.39-54

with unspent money on their cards, requiring infrastructure to deal with idle accounts and surplus funds. Other players would lose their cards or forget to bring them to the venue. A market in stolen cards could develop.

Of all the research reviewed in terms of specific pre-commitment research on the effectiveness of pre-commitment, none have measured a positive outcome on reducing problem gambling. It has not been possible to identify any current research in relation to pre-commitment that has found that the method works. ClubsAustralia advocates measures which empower players to utilise their own judgment, for example through education about financial literacy and budgeting. A range of other recommendations have been suggested in this submission which would target and assist those in need rather than impact on everyone. In light of insufficient evidence of the success of pre-commitment to reduce problem gambling as opposed to reducing recreational spending, ClubsAustralia sees pre-commitment as a poor tool for harm minimisation.

The cost of pre-commitment

At over \$20,000 each it is very expensive to replace poker machines. To replace all of Australia's 200,000 machines would cost in excess of \$4 billion, excluding any revenue from second-hand sales. Many small clubs around the country are not financially capable of replacing all of their machines in the short to medium term.

The life cycle of a poker machine is approximately 10 years. The last time a major software update for machines was required by revised technical standards to be altered was in 1993 when the 'X series' standards were released in NSW. All existing 'non-X series' gaming machines had to be converted or replaced to X series over a period of approximately seven years. In addition, non-X linked jackpot equipment had to be replaced by X-compliant equipment.

At the time the X standards were introduced there were around 70,000 gaming machines in NSW clubs and hotels. The cost of replacing each gaming machine with an X-compliant machine was around \$12,000 at the time. ClubsNSW estimates that between 1993 and 2000, \$800 million was spent replacing gaming machines. If the cost of linked controller replacement and upgrades to systems (in order to interface with the new machines) is included, it is estimated that around \$1 billion was spent in that mandatory replacement program.

ClubsAustralia estimates that the cost of switching over Australia's 200,000 machines to incorporate pre-commitment is likely to be \$2,000–\$5,000 per machine for a venue-based system (noting the Nova Scotia retrofit cost for a statewide system was \$6,000 per machine, paid for by a single purchaser – the Government – which could gain efficiencies through bulk purchase and installation). The retrofit cost would be dependent on the type of machine and whether its software could be updated. It is likely a hardware component would be required as well to accept a card and enable the user to make selections, but it is not apparent whether Australian machines would require an additional hardware component or how much that might cost.

The cost would therefore be between \$400 million and \$1 billion for a simple software retrofit to all machines, up to \$4.5 billion involving all new machines plus system upgrades but excluding the cost of installing high-speed internet to all venues. Maintenance of \$400 million per year, based on the Nova Scotia experience of \$2,000 per machine, would be a likely scenario. This cost would probably be expected to be borne by industry, only eight years after the last mandatory change to poker machines cost the NSW gaming industry \$1 billion.

It is noted that annual net gaming revenue in Australia from clubs, pubs, taverns and bars is approximately \$8.7 billion.³³ At over \$400 million per year for maintenance, pre-commitment would reduce total net revenue by approximately 5 per cent per year, before staffing costs, electricity and other factors are accounted for. The costs of pre-commitment, even if spread over a number of years, would be an unreasonable financial burden for many clubs. The cost of installing and maintaining pre-commitment, let alone any loss in turnover resulting from supply or demand reduction, would therefore lead many clubs to see gaming machines as unviable. Yet moving away from gaming revenue would make the clubs unviable.

There is no case for requiring a capital investment of this magnitude to facilitate the introduction of technology based pre-commitment.

³³ Australian Bureau of Statistics, *8684.0, Gambling Services 2004-05*

1.5 REGULATION OF INTERNET GAMBLING AND OTHER EMERGING GAMBLING TECHNOLOGIES

When the Productivity Commission completed its 1999 Inquiry into Australia's Gambling Industries, internet gambling was in its infancy. In 1999 the Productivity Commission reached the following conclusion on internet gambling:

Internet gambling offers the potential for consumer benefits, as well as new risks for problem gambling. Managed liberalisation – with licensing of sites for probity, consumer protection and taxation – could meet most concerns, although its effectiveness would require the assistance of the Commonwealth Government.³⁴

Since then, internet gambling and wagering has increased in popularity and there are now numerous online gambling operators focusing on sports betting and wagering. The regulatory environment has not kept pace with the growth of the industry, and ClubsAustralia has concerns that the risks associated with online gambling are not being addressed effectively. These concerns include the lack of adequate counselling services for online gamblers and the relative ease at which underage people can access gambling websites. Another concern is the pervasiveness of advertising for online gambling operators in all media and during high-profile sporting events.

Growth in internet gambling and new gambling technologies

Worldwide growth in internet and mobile gaming and gambling has been dramatic, particularly by comparison with venue-based gaming. Global Betting and Gaming Consultants estimates that worldwide online gambling revenues were \$600 million in 1998, \$5.6 billion in 2003, and \$16.6 billion in 2008. Overall revenues from internet-based gaming are projected to be between \$20 billion and \$24 billion by 2010.³⁵

While internet gambling has existed since the mid-1990s, it is only in the past few years as personal computers have developed into a standard household accessory that it has gained mass popularity. Indeed, 70 per cent of internet gamblers have only started to participate in the activity within the past two years.³⁶

There are approximately 2,090 online gambling sites worldwide.³⁷ Of these, 1,822 English-language sites accept play from Australia. The majority of these companies are privately owned – meaning reduced accountability – and these sites include 626 online casinos, 470 poker rooms, 337 sports and racebooks, 259 online bingos, 11 backgammon sites, 7 mah jong and rummy sites, 40 online skill game sites, 34 online lotteries, and 21 online betting exchanges.³⁸

Australian online gambling companies

In 1996, Centrebet – based in the Northern Territory – became the first Australian company to begin offering online sports betting. Since then, Centrebet's online gambling has grown rapidly and a number of other Australian companies have followed, including Tabcorp and Betfair. A recent study of gamblers showed that one-third of gamblers use the internet for at

³⁴ Productivity Commission of Australia, *Australia's Gambling Industries 1999*, AusInfo, Canberra, 1999, p.4

³⁵ Christiansen Capital Advisors, *Global Betting and Gaming Consultants 2007*, 2008

³⁶ American Gaming Association, "Gambling and the Internet", in *AGA Survey of Casino Entertainment*, Washington DC, 2006, available at http://www.americangaming.org/assets/files/2006_Survey_for_Web.pdf

³⁷ *Casino City*, March 2009 accessed at <http://www.casinocity.com/>

³⁸ Ibid.

least some of their gambling.³⁹ The same study shows that those who gamble online will bet approximately five times as much money as non-internet gamblers.

Figure 1.1: Average monthly gambling expenditure, by country and type

| Net monthly gambling expenditure (US\$) | Average internet | Average non-internet |
|---|------------------|----------------------|
| United States | \$237.68 | \$75.57 |
| Canada | \$166.55 | \$53.18 |
| United Kingdom | \$64.64 | \$24.48 |
| Asia | \$88.69 | \$103.29 |
| Europe | \$169.04 | \$40.58 |
| Australia/New Zealand | \$300.32 | \$59.82 |

Source: Wood, R.T. & Williams, R.J. (2008). *Internet Gambling: Prevalence, Patterns, Problems, and Policy Options*.

Centrebet announced in a February 2009 statement to the Australian Stock Exchange that total revenue was up 11 per cent and Australian online revenue up 23 per cent for the year, despite the economic downturn.⁴⁰ It credited this rise to market initiatives made possible by the deregulation of the online gambling market.

Tabcorp achieved \$1 billion in internet sales in racing and sports betting in 2006/07 – the first time it had hit this mark in a financial year.⁴¹ A total of \$1.012 billion was wagered on racing and sports events through Tabcorp's online wagering service (www.tab.com.au), delivering 23.5 per cent year-on-year growth. Tabcorp also revealed that 81 million individual racing and sports bets were placed through its online site in 2006/07 and that Tabcorp has 400,000 account customers, of which 140,000 have internet-enabled TAB accounts. Online agency Sportsbet also experienced record turnover in November and December 2008.⁴²

Deregulation of the online gambling industry in Australia has been described by Lasseters Sportsbook as "party time".⁴³

Mobile and television-based gambling

The internet is not the only medium of choice: from a worldwide revenue base of \$1.5 billion in 2005, gambling via mobile phone is tipped to reach \$26 billion by 2012.⁴⁴ Betting activities are divided among the principal categories of sports and spread betting, mobile lotteries and scratch cards, and casino and skill games.⁴⁵ A representative of Centrebet told the following story of one advertising venture:

³⁹ Wood, RT and RJ Williams, *Internet Gambling: Prevalence, Patterns, Problems, and Policy Options*, Final Report prepared for the Ontario Problem Gambling Research Centre, Guelph, Ontario, Canada, 5 January 2009, p.49

⁴⁰ Centrebet, Media release: "Centrebet Generates strong revenue growth from deregulation", 24 February 2009, accessed at 24 March 2009 at www.asx.com.au/asx/statistics/displayAnnouncement.do?display=pdf&idsId=00929944

⁴¹ Tabcorp, Media release: "Tabcorp achieves \$1 billion in Internet wagering sales for first time" 5 July 2007, accessed 24 March 2009 at www.tabcorp.com.au/news_mediarel_detail.aspx?view=319

⁴² "Magic Millions prove buoyant in bad times" (Waddingham, Steve and Garry Legg), *The Courier-Mail*, 10 January 2009

⁴³ "Teams will survive the global financial crisis - just bet on it" (Masters, Roy), *The Sydney Morning Herald*, 20 October 2008

⁴⁴ Juniper Research, *Whitepaper – Mobile Gaming: A Good Bet For The Future*, October 2007, accessed 24 March 2009 at www.juniperresearch.com/shop/products/whitepaper/pdf/MobileGamblingWhitepaper.pdf, p.5

⁴⁵ Juniper Research, *Whitepaper – Mobile Gaming: A Good Bet For The Future*, October 2007, accessed 24 March 2009 at www.juniperresearch.com/shop/products/whitepaper/pdf/MobileGamblingWhitepaper.pdf, p.14

We printed a flyer offering 100 free tickets to see the Jets play, with entry into the stadium [through] a Centrebet plastic card committing them to a \$5 bet. We've seen a massive [rise] in subscriptions and punting in the Newcastle area.

Since we've advertised, user numbers have increased. We've actually recruited more customers during the global meltdown.⁴⁶

Interactive gambling via television is now occurring in parts of Australia, with new services being introduced to offer Australian viewers the capacity to bet on racing, sport, puzzles, trivia or casino games from their home.

Two Way, which is a publicly listed company on the Australian Stock Market, received approval from the Victorian Government in April 2008 to launch an interactive TV wagering service. The NSW Government granted similar approval in October 2008. Memoranda of understanding with the South Australian and Queensland governments were announced to the Australian Stock Exchange on 30 January 2009.

The service, known as Sky Racing Active, allows TAB account holders to place bets via the Foxtel digital platform. According to a statement released to the Australian Stock Exchange on 29 January 2009, an average of 11,000 bets are being placed daily, with more than 1.6 million bets placed since its launch last year. As is the case with internet gambling, there is no technology in place that provides the player with access to counselling or supervision.

In a ranking of legal gambling providers, NSW ranked 12th in the world in terms of Top 40 Online Gambling Jurisdictions in March 2009. The Northern Territory ranks 14th by volume of bets placed across all jurisdictions. Western Australia ranks 24th, Tasmania 30th, the ACT 32nd and Victoria 37th. Internet gambling participation rates in Australia are relatively high, with 32.2 per cent of gamblers reported to gamble online.⁴⁷

The international experience

The United States already has an effective ban on internet gambling. This is achieved by making it illegal for banking institutions to process electronic transfers to internet gambling operators. A list of internet domain names is updated regularly and forwarded to the financial sector.

The United States is the most prominent country to have banned internet gambling, with the *Unlawful Internet Gambling Enforcement Act 2006* (UIGEA). Anecdotal information suggests that some Americans still circumvent the UIGEA by using one of the dozens of available non-US financial transaction intermediaries to place bets.⁴⁸ However, while some Americans are bypassing the ban, studies reveal that the percentage of gamblers betting online is 31 per cent higher in Australia. A study of nine nations found that the US had the lowest percentage of gamblers who also used internet gambling.⁴⁹

⁴⁶ "Teams will survive the global financial crisis - just bet on it" (Masters, Roy), *The Sydney Morning Herald*, 20 October 2008

⁴⁷ Wood, RT and RJ Williams, *Internet Gambling: Prevalence, Patterns, Problems, and Policy Options*, Final Report prepared for the Ontario Problem Gambling Research Centre, Guelph, Ontario, Canada, 5 January 2009, p.51

⁴⁸ American Gaming Association, *An Analysis of Internet Gambling and its Policy Implications*, 2006, available at http://www.americangaming.org/assets/files/studies/wpaper_Internet_0531.pdf, p.5

⁴⁹ *Ibid*, p.49

Online gambling is also banned in China, Russia, Pakistan, Saudi Arabia and Bermuda. Such restrictions could be implemented in Australia by strengthening the *Interactive Gambling Act 2001 (Cth)*.

New figures from the United Kingdom – where internet gambling rates are also very high – reflect the increasing popularity of online gambling, especially since the Government relaxed the rules on advertising for internet gambling sites in 2007. In 2008, 3.36 million Britons played gambling games online, compared to 3.12 million the previous year – an increase of nearly a quarter of a million.⁵⁰ The industry in Britain is now estimated to have turnover up to £12.5 billion per year, with only 1,000 out of 6,000 websites being regulated.⁵¹

As in Australia, much of the web-based gaming is not within the law. Of the 7,000 gambling sites available to British internet users, 5,000 are unauthorised. Yet companies can obtain advertising licences even if they are in jurisdictions that allow unregulated online gambling, such as Antigua and Barbuda. They are currently not required to meet British standards.⁵² The Parliament was told in late March 2009 that since September 2007 the country's Gambling Commission "has done no mystery shopping" to check up on these 'whitelisted' sites which may legally advertise to the British public.⁵³

Profiles of online gamblers

Recent studies have identified young men with professional or managerial occupations and people who earn above-average incomes as the most likely to gamble online.⁵⁴

An online study of 552 internet gamblers, commissioned by the American Gaming Association in 2006, found that:

- 68 per cent were male;
- 70 per cent were under 40 years old;
- 61 per cent had at least a college degree;
- 41 per cent earned more than \$75,000 a year;
- almost all of them used the internet for other activities; and
- 70 per cent had only begun gambling online in the past two years.⁵⁵

Internet gamblers are more likely to be problem gamblers

Recently, Canadian researchers have pointed to a number of studies that suggest that internet gamblers, relative to others, are much more likely to be problem or pathological gamblers.⁵⁶

⁵⁰ "Problem gambling soars following growth of Internet games", *The Daily Telegraph* (London), 19 March 2009

⁵¹ ePolitix "Debate briefing: Minister rejects online gambling controls", 18 March 2009, accessed 23 March 2009 at: <http://www.epolitix.com/latestnews/article-detail/newsarticle/debate-briefing-minister-rejects-online-gambling-controls/>

⁵² "Problem gambling soars following growth of Internet games", *The Daily Telegraph* (London), 19 March 2009

⁵³ ePolitix "Debate briefing: Minister rejects online gambling controls", 18 March 2009, accessed 23 March 2009 at: <http://www.epolitix.com/latestnews/article-detail/newsarticle/debate-briefing-minister-rejects-online-gambling-controls/>

⁵⁴ Woolley, Richard, "Mapping Internet gambling: Emerging modes of online participation in wagering and sports betting", *International Gambling Studies*, Volume 3, Issue 1, 2003, pp.3-21

⁵⁵ American Gaming Association, "Gambling and the Internet", in *AGA Survey of Casino Entertainment*, Washington DC, 2006, available at http://www.americangaming.org/assets/files/2006_Survey_for_Web.pdf, p.24

⁵⁶ Wood, Robert T, Robert J Williams and Paul K Lawton, "Why do Internet gamblers prefer online versus land-based venues? Some preliminary findings and implications", *Journal of Gambling Issues*, Issue 20, June 2007, pp235-252, accessed at <http://www.camh.net/egambling/issue20/pdfs/07wood.pdf>, p.2

Figure 1.2: Rates of problem gambling, internet and non-internet gamblers

| Level of gambling problem | Internet | Non-internet |
|---------------------------|----------|--------------|
| No problems | 39.9% | 82.1% |
| At-risk gambler | 43.4% | 12.3% |
| Moderate problems | 12.8% | 4.0% |
| Severe problems | 3.8% | 1.7% |

Source: Wood, R.T. & Williams, R.J. (2008). *Internet Gambling: Prevalence, Patterns, Problems, and Policy Options*.

One study suggests the incidence of problem gambling among online gamblers to be as much as 20 times that of land-based gaming.⁵⁷

A January 2009 report prepared for the Ontario Problem Gambling Research Centre found that:

*Having problems with gambling is one of the features that best predicts someone is an Internet gambler in both the Canadian and International data sets. In Canada, the rate of CPGI [Canadian Problem Gambling Index] moderate and severe problem gambling among Internet gamblers is 17.1 per cent, compared to 4.1 per cent for Non-Internet gamblers. Among the International online sample, 16.6 per cent were either moderate or severe problem gamblers, versus a rate of 5.7 per cent among land-based gamblers.*⁵⁸

The British Gambling Commission estimates that 7.4 per cent of online gamers go on to develop an addiction to betting – a rate substantially higher than in land-based gaming.⁵⁹ Studies have indicated that internet gamblers report higher rates of tobacco, alcohol and street drug use. Internet gamblers also reported a somewhat higher rate of substance abuse or dependence (13 per cent), as well as a higher rate of addictions in other areas (10.4 per cent).⁶⁰

Moreover, it has also been suggested that problem gamblers are more likely than non-problem gamblers to *prefer* internet gambling. It is also possible that, although many problem gamblers may prefer land-based venues, they may utilise internet gambling sites when land-based ones are unavailable – making gaming machine shutdowns and other harm minimisation measures effectively pointless and merely meaning the consumer switches gaming formats.⁶¹

Increasing prevalence of both internet gambling and problem internet gambling

As a group, internet gamblers are exhibiting a significant upward trend in participation, by extension increasing the incidence of problem gambling. A Canadian report finds:

⁵⁷ Monaghan, Sally, *Internet and Wireless Gambling – A Current Profile*, Report for the Australian Gaming Council, 19 January 2008

⁵⁸ Wood, RT and RJ Williams, *Internet Gambling: Prevalence, Patterns, Problems, and Policy Options*, Final Report prepared for the Ontario Problem Gambling Research Centre, Guelph, Ontario, Canada, 5 January 2009, p.10

⁵⁹ “Problem gambling soars following growth of Internet games”, *The Daily Telegraph* (London), 19 March 2009

⁶⁰ Wood, RT and RJ Williams, *Internet Gambling: Prevalence, Patterns, Problems, and Policy Options*, Final Report prepared for the Ontario Problem Gambling Research Centre, Guelph, Ontario, Canada, 5 January 2009, p.51

⁶¹ *Ibid*, p.23

*The past-year adult prevalence rate of Internet gambling in Canada in 2006/2007 is 2.1 per cent, or 3.5 per cent when including people who use the Internet to buy and sell high risk stocks, options or futures and/or day trade. The prevalence of Internet gambling in Canada has increased, particularly since 2004 when it was below 1 per cent.*⁶²

This is contrary to the trends being exhibited by land-based gaming in jurisdictions such as Australia. As outlined in section 4.22, in Queensland, the only Australian State to have conducted three problem gambling prevalence studies using the same measuring index, problem gambling has fallen from 0.83 per cent in 2001, to 0.55 per cent in 2003/04 and 0.47 per cent in 2006/07.⁶³

Compared to online gambling, traditional land-based gaming is very heavily regulated. Clubs, pubs and casinos have extensive mandatory and voluntary harm minimisation practices. They are subject to regular review by licensing and law enforcement authorities.

The lack of regulation surrounding online gambling is particularly alarming when considered in the context of its very particular qualities, detailed below, which make it more hazardous to consumers.

The unique dangers of internet and mobile gambling

Anti-social, solitary nature

A major concern about these new technologies is their reach into the home. Twenty-four-hour unsupervised access makes the model quite dangerous for a problem or at-risk gambler, particularly one who wishes to conceal their habit. It is a far simpler proposition to place bets on the internet at work or home than to regularly visit a club, hotel or casino.

The American Psychiatric Association advisory warning on internet gambling states that “unlike many other types of gambling activity [internet gambling] is a solitary activity, which makes it even more dangerous: people can gamble uninterrupted and undetected for unlimited periods of time.”⁶⁴

A 2001 *New York Times* investigation quoted one internet gambler saying, “I don’t remember making half of these bets. When you’re in the middle of it, you just keep going.”⁶⁵

No protection for consumers

Internet and mobile gambling also offers little to no protection to prevent fraud, money laundering or unfair gaming practices. For example, online ‘free trial, practice sites’ (which are often promoted to under-18s) have overinflated payout rates compared to games with real money. A *New York Times* investigation cited cases of internet casinos holding back winnings, stating that most hold winnings for one to five days, presumably in the hope that the gambler will come back and use the money to place more bets.⁶⁶

⁶² Ibid, p.7

⁶³ Australian Bureau of Statistics, *Australian Gambling Statistics 2005/06*; Queensland Office of Liquor and Gambling Regulation, *Queensland Household Gambling Surveys 2003/4 & 2006/7*; Productivity Commission of Australia, *Australia’s Gambling Industries 1999*, AusInfo, Canberra, 1999

⁶⁴ Alston MP, The Hon Richard, then-Minister for Communication, Information Technology and The Arts, Media release: “Devastating impact of Internet gambling revealed”, 2 April 2001

⁶⁵ Ibid

⁶⁶ Ibid

More than one-third of internet gamblers claim to have had a dispute at some point with an operator, with less than half saying it had been resolved.⁶⁷ The prevalence of problem gambling among internet gamblers is significantly higher than for land-based gaming, with reports finding problem gambler rates may be as much as 20 times higher.⁶⁸

Another particular concern arising from the lack of regulation and enforcement of internet gambling is the growing evidence of gambling operators influencing the outcome of sporting fixtures. The introduction of internet gambling has coincided with a series of gambling scandals that have plagued sports such as soccer, cricket, tennis and horseracing.

Perhaps the most prominent such case involved Russian tennis player Nikolay Davydenko, who when ranked fourth in the world retired during a match against 87th-ranked Martin Vassallo Arguello. Betting exchange operator Betfair noticed irregular betting patterns and notified the ATP, which is the governing authority for men's tennis. After the match, which Davydenko forfeited despite winning the first set easily, Betfair voided the \$7 million in bets laid on the match. A report subsequently commissioned by the ATP has recommended 45 matches played over the past five years be investigated, because betting patterns indicated gamblers were profiting from inside knowledge.

When referring to online gambling, Betfair Managing Director Mark Davies admitted "corruption exists – we're just showing what has always been there".⁶⁹

Cricket's relationship with online gambling has also come to light in recent times. In early 2000, the captain of the South African team, Hansie Cronje, admitted to receiving more than US\$140,000 from London-based bookies to influence aspects of the team's performance.⁷⁰

Individual clubs, as well as State and Territory club associations in Australia, have been approached by various interactive gambling services to provide 'terminals' in clubs for interactive gambling. Such approaches have been rejected because clubs are concerned by the practices of the internet operators. Clubs are also concerned that operating internet betting terminals for sporting activities onsite may lead clubs to be regarded as illegal SP bookmakers.

Lack of community benefits

Little benefit flows to the Australian community from the owners/operators of internet, mobile or television gambling. The level of taxation received from foreign-based online gambling companies via licence fees does not compare with that paid by Australian venues, on company and gaming tax, payroll and land tax to name a few. Commonly accepted problem gambling preventative measures, such as safe gambling messages, self-exclusion and counselling referrals, are not mandatory. Even the Australian-based providers pay a minimal amount of tax, and in only two jurisdictions despite taking customers from all over the country and indeed the rest of the world.

In other words, the Australian community generally can be regarded as suffering due to internet gambling being unregulated.

⁶⁷ Monaghan, Sally, *Internet and Wireless Gambling – A Current Profile*, Report for the Australian Gaming Council, 19 January 2008

⁶⁸ *Ibid*, p.16

⁶⁹ "Web Site Puts Focus on the Fix in Sports Bets" (Drape, Joe), *The New York Times*, 25 May 2008, accessed at <http://www.nytimes.com/2008/05/25/sports/othersports/25betfair.html?partner=rssnyt&emc=rss> 11 March 2009

⁷⁰ "Hansie Cronje: A murky tale of race and match-fixing", *The Independent*, 2 June 2008, accessed 11 March 2009 at <http://www.independent.co.uk/sport/cricket/hansie--cronje-a-murky-tale-of-race-and-matchfixing-838184.html>

Clubs, on the other hand, are bricks and mortar not-for-profit entities which return the proceeds of gaming to the community in the form of sporting and social infrastructure. For example, the Viking Club Group contributes to its local ACT business community in a substantial way. Below is an example of the economic contribution made by the Vikings Group each year at local, Territory and federal level through employment, donations, purchase of goods and services, and tax.

Figure 1.3: ACT Vikings Group economic contribution

| Item | 2007/08 expenses |
|---------------------------|---------------------|
| Clubs wages | \$7,207,500 |
| Gaming machine tax | \$5,373,185 |
| Entertainment & marketing | \$3,223,918 |
| Kitchen costs | \$354,161 |
| Electricity | \$764,217 |
| Repairs & maintenance | \$1,290,705 |
| IT services | \$131,654 |
| Sports grounds | \$1,365,448 |
| Sport & community grants | \$2,149,341 |
| Insurance & rates | \$317,262 |
| Security | \$670,331 |
| Total | \$22,847,722 |

Source: ClubsACT, Unpublished Case Study, "The Vikings Group", March 2009

This \$23 million contribution to the local economy and community stands in stark contrast to that made by online gambling providers.

Risk to young people

Young people and particularly minors are at particular risk from the boom in online gambling.

Internet use tends to be highest among those aged under 18,⁷¹ and online gambling appears to be more prevalent among youth. For example, approximately 33 per cent of online gambling websites allow players that are under the age of 18 to place bets.⁷² Recent studies in North America found that 6 per cent of high school students in New York State and 9 per cent of high school students in Montreal reported having gambled for money on the internet in the past year, with over half of those surveyed reporting play on practice sites.

No identification required

Despite claims to the contrary, forms of gambling such as mobile, television and internet have no substantial identification requirements to prevent access by under 18 year olds. Online sports betting websites allow a player to place their first bet without meeting

⁷¹ Derevensky, JL and R Gupta, "Internet gambling amongst adolescents: A growing concern", *International Journal of Mental Health and Addiction*, Volume 5, Issue 2 pp. 93-101

⁷² Drury, Ian, "Third of gambling websites let children place online bets", *The Daily Mail*, 14 January 2009, accessed at <http://www.dailymail.co.uk/news/article-1114702/Third-gambling-websites-let-children-place-online-bets.html>

identification checks. They can wait up to 90 days before verifying a gambler's identity, and in the meantime new customers are able to bet using a credit card during this period. This allows people under the age of 18, as well as those possessing stolen credit cards and self-excluded problem gamblers, to bet.

A 2004 study in the United Kingdom, conducted by NCH Children's Charity, GamCare and CitizenCard, found that a 16 year old with a debit card was able to place bets online on 30 out of 37 sites tested.⁷³

Even if a minor is rejected by one online gambling company, they can simply try their luck at another of the 1,800 sites available worldwide without needing to leave their chair, let alone their home.

In contrast, young people face a number of restrictions in clubs. Staff are required to be placed at the entrance to the club, watching the sign-in register. While clubs encourage young people to participate in club activities, underage members are not allowed in gaming areas.

Dr Sheila Blume, chair of the American Psychiatric Association (APA), stated in 2001: "This is a new kind of availability of gambling, which has no age restriction, no time restriction and no fairness restriction in many cases."⁷⁴

Young people are more vulnerable

According to the American Psychiatric Association (APA), 10 to 15 per cent of young people surveyed reported having significant gambling problems and 1 to 6 per cent of young people can be classified as pathological gamblers. The APA also found that many online video and board game sites that specifically target children and teens featured banner advertisements and hyperlinks to gambling sites.⁷⁵

Australian research shows that between 63 and 82 per cent of 12–17 year olds gamble each year, and evidence suggests that most problem gamblers develop their problem in their youth.⁷⁶ Adolescents who gamble online are more likely to be problem gamblers, have lower grades, engage in delinquent activities, abuse alcohol and illicit drugs, and take medication for depression.⁷⁷

Aggressive, unregulated advertising and inducements to gamble

Advertising is another area where lax regulation has not only led to gross discrepancies in the restrictions on different gambling formats but put Australians at risk. While regulations have been introduced on advertising for alcohol, tobacco, venue-based gambling and recently even 'junk' food, advertising of internet/interactive gambling has been largely unregulated in Australia.

⁷³ GamCare, Media release: "Children As Young As 11 Can Set Up Gambling Accounts At The Click Of A Button", 27 July 2004, accessed at www.gamcare.org.uk/news.php/27/press_release_underage_Internet_gambling_study

⁷⁴ Cited by Alston MP, The Hon Richard, then-Minister for Communication, Information Technology and The Arts, Media release: "Devastating impact of Internet gambling revealed", 2 April 2001

⁷⁵ Alston MP, The Hon Richard, then-Minister for Communication, Information Technology and The Arts, Media release: "Devastating impact of Internet gambling revealed", 2 April 2001

⁷⁶ Monaghan, Sally, Jeffrey Derevensky and Alyssa Sklar, "Impact of gambling advertisements and marketing on children and adolescents: Policy recommendations to minimise harm", *Journal of Gambling Issues*, Issue 22, December 2008, p.253

⁷⁷ MacKay, Terri-Lynn, *Betting on youth: Adolescent Internet gambling in Canada*, April 2005, accessed at www.responsiblegambling.org/articles/Terri_Lynn_MacKay_discovery_2005.pdf

The *Interactive Gambling Act* does prohibit advertising of interactive gambling services. However, the Act specifically excludes certain forms of interactive gambling from the definition of 'interactive gambling service'. Examples of excluded forms of gambling include telephone betting, lotteries and wagering of sporting events. The effect of excluding such services from the definition, and the recent High Court judgment in *Betfair*,⁷⁸ is that those services can publicly advertise, offer inducements to players and provide credit betting facilities. Inducements often take the form of 'free bets' or reward points for opening an account or placing a bet.

Australian online sports betting companies can now use mainstream media to offer free bets and other gambling promotions for new and existing account holders. Internet gambling operators also advertise in Australia via sponsorship of sport such as A-League Soccer and NRL (National Rugby League). (At the same time, laws in each State and Territory restrict land-based venues from advertising gaming machines or, in some jurisdictions, even having gaming machines visible from the street.)

ClubsAustralia believes allowing such excluded interactive gambling services to advertise and offer inducements creates outcomes contrary to good public policy. Such services offer personal credit accounts to gamble with, are relatively unregulated by State and Territory governments, and have no, or very limited, Responsible Conduct of Gambling requirements.

Instead, during the past year all barriers to internet gambling companies advertising their product in media and public places have been removed. Such advertising is accessible to people of all ages, for example through roadside billboards on major motorways. During the 2008/09 cricket season, Channel Nine promoted Betfair sporting odds during their broadcasts. Betfair was also featured as the sole sponsor on the boundary line, providing the company with television exposure whenever a 'four' was hit.

Almost all internet gambling companies promote/encourage gambling via the use of free bets, typically of \$100 but in some cases of up to \$1,000, as shown in Figure 1.4. Free bets almost always cannot be accessed without provision of credit card details and payment from the person to the internet betting company.

Advertisements for these types of gambling products also do not contain information regarding the chances of winning and visible warning statements that highlight the potential risks associated with excessive gambling. Such warnings are required for land-based gaming, cigarettes and alcohol.

A recent study found that 42 per cent of youths reported that gambling advertisements make them want to try gambling,⁷⁹ and 40 per cent of young people cited advertising as the primary reason for gambling.⁸⁰

ClubsAustralia believes that gambling advertisements of any type should not be permitted to be shown on TV radio or in print, or advertised where they may be viewed by youth, on billboards, public transport or mainstream media. 'Post-it note' advertising on newspapers, advertisements on radio, emails promoting 'latest odds' and free bet promotions, sponsorship of sporting teams and advertorial are all common practice for internet gambling operations and should not be permitted.

⁷⁸ *Betfair Pty Limited v Western Australia [2008] HCA 11*, 27 March 2008

⁷⁹ Derevensky, J, A Sklar, R Gupta, C Messerlian, M Laroche, and S Mansour, *The effects of gambling advertisements on child and adolescent gambling attitudes and behaviours*, 2007

⁸⁰ Griffiths, M and A Barnes, "Internet gambling: An online empirical study among student gamblers", *International Journal of Mental Health and Addiction*, 2007, pp.194–204

ClubsAustralia believes that online gambling companies should also be banned via the *Interactive Gambling Act* from advertising via text message. Companies such as Sportingbet Australia currently text message account holders without permission.

Figure 1.4: Gambling inducements, ranking of internet gambling companies

| Company | Internet ranking | Gambling ranking | Inducements |
|--|---------------------------------|--|----------------------------|
| TAB Sportsbet | 1st of 3 NSW jurisdiction sites | 3rd of 350 English-language sportsbooks and racebooks | |
| International All Sports Limited (IAS) | 1st of 10 NT jurisdiction sites | 28th of 350 English-language sportsbooks and racebooks | Up to \$1,000 in free bets |
| Sportingbet Australia | 2nd of 10 NT jurisdiction sites | 39th of 350 English-language sportsbooks and racebooks | Up to \$100 in free bets |
| Centrebet Casino | 3rd of 10 NT jurisdiction sites | | Up to \$300 in free bets |
| Sportsbet.com.au | 4th of 10 NT jurisdiction sites | 86th of 350 English-language sportsbooks and racebooks | Up to \$100 in free bets |
| Betezy | 5th of 10 NT jurisdiction sites | | Up to \$200 in free bets |

Source: <http://online.casinocity.com/> accessed 1/03/09

Comment on the *Interactive Gambling Act 2001*

The *Interactive Gambling Act 2001* proscribes the operation of 'casino-style' internet gambling in Australia, including by foreign-based companies.

However, ClubsAustralia is aware that casino-style gambling is being accessed by Australians.

There has not, to ClubsAustralia's knowledge, been any attempt to prosecute the operation of such activities by foreign companies. ClubsAustralia believes the lack of enforcement is a serious concern. As stated above, internet-based gambling is growing at a rapid pace, including in Australia.

Although the Act's intentions are laudable, its lack of enforcement – coupled with the increasingly heavy regulation of land-based gambling operators – means that problem gamblers are moving to unmonitored, unregulated online and mobile-phone-based providers sometimes located offshore.

Moreover, Australian-based online and interactive operations which provide services excluded from the operation of the Act can engage in a range of activities that provide a competitive advantage over land-based venues, and at greater risk to consumers.

As outlined above, internet gambling has been the subject of numerous instances of fraud. This ranges from rigging games to theft of player funds. While a land-based operator would

be heavily penalised for such activities, in the current framework it appears there is little that Australian authorities can do either to protect the consumer or to prosecute the companies that exploit them.

An Act which is not enforced against internet gaming providers, while Australian-based not-for-profit clubs must comply with significantly higher standards, is neither fair nor good governance.

The unanimous High Court decision in the *Betfair* case⁸¹ found that State and Territory governments would be in breach of the Constitutional freedom of interstate trade if they sought to unilaterally impose restrictions on internet operations which are approved in another Australian jurisdiction. The operation of excluded interactive gambling services is typically being approved and based in the Northern Territory.

As a result, other State and Territory governments are unable to impose any regulation on the operation of excluded interactive gambling operations. ClubsAustralia recommends that the Federal Government regulate internet gambling on behalf of all States and Territories, including by prohibiting advertising.

Direction of future regulation

ClubsAustralia wrote to the Federal Minister for Broadband, Communications and the Digital Economy in October 2008, suggesting that many of the activities outlined above constitute a number of loopholes which should be closed.

It is important to note that ClubsAustralia does not seek reduced harm minimisation for clubs to match internet operators. Rather, internet must be made *as safe as clubs*. This is particularly the case given that clubs provide so much benefit to the community.

In the case of internet gambling, there is virtually no regulatory control or enforcement of controls. In the case of companies based offshore, there is also doubt as to the integrity of their operations.

As a result, there is no consistency between the regulation of 'old' and 'new' gambling. While Australian entities have some restrictions on the internet gambling services they can provide within Australia, there is no question that Australians are becoming increasingly active internet gamblers.⁸²

The rapid increase of internet gambling should in our view be a source of great concern for government and the broader community. An environment which fosters people staying at home gambling on their credit card in a totally unregulated environment away from any watchful eye is the most significant area for the future growth of problem gambling.

For that reason, ClubsAustralia believes online and interactive gambling needs to be regulated in a manner consistent with traditional, land-based gaming. This should include restrictions on advertising and public sponsorships, inducements to gamble, credit betting and credit accounts. Internet gambling operators should be required to introduce local counselling services that are easy to find on the website, stringent ID checks before a single bet can be placed, and other harm minimisation measures.

⁸¹ *Betfair Pty Limited v Western Australia* [2008] HCA 11, 27 March 2008

⁸² Tabcorp's 2007 Annual Report noted Internet sales increased by 23.3 per cent in the year to over \$1 billion: http://www.tabcorp.com.au/investor_reports_detail.aspx?view=83

Ban all forms of credit betting

In a submission to the Federal Government,⁸³ ClubsAustralia identified credit betting as an issue and called for a ban on all forms of credit betting. In ClubsAustralia's view, the Government should consider cutting off a key component in the combination of ingredients that can lead to a downward spiral in gambling behaviour – betting with money that the gambler simply does not have.

Included in this ban would be cash withdrawals on credit from ATMs and EFTPOS in all gaming venues. Many States and Territories already ban or are in the process of banning withdrawals from ATMs on credit; however, casinos are often exempt from this ban.

Credit betting is currently – and increasingly – commonplace online. Other forms of gambling, such as wagering, also allow bets on credit. Restrictions on credit betting should also include a ban on 'gambling accounts' held by operators for players.

It is ClubsAustralia's view that there is a clear difference between allowing a person to use money from their cheque or savings account to gamble as they see fit, and allowing a person to gamble on credit, where losses can be much higher and interest required on those losses. Banning credit betting would give the additional benefit of preventing stolen credit cards being used to gamble. This would also help in the current environment of easy access to credit cards.

ClubsAustralia believes that the power to effect a prohibition on credit betting is available to the Federal Government. This could be exercised unilaterally, but it would be preferable to do so cooperatively with the States and Territories.

Improve the training of staff

One area where community gaming in clubs is safer than internet gambling, and can be made safer still, is in the area of supervision and support of trained staff. As outlined in section 8.1, virtually all clubs in Australia are members of a responsible gambling program which includes staff training. In contrast, internet gambling site employees are not required to hold a responsible gambling certificate, nor is the company required to provide any sort of counselling support for problem gamblers.

ClubsAustralia believes all frontline staff involved in the service of gambling should receive training in Responsible Conduct of Gambling (RCG), along the lines of the ClubSafe program or the Responsible Gambling Code of Practice in Queensland.

To that end, ClubsAustralia calls on the Federal Government to make RCG training mandatory for all frontline staff – not only in land-based venues but also in internet and other new gambling providers.

Conclusion

In the opinion of ClubsAustralia, internet gaming has already resulted in the creation of a new group of problem gamblers in a market that is effectively unregulated and without the safeguards associated with well-established land-based gaming such as that found in Australian clubs. A concerted effort is required to increase public protection measures and provide a more balanced regulatory structure that provides consumers with appropriate and consistent safeguards no matter which form of gambling they choose to participate in.

⁸³ ClubsAustralia, *Problem Gambling In Australia - A Way Forward*, 5 June 2008

1.6 GAMBLING POLICY, CLUB VIABILITY AND JOBS

The extensive economic and social contribution made by the not-for-profit Club Movement is underpinned by gaming revenue. For more than 50 years, clubs have applied this revenue to the public good. This substantial economic and social contribution made by clubs is detailed throughout this submission. Club operation facilitates social connectedness and drives a unique contribution to Australian life built around entertainment and recreation, the provision of community and sporting infrastructure, and of course economic activity, including jobs.

Clubs generate economic activity and jobs in outer suburban and regional areas where unemployment is relatively high and local economies are not as well supported by large trans-national business or even governments.

However, this contribution may be compromised by various factors including government policy relating to gambling. In the public domain there are policy proposals being advocated without substantive evidence to show a positive effect on problem gambling, and without a comprehensive cost-benefit analysis, that have the potential to impact gaming revenues for clubs. These include proposals to restrict access to cash in clubs⁸⁴ and to introduce technology based pre-commitment.⁸⁵ A reduction in gaming revenue would have a direct effect on the ability of clubs to maintain their unique economic and social contribution to the Australian community.

The potential for perverse outcomes from government policy is evidenced by the 2003 decision of the NSW Government to substantially increase club gaming machine tax levels (refer to the Productivity Commission's 1999 suggestion that rates be increased). The impact of this decision is explained below.

To assist the Commission to understand the significance of the Club Movement, ClubsAustralia commissioned KPMG to model the regional impact on employment and economic output of a 10 per cent reduction in gaming revenues. This analysis is summarised below.

Note, the following commentary represents only the views of CubsAustralia and should not be attributed to KPMG except where indicated.

Gaming and club viability

Clubs are susceptible to changes in gaming policy for a number of reasons. IPART found that a typical club generates most of its income by offering gaming machines, food and beverages, and other sporting and entertainment activities to club members and guests. This is typical of clubs in all jurisdictions aside from Western Australia.

For clubs with gambling facilities, gaming machines are the predominant source of revenue for clubs. In NSW, for example, gaming machines account for 63.2 per cent of a club's total revenue on average, while bar and food revenue account for 16.6 per cent and 7 per cent respectively.

The extent to which clubs rely on gaming machines differs according to club size. For larger clubs – those with gaming machine revenue greater than \$10 million a year – this source of revenue accounts for 76.9 per cent of total revenue. For smaller clubs – those with gaming

⁸⁴ See Chapter 1.3 of this submission

⁸⁵ See Chapter 1.4

machine revenue between \$0 and \$200,000 a year – this source accounts for 10.2 per cent of total revenue.⁸⁶

However, in terms of profit, on average gaming machine profit accounted for 174.6 per cent of a club's profit. That is, for every dollar of profit generated by the club, gaming machines contribute \$1.74 and the remaining activities make a negative contribution of \$0.74. This demonstrates the extent to which gaming machine revenue subsidises other club activities.⁸⁷

Figure 1.5 below summarises the sources of profit for registered clubs in NSW.

Figure 1.5: NSW clubs' sources of profit (percentage of total profit), by club size (by gaming machine revenue \$)

| SOURCES OF PROFIT | 0 -200K | >200K-1M | CLUB >1M-5M | SIZE >5M-10M | >10 M | TOTAL |
|---------------------------|------------|------------|-------------|--------------|------------|------------|
| Membership | 36.4 | 7.5 | -1.2 | -4.1 | -1.5 | 2.0 |
| Food | 0.5 | -0.2 | -0.3 | -8.1 | -2.2 | -1.7 |
| Bar | 30.8 | 33.4 | 17.7 | 16.8 | 7.9 | 17 |
| Facilities & venue rental | 1.0 | 0.4 | -0.5 | 6.0 | -0.6 | 0.4 |
| Gaming machines | 42.9 | 100.4 | 143.1 | 271.4 | 229.1 | 174.6 |
| Other gaming | 1.4 | 1.2 | 1.7 | -4.4 | -1.1 | 0.0 |
| Sports | -17.4 | -3.5 | -3.6 | -7.6 | -7.6 | -6.3 |
| Other (*) | 4.4 | -39.1 | -56.8 | -170 | -123.9 | -85.8 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 |

Note: May not add precisely up to 100 per cent due to rounding.

(*) Other includes ancillary business, donations, cash grants, abnormal and extraordinary items and 'other'.

Source: The Allen Consulting Group, *Clubs and the Mutuality Principle*, Table 1.5, March 2006, p. 6.

A contributing factor to clubs' vulnerability in this regard is their not-for-profit, service-driven nature. IPART acknowledged the basic difference between businesses in general and registered clubs. Clubs are not-for-profit entities, so unlike other businesses they are not motivated by maximising profits to provide a financial return to investors. In principle, a club's motive is to maximise the level of services and facilities it provides to members. Any profits are generally used to subsidise services or are reinvested to provide improved member facilities. In many cases, clubs generate gaming profits that allow them to operate other departments and activities at less than commercial rates (for example, they might provide a service for slightly lower than market rates, at cost price, or at less than cost price).⁸⁸

⁸⁶ The Allen Consulting Group, *Socio-Economic Impact Study of Clubs In New South Wales (2007)*, February 2008, p.17

⁸⁷ The Allen Consulting Group, *Clubs and the Mutuality Principle*, commissioned by ClubsNSW, March 2006, p.5

⁸⁸ Independent Pricing and Regulatory Tribunal of NSW, *Review of the Registered Clubs Industry in NSW*, Final Report, June 2008, p.91

Policy shifts effect financial viability

The effect of gaming-related government policy can be seen by examining the impact of the increase in club gaming machine tax rates announced by the NSW Government in 2003 and phased in progressively over a five-year period.

It is worth noting that the Productivity Commission in its 1999 report suggested an increase in State or Territory gaming machine tax rates as the only way of correcting a perceived market anomaly created by the existence of gaming in not-for-profit, mutual clubs:

*The mutuality principle, combined with lack of constraints on gaming machine numbers, appears to be distorting the investment and pricing decisions of some clubs, with impacts on competitors. Of the options for dealing with it, only tax action at the state level appears feasible.*⁸⁹

ClubsAustralia trusts that, in hindsight, the Commission would not take the same position.

KPMG analysed the effect of increased gaming tax rates on the financial viability of NSW clubs and found that the financial viability of clubs is directly linked to the net contribution of gaming: gaming revenue minus gaming tax and direct gaming expenses.⁹⁰ KPMG found that increases in marginal tax rates over time resulted in a lower net contribution from gaming and an associated deterioration in club financial performance and viability.

KPMG tested this relationship on a sample of 280 clubs and found that a 1 per cent increase in the marginal tax rate on gaming machines led to a decline in net profit of between 2.5 and 8.8 per cent. This was found after testing for a statistical relationship between EBITDARD (Earnings Before Interest, Tax, Depreciation, Amortisation, Rent and Donations) and a range of economic indicators; including movements in the consumer confidence indices, retail sales, fuel prices and interest rates.

This change in financial viability had a direct impact in some important areas of club activity. In addition to conducting the statistical analysis (outlined above), KPMG also consulted with approximately 40 clubs.

Clubs reported the need to reduce wage costs and employment levels in terms of overall staff numbers and staff hours as they sought to minimise their major operational expense. The Allen Consulting Group 2007 report regarding NSW clubs found that 8,431 jobs were lost in the four years to 2007. In addition, a number of jobs were lost from supplier industries, including gaming machine manufacturing and servicing.

Clubs also reported that they failed to reinvest adequately in club facilities with declining revenues and cash earnings which, over time, led to deteriorating facilities and clubs losing their market appeal. This impacted declining trading performance. Furthermore, with an increasing number of clubs experiencing hardship, financial institutions became reluctant to lend or chose to do so with onerous and restrictive covenants.

Further, Clubs reported that they were unable to support members and community groups to the same extent and reduced financial contributions, including those made through the Community Development and Support Expenditure (CDSE) Scheme. These fell from \$74 million in 2006/07 to \$62 million in 2007/08.

⁸⁹ Productivity Commission of Australia, *Australia's Gambling Industries 1999*, AusInfo, Canberra, 1999, Key Findings, p.4

⁹⁰ KPMG, *Financial and Economic Position of the NSW Registered Clubs Industry*, commissioned by ClubsNSW, December 2008

Finally, smaller clubs in financial distress were unable to find amalgamation partners among financially stronger clubs as their funding ability diminished. KPMG found that 90 per cent of the smallest clubs viewed amalgamation as a solution to their financial problems, while only 10 per cent of larger clubs indicated a willingness to amalgamate in the current circumstances. This may lead to an escalation in the number of club closures.

Implications for regional economies and jobs

As stated previously, clubs are major employers in areas of the nation experiencing higher than average levels of unemployment. It is in these areas that the deterioration in the financial viability of clubs, brought on by shifts in gaming-related policy, will be most acutely felt.

ClubsAustralia commissioned KPMG to model the regional impact on employment and economic output of an across-the-board 10 per cent reduction in gaming revenues (for NSW clubs).⁹¹

As noted earlier in this submission, gaming machine revenue fell by 30 per cent in Quebec following the introduction of pre-commitment.⁹² As such, Clubs Australia believes that a 10 per cent reduction in gaming revenues in Australia would be at the lower bound of the effect of policy movements caused by the introduction of access to cash or technology based pre-commitment.

KPMG employed The Enormous Regional Model (TERM)⁹³, which essentially treats each region as a separate economy, providing a high degree of regional detail and allowing examination of region-specific impacts.

KPMG found that a 10 per cent reduction in gaming revenue would lead to:

- An estimated annual loss of approximately 660 jobs in clubs over the short term. This short-term loss eases over the long term to a reduction of 600 jobs per annum. The gradual reduction from the initial impact over time is caused by the adjustment of clubs and other sectors of the regional economy to meet the initial shock. For example, clubs will reduce their investment to minimise the loss of idle capital due to the fall in demand. Further, the retrenched employees from clubs will eventually find work in other sectors over time.
- For the NSW economy as a whole, there would be an estimated annual loss of approximately 950 jobs in the short term. In the long term, the net flow-on impact is a loss of 150 jobs per annum.
- A reduction in NSW Gross Regional Product (GRP) over the short term of \$120 million per annum in terms of the 2007/08 economy. In the long term, the impact falls to \$30 million per annum.

The impact on industry, regional employment and GRP are broadly the same across metropolitan, regional and rural areas. Figure 1.6 shows the impact of a 10 per cent reduction in club gaming revenue across the regions.

⁹¹ KPMG, *The Implications for NSW Regional Economies from a Decline in the Registered Clubs Industry*, commissioned by ClubsNSW, 2009

⁹² See Chapter 1.4 in this submission

⁹³ The TERM model is a bottom up CGE model of Australia developed by CoPS at Monash University.

Figure 1.6: Scenario 1 - Levels (Employment = Persons; GRP, \$m, 2007-08 prices).

| | SHORT RUN | | | | LONG RUN | | | |
|---------------------------------|-----------|---------|---------|----------|----------|---------|--------|---------|
| | Metro | Region | Rural | NSW | Metro | Region | Rural | NSW |
| Club industry employment | -426.03 | -171.38 | -66.28 | -663.69 | -375.46 | -157.30 | -62.56 | -595.32 |
| Regional employment | -1084.17 | -320.03 | -214.04 | -1617.35 | -404.13 | -256.58 | -93.99 | -745.15 |
| Gross regional products | -84.25 | -24.99 | -13.04 | -122.29 | -9.38 | -20.37 | -4.68 | -34.43 |

Source: KPMG estimates.

Overall, KPMG found that a reduction in gaming revenues for clubs will impact regional economies and the economy more broadly. KPMG also found that if there is an accompanying reduction in other income streams then the impact worsens considerably and the effects are felt more in regional and rural areas.

At a time of increasing unemployment and likely recession, caused by the Global Financial Crisis, ClubsAustralia strongly advocates against measures which may further reduce employment and delay Australia's economic recovery.

The need to consult

The potential for gaming policy to negatively effect clubs and communities, graphically illustrated above, was acknowledged by IPART in 2008:

IPART investigated what clubs earn and spend, and has confirmed the common perception that most clubs are highly dependent on gaming machine revenue. As a result they are very vulnerable to any change related to the regulation of gaming machines. This is a key finding of the review, and has led IPART to recommend that any future changes in Government policy affecting the revenue stream from gaming machines should be preceded by consultation with the clubs industry to determine the likely impact of proposed changes.⁹⁴

ClubsAustralia wholeheartedly supports this conclusion and recommends this approach be adopted by the Productivity Commission.

⁹⁴ Independent Pricing and Regulatory Tribunal of NSW, *Review of the Registered Clubs Industry in NSW*, Final Report, June 2008, Executive Summary, p.3

1.7 THE WAY FORWARD – RECOMMENDATIONS

Club associations have been active over many years implementing and recommending opportunities to improve harm minimisation. The development of ClubSafe, codes of practice and Responsible Conduct of Gambling training are a few examples where clubs have led the gambling industry, based on best practice and targeted assistance for problem gamblers by venues.

In June 2008, ClubsAustralia launched a 'Six Point Plan' as a framework for the future. The plan was publicly announced at the National Press Club by ClubsAustralia President Peter Newell OAM on 22 October 2008. The plan received extensive coverage and was nationally televised on the ABC. It made the following recommendations:

Recommendation 1 – Improve and coordinate national gambling research

There is a multitude of ad hoc gambling research conducted throughout Australia. While the majority of studies conducted no doubt have some merit, they often lack scientific rigour and/or impartiality. ClubsAustralia believes insufficient analysis is given to measures which reduce problem gambling and the extent to which they are or are not effective. It is clear that conflict between research reports often occurs. There are many reasons for this which are not confined to methodology alone.

In a 2007 paper on the challenges that confront researchers on estimating the social costs of gambling, Dr Douglas M Walker PhD cites a number of key reasons why such marked differences occur between gambling research studies:

*A decade of debate in the literature and in political discourse has resulted in little consensus on the validity of any of the numbers ... Unfortunately, despite the best efforts of researchers, the actual cost of gambling is still unknown.*⁹⁵

Since the 1999 Productivity Commission inquiry there have been studies in each State and Territory which update some of its findings. ClubsAustralia has observed groups for and against gambling selectively quoting statistics from recent and historic reports to argue their case on the most supportive figures.⁹⁶

Critics of gambling claim, for example, that Australia has 21 per cent of the world's poker machines.⁹⁷ The Australian Gaming Machine Manufacturer's Association, which produces gaming machines, argues the real figure is less than 2.4 per cent.⁹⁸ Another common anti-poker-machine proposition is that 53 cents in every gambling dollar comes from a problem gambler.⁹⁹ Even the productivity commission in 1999 estimated that 42 cents in every gambling dollar comes from a problem gambler. Based on the latest prevalence studies in NSW and Queensland, which show a declining trend of problem gambling to 0.8 percent and 0.47 percent of the adult population respectively, there must now be considerable doubt that the 1999 Productivity Commission figures have relevance today.

⁹⁵ Walker, Douglas M, "Hurdles in Gambling Research", Georgia College Faculty of Economics, 7 February 2007, available at <http://www.basisonline.org/editorials.htm>

⁹⁶ Reverend Tim Costello in Australia Commonwealth of Australia, *Australia 2020 Summit: "Strengthening Communities, Supporting Families and Social Inclusion"*, April 2008, p.16, quoted gambling expenditure between 1972 and 1998. At the time of use it was already 10 years old.

⁹⁷ Ibid, p.16

⁹⁸ Australian Gaming Machines Manufacturers Association, "Australia has 2.4% of the world's poker machines" from media release: *World Count of Gaming Machines Survey 2008*, 4 April 2008

⁹⁹ Reverend Tim Costello on Channel 10's *Meet the Press*, 20 April 2008

While debate is natural and healthy between competing interest groups, ClubsAustralia takes the view that it is vital for all parties to use the same statistics so that a rational debate can be conducted about steps that might be taken. Duplication of cost in producing such research can be avoided, other than where appropriate for peer review.

ClubsAustralia supports and calls for the development of a national body, coordinated and funded by the Federal Government together with the States and Territories, as the pre-eminent Australian authority on gaming research and statistics. This is a leadership opportunity for the Federal Government to coordinate and better direct analysis and funding on a national level.

Among other important objectives, the body should have as a priority to review prevalence rates of problem gamblers nationwide across each area of gambling, using the same study methodology. Whether the Canadian Problem Gambling Index (CPGI) or another methodology is used, surveys should be frequent and question enough respondents to provide a clear indication of trends over time and assist in assessing whether responses to problem gambling have been effective. Studies should be directed to the assessment of comorbidities – the extent to which alcohol, drug and tobacco abuse, as well as mental health problems such as depression, lead to problem gambling rather than result from it.

Federally coordinated research could track trends in revenue, compare States and make recommendations to government. This information would assist in helping stakeholders respond. Most importantly, it would concentrate research dollars in the hands of an agreed independent body, thereby eliminating disputes over the veracity of statistical findings.

Recommendation 2 – Ban all forms of credit betting

ClubsAustralia believes the Federal Government should cut off a key behaviour in the combination of ingredients that can lead to problem gambling – betting with money you don't have. It is one thing for a person to gamble with their own money, but using credit to place bets is effectively borrowing money upon which high interest rates must be paid if the debt cannot be repaid on time. It is our view that there is a clear difference between allowing a person to use money from their cheque or savings account to gamble as they see fit, and using a credit card.

ClubsAustralia calls for the introduction of legislation to ban credit betting in any form. Included in this ban would be cash withdrawals on credit from ATMs and EFTPOS in all gaming venues. Many States and Territories already ban or are in the process of banning withdrawals from ATMs on credit; however, casinos are often exempt from this ban.

Credit betting is commonplace, particularly online. Other forms of gambling, such as wagering, allow bets on credit. Restrictions on credit betting should also include a ban on 'gambling accounts' held by operators for players, particularly where those accounts are linked to credit cards.

Banning credit betting would give the additional benefit of preventing stolen credit cards being used to gamble and stopping fraud using corporate credit cards.¹⁰⁰ This would also help in the current environment of easy access to credit cards.

The power to effect a prohibition on credit betting is available to the Federal Government under the banking powers in the Constitution.

¹⁰⁰ KPMG Consulting, *Fraud Survey 2008*, commissioned by ClubsNSW, 2008, found that 67 per cent of fraud cases in the financial services sector involve a corporate issue credit card

Recommendation 3 – Regulate all forms of gambling

ClubsAustralia calls for tighter regulation of internet/ online gambling, as well as mobile and land-line telephone and interactive television gambling. This matter has been covered in detail in the previous section.

ClubsAustralia's view is that public policy has not yet caught up with the difference between the more traditional forms of gambling which are venue or 'land' based, and new technology gambling which is internet based. As a result, there is no consistency between the regulation of 'old and new gambling' and this leads to commercial/financial advantage for internet operators as well as significantly fewer harm minimisation measures.

Internet gambling operators currently advertise in Australia via sponsorship of sport, on roadside billboards, in newspapers and on radio. Australian online sports betting companies use mainstream media to offer free bets, in some cases up to \$1,000, and offer other gambling promotions for new account holders. However, laws in each State and Territory restrict land-based venues from advertising gaming machines. ClubsAustralia believes internet gambling advertising should be similarly banned.

Despite claims to the contrary, forms of gambling such as mobile, television and internet have no substantial identification requirements to prevent access by under 18 year olds and little to no protection to prevent fraud, money laundering or unfair gaming practices. Additionally, online sports betting websites allow a player to place their first bet without meeting identification checks. The new customer is given 90 days to meet ID requirements and is able to place at least one bet using a credit card during this period. By comparison, clubs have sign-in registers and have to comply with a variety of legislation to prevent fraud, money laundering and unfair gaming practices. They are subject to inspection by regulators and face court action for breaches as well as heavy fines for allowing minors into restricted gaming areas.

Commonly accepted problem gambling preventative measures that have existed for years in clubs, such as safe gambling messages, self-exclusion and counselling referrals, are not mandatory for interactive gambling.

The level of taxation received from foreign-based online gambling companies via licence fees does not compare with that paid by Australian venues, on company and gaming tax, payroll and land tax to name a few. There are no benefits flowing to the Australian community from the owners/operators of internet, mobile or television gambling through employment or social interaction. Clubs, on the other hand, are not-for-profit entities which return the proceeds of gaming to the community in the form of sporting and social infrastructure which costs significant sums of money to build and maintain. Internet gaming, by comparison, has almost no maintenance or overhead costs: virtually all revenue is profit. ClubsAustralia strongly believes the level of taxation paid by internet and interactive gambling services should be raised substantially.

The rapid increase of unregulated internet gambling should in our view be a source of great concern for government and the broader community. ClubsAustralia believes online and interactive gambling needs to be regulated to exist on a level playing field with land-based gaming.

Recommendation 4 – Improve the training of staff

One area where community gaming in clubs is safer than internet gambling, and can be made safer still, is in the area of supervision and support of trained staff. Virtually all clubs in Australia are members of a responsible gambling program which includes staff training. One

such program, developed and implemented at great cost by ClubsNSW and now in its third revision, is ClubSafe.

ClubSafe was launched in 2000, prior to the introduction of responsible gambling legislation in NSW. The program is voluntary and has been adopted by over 1,000 clubs in NSW.

The ClubSafe training for new staff is as follows:

1. ClubSafe introductory brochure is included in new employee welcome pack;
2. ClubSafe awareness video is shown to new staff;
3. ClubSafe interactive face-to-face training is conducted as soon as a small group of new employees are available (within three months of start date) and is repeated once every two years.

ClubSafe offers several types of training for member clubs to ensure all managers and staff members are thoroughly trained in responsible gambling procedures:

- The ClubSafe training program is specifically designed to summarise the content of a training manual for staff members. The sessions are interactive and group sizes are usually around 15–20 people. This is a non-accredited course facilitated by a ClubsNSW representative;
- Management-level courses cover a broad range of club topics, including responsible gambling measures;
- During 2009, ClubSafe will move to an online training system to allow delivery of training programs on demand over the internet. This measure will be initially designed for staff induction;
- ClubsNSW is analysing a ‘train-the-trainer’ program that would enable clubs to nominate a manager to receive the preparation required to conduct future ClubSafe training sessions; and
- The Responsible Conduct of Gaming (RCG) certificate program, required for any club staff member who works with electronic gaming machines, covers responsible conduct of gambling and is offered by providers approved by the relevant government authority. Under law in NSW, it is mandatory to keep an RCG Training Register. This is used to keep a record of every person who is trained.

ClubsAustralia believes all frontline staff involved in the service of gambling should receive training in RCG, along the lines of the ClubSafe program or the Responsible Gambling Code of Practice in Queensland. To that end, ClubsAustralia has called on the Federal Government to make RCG training mandatory for frontline staff.

Recommendation 5 – Strengthen the safety net

Gaming in clubs has existed for over 50 years, and a strong body of regulation has developed over that time to ensure safeguards are in place. In addition, clubs throughout Australia follow voluntary codes of conduct and practise responsible service of gambling. While the codes are voluntary, they must be agreed to in order to earn the trust of government regulators. ClubsAustralia takes the view that more can be done, particularly with regard to ensuring the different forms of gambling are regulated equally.

ClubsAustralia suggests a number of areas where more can be done, including:

Education

ClubsAustralia agrees that there is a need to improve education for young people. There have been positive steps in this direction: the NSW Government has announced the launch of a voluntary program of education in schools about gambling. This is welcomed.

ClubsAustralia believes gambling education should be integrated into existing school-based lifestyle curricula such as Personal Health and Development rather than isolated for special consideration. Individual clubs have also supported such voluntary programs. For example, since July 2007, Mingara, on the NSW Central Coast, has been funding a pilot problem gambling awareness program aimed at Year 7 school students and run in conjunction with Uniting Care's Unifam Counselling and Mediation Division.¹⁰¹

ClubsAustralia also endorses a national approach to teaching financial literacy and budget setting where students learn about the management of banking services, including credit card debt and entering into mobile phone and motor vehicle agreements to name but a few areas where financial stress is regularly suffered.

Family intervention

Family intervention is a means of support for problem gamblers that has not to date been applied widely. ClubsAustralia has publicly called for family intervention to be permitted as a means of targeting problem gamblers and hastening assistance if it is required.

Presently, venues are not obligated to refer the patron to counselling services following such an intervention. While it remains, ultimately, the individual's right how they spend their own money, allowing families the right to have the person referred to a counselling service may provide peace of mind.

Family intervention would be unlikely to have an impact on recreational gamblers (unless a vexatious claim was made), and offers a high benefit ratio compared with cost. It would give peace of mind to family members that help is available and provide an opportunity for the family to become involved, rather than just the venue.

There are good reasons why family interventions have not to date been implemented widely in Australia, either by law or voluntarily. Clubs have a legitimate concern about potentially offending members by questioning their activities and must respect a degree of privacy of their members. While one should generally consider the motives of family members to be pure, in some cases an intervention may be requested more out of personal, future financial interest than concern for the alleged problem gambler. Indeed, one might ask why the family member has chosen for the club to intervene rather than do so themselves. Alternatively, the family member might already be involved in legal action against the person and any action by the club could affect legal proceedings.

A family intervention system should therefore recognise that a club cannot know whether a member has financial difficulties, cannot know what if any sacrifices a person has made in order to gamble, and cannot know if the person has any dependents. Nor can the club know, from time to time, whether each particular player is on a winning or losing streak and how that has affected their budget. The club should also be indemnified against families if it is determined by the club that no action should be taken against the member.

Family members who take the step of seeking an intervention by the club should be asked whether they have confronted the person themselves and if not, why not. It is only fair that the club not be the avenue of first resort, if the system is to have integrity.

The system might be modelled on the South Australia *Problem Gambling Family Protection Orders Act 2004*. That Act restricts the right of intervention to a spouse, current or former domestic partner, child of the gambler, officer of the Department or a person who has "a

¹⁰¹ UMR Research Pty Ltd, "NSW Clubs in their Local Communities – A Case Study", commissioned by ClubsAustralia, 27 February 2009, p.19

proper interest". Intervention is sought from the Independent Gambling Authority, rather than the venue, with action to be taken if "there is a reasonable apprehension that the respondent may cause serious harm to family members because of problem gambling and the Authority is satisfied that the making of the order is appropriate in the circumstances". The complainant must inform the Authority if there are any other proceedings brought by the complainant against the respondent either determined or pending.

The test of serious harm is whether the person has engaged in gambling activities irresponsibly, having regard to the needs and welfare of their family members over a period of time. Actual harm must have occurred prior to the complaint, rather than it be a preventative measure prior to gambling occurring.

Family conferencing and mediation may be ordered prior to hearing evidence in support of a complaint. The Authority may dismiss a complaint if it is deemed to be vexatious, frivolous or without substance.

In the three years to 30 June 2007, the Authority received 131 enquiries from:

- Spouse – 40 per cent;
- Child – 14 per cent;
- Sibling – 14 per cent;
- Parent – 8 per cent;
- Other/not disclosed – 24 per cent.

Over the three years of the scheme, 13 of the 131 enquiries proceeded formally. This may reflect a propensity for spurious complaints, difficulties in establishing proof, or resolution through conferencing and mediation.

An order by the Authority may be made in the absence of the respondent and can:

- Require the person to participate in a counselling program, rehabilitation or special education;
- Bar the person from taking part in gambling activities;
- Bar the person from premises where gambling occurs or specify conditions they may be subject to when on such premises;
- Require the person to close gambling accounts;
- Direct the person to return specified personal property, including money, to a family member;
- Bar the person from taking possession of property, or from requesting money of a family member;
- Require that money owing to the person by a third party be paid to a family member or used in satisfaction of a debt; or
- Be made against the person in relation to a legal or equitable interest in a premises or property.

The Act states that an employer who alters the gambler's position to the employer's prejudice as a result of an order is subject to a maximum penalty of \$10,000. Decisions of the Authority are reviewable by the Magistrates Court.

Clearly the powers wielded by the South Australian Independent Gambling Authority through this Act are far greater and likely to be significantly more effective than that of individual venues. They alleviate the venue from the onus of investigating the veracity of a complaint, resolve legitimate concerns about legal liability of the venue, and are effective over multiple venues as well as applying to the internet through gambling/credit accounts. There are also

preventative measures, such as reducing the person's access to money and paying off debts.

By comparison, a venue is restricted to imposing a ban on the member and/or referring them to a counsellor. The latter might be done with little evidence; however, banning a member is an extreme step for a club and would not be taken without strong evidence that doing so would be in the member's best interest or as a result of a request from the member for self-exclusion. A club would not disclose financial details or activities of the member without an order to do so by an appropriate authority.

The advantage of a family intervention system at the venue level is that it would likely be fast and less legalistic. This may be particularly beneficial if the aim is to have the person referred to a counsellor or to at least raise concerns with club management, who can then keep a closer eye on the member. A club, in particular, can verify or ease a family member's suspicions by reviewing the sign-in register to determine how often the person frequents the club.

How an individual chooses to spend their money is ultimately a matter of personal choice. However, ClubsAustralia believes steps should be made towards a nationally uniform system for family intervention.

Empower counsellors

Venues that are aware a member or patron has been referred to a counsellor in combination with self-exclusion from the venue should commit to not allowing the problem gambler to re-enter the venue until they have been formally released by their counsellor. This will assist and empower counsellors with those who are at risk of recidivism and ensure venues know that a member is reformed upon their return.

Improve counselling services

There is no national standard for assessing or accrediting counsellors' expertise. Nor do they have to report on how their grant money is spent. These services are typically jointly funded by government and the gaming sector, but could be strengthened by improving access to bank account records, clinical expertise and nationally consistent standards, including regular reporting. Such reports should detail how many people have been treated over the period. This information could be used to help assess whether new problem gambling measures are effective over time and would provide better analysis of the needs of various regions for funding and additional services.

ClubsAustralia supports the adoption of each of these measures as they also bring into focus that problem gambling is a community issue and is not just confined to the venue where gaming machines are operating.

Recommendation 6 – Establish a national peak body

ClubsAustralia calls for the establishment of a collaborative framework for fostering evidence-based dialogue to reduce the incidence of problem gambling. This framework would involve the creation of a national peak body with representatives of government, industry and independent researchers in the fields of public health, economics and behavioural science. Through stakeholder consultation it would ensure that any new measures recommended have widespread support and are evidence based.

The aim of this forum should be to:

- Advise government on effective policies to further reduce problem gambling which are not driven by political expediency, ideology or knee-jerk reactions to anti-gambling lobbyists;
- Dispel myths and misunderstandings of gaming machines by disseminating information based on high-quality, independent research;
- Develop common language around defining the level of problem gambling, for example recommending consistent interpretations of 'moderate', 'significant' and 'pathological' gambling behaviours as opposed to generic 'problem gamblers';
- Measure the extent and severity of harm experienced by gamblers in general and problem gamblers specifically as a direct consequence of their gambling, compared with other social harms such as alcohol, drugs, tobacco and domestic violence. This will allow governments, industry and the community to track the health burden and real cost of gambling-related harms in the community; and
- Review conflicting State and Territory regulations, recommend the removal of red tape and promote responsible innovation.

Develop specific minimal standards guiding the provision of responsible service and conduct of gambling in Australia. These standards should include blueprints for immediate to long-term achievement of goals against which codes of conduct and benchmark requirements can be assessed.

Chapter 2: Purpose, profile & history of clubs

Registered and licensed clubs (hereafter simply referred to as clubs) are not-for-profit community-based organisations, formed and sustained by people with common interests to pursue those interests. They are immensely popular social and entertainment venues and have become an intrinsic part of the social life of a majority of people in Australia.

Clubs have been an important part of the life and development of Australia since before Federation. The first formal clubs were formed in the 1800s and have continued to be established throughout the 20th century and into the 21st. Forming clubs – associations of like-minded people – is a natural human characteristic. The reasons for establishing clubs were many and varied. Most were created to provide a community with a social meeting place or to provide sporting facilities. Others were established to support migrant communities or to preserve national culture and interests.

Club membership is notable in terms of its size and diversity, both demographically and geographically. Club membership is fundamental to the mutual nature of clubs and a foundation of the industry's relevance and capacity to deliver services and facilities to the community.

2.1 NUMBER OF CLUBS

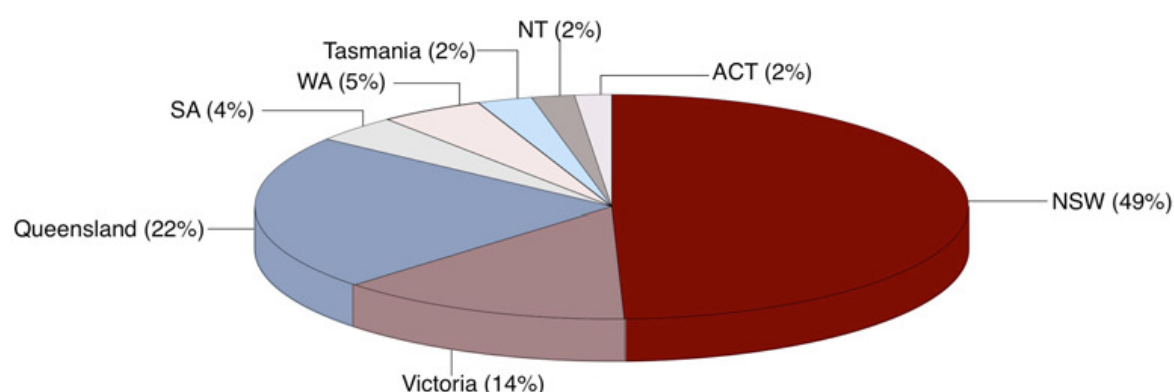
There are over 4,000 clubs in Australia. The Australian Bureau of Statistics Report *8687.0 - Clubs, Pubs, Taverns and Bars, Australia 2004/05* records there being 2,116 hospitality clubs operating in Australia at that time. However, it is noted that around 2,000 clubs did not class themselves as 'hospitality clubs' so were not included in the report. A proportion of these are included in the ABS Report *8686.0 (2004-05) Sports and Physical Recreation Services, Australia 2004-05*, although that report examines different statistics and also covers non-club sporting organisations, so it is difficult to draw meaningful figures. The *Clubs, Pubs, Taverns and Bars* report is also already four years old. Therefore, while the statistics are instructive at a national level, it must be remembered that the data set is incomplete. All ABS figures should therefore be viewed as incomplete.

More representative and, in many cases, more useful information can be derived from individual data sets from individual States and Territories, in particular the statistics compiled by gaming regulators and industry surveys such as the Socio-Economic Impact Studies conducted by the Allen Consulting Group.

Based on these studies, there are approximately 4,500 registered and licensed clubs in Australia. However, the club industry has been going through a period of rationalisation, with the number of clubs falling in recent years. For example, since 2003 the number of registered clubs which are members of ClubsNSW has fallen from 1,375 to 1,359 clubs. This mirrors the general decline in the number of registered clubs in New South Wales since 2003 from 1,560 clubs to 1,535 clubs. Similarly in the ACT, since 2001 the number of clubs and club groups that are members of ClubsACT have fallen by from 42 to 29 (or 31 per cent), which reflects both club closures and amalgamations.

As seen in the figure below, NSW, Victoria and Queensland account for around 85 per cent of registered and licensed clubs.

Figure 2.1: Percentage of registered/licensed clubs by State and Territory



Source: ABS 2005

2.2 VALUE OF THE INDUSTRY

According to the ABS, the total industry value added by these organisations was \$4,086.1 million, which was the equivalent of 0.5 per cent of Australia's GDP for 2004-05. Again it should be remembered that this underestimates the total value of the industry. Considerably more detail and discussion on the economic contribution of the Club Movement is provided throughout this submission, especially in Chapter 6.

2.3 CLUB MEMBERSHIPS

The majority of Australians are members of at least one club, and recent surveys point toward the growing popularity of clubs and an increase in club membership.

A survey conducted in 2006 by ClubsConsulting¹⁰¹ shows that 3.5 million people in NSW, or 69 per cent of the State's adult population, currently hold at least one club membership. This is an increase of more than 10 per cent compared with 2000, when just over half the adult population in NSW (54 per cent) were club members.¹⁰² It is clear that there is a growth trend in club membership and it is expected that this will continue. The number of memberships held is also remarkable, with 5.5 million memberships held in 2007, meaning an average of one membership for every adult person in NSW.¹⁰³

In Victoria, clubs account for 2.7 million memberships – covering approximately 50 per cent of the population.¹⁰⁴ ACT clubs have a total 510,000 memberships, with 80 per cent of residents being a club member of at least one club and an average of 1.9 memberships per resident.¹⁰⁵ There are approximately 400,000 club memberships in Western Australia¹⁰⁶ and 3.2 million memberships in Queensland.¹⁰⁷

At the time of writing, figures were unavailable for Tasmania, South Australia and the Northern Territory, and to ClubsAustralia's knowledge there are no official data collected on national club membership levels. However, using the most conservative estimates based on

¹⁰¹ ClubsConsulting, *Club Goers Survey*, 2006, p.22

¹⁰² ACNielsen, *Members and Patrons' Perceptions of the Registered Clubs Association*, August 1999

¹⁰³ The Allen Consulting Group, *Socio-Economic Impact Study of Clubs In New South Wales (2007)*, February 2008, p.44

¹⁰⁴ ClubsVIC, *Hear Our Voices: Celebrating Clubs As Communities Serving Communities*, March 2008.

¹⁰⁵ The Allen Consulting Group, *Socio-Economic Impact Study of Clubs in the Australian Capital Territory*, March 2008, p.vi

¹⁰⁶ Data provided by ClubsWA to ClubsAustralia, 9 March 2009

¹⁰⁷ ClubsQueensland, *Social and Economic Impact Study of Community Clubs in Queensland – 2009 Report*

the statistics above and the number of clubs in each State, we have estimated that there are at least 1.47 million club memberships held in these three jurisdictions.

This would mean a total of 11.8 million club memberships held across Australia – averaging just above one membership for every two Australians.

It is likely that this figure is substantially higher, given we have based our calculations for Tasmania, South Australia and the Northern Territory on a very conservative estimate of 1,000 members per club. This figure is drawn from the membership-to-club ratio in Western Australia, a State in which the Club Movement's penetration is less strong.

Whereas traditionally clubs have been the preserve of middle-aged males and older Australians, there is evidence that a significant proportion of clubs are broadening their appeal to younger people and women. For example, a comparison between 2001 and 2004 data profiling club membership shows that in the 18–24 age group, club membership increased from 38 to 51 per cent of the NSW population (for that age group). The survey also found that although there is a bias towards males, this is becoming less pronounced over time.¹⁰⁸

2.3.1 Members and patrons benefit from a wide range of club services

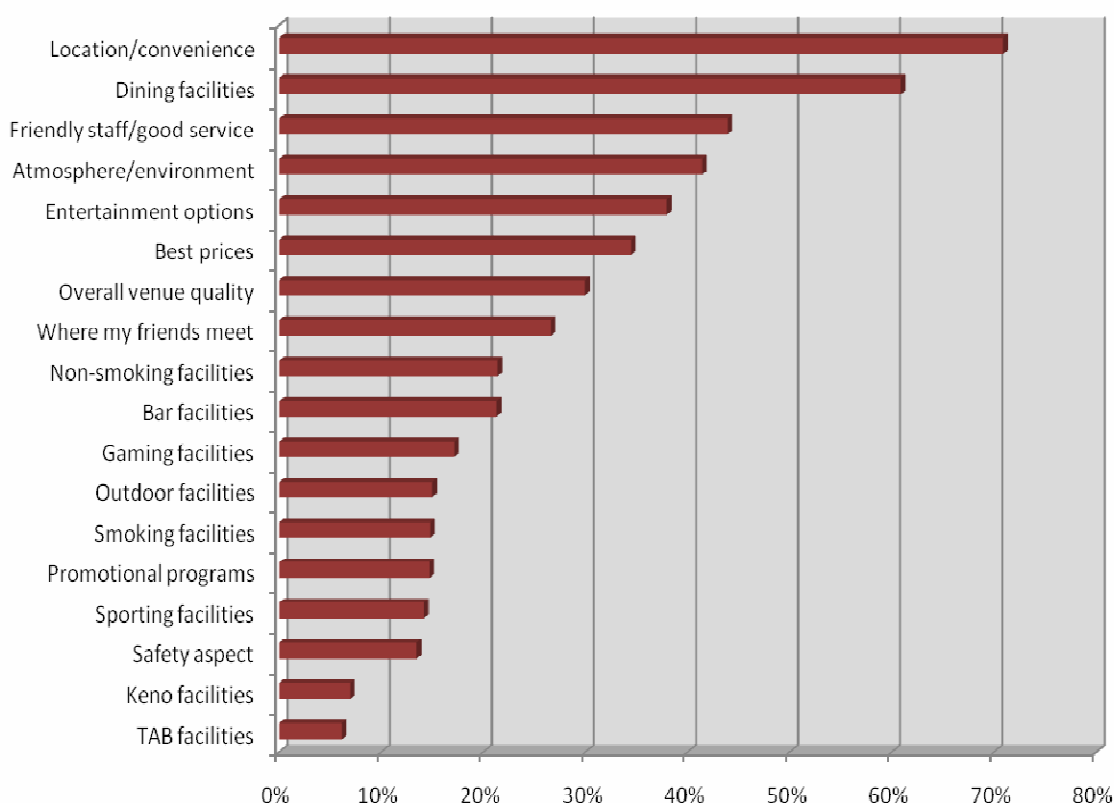
ClubsConsulting's study into patron attitudes found the top six reasons cited in selecting or joining a club are:

- Location;
- Dining facilities;
- Friendly staff/good service;
- Atmosphere/environment;
- Entertainment options;
- Affordability.

The reasons for selection are detailed in Figure 2.2 below. Significantly, gaming facilities were a primary reason for joining a club for only 17 per cent of respondents, although gaming revenue underwrites or facilitates many of the other factors.

¹⁰⁸ Q2 Strategic Market Research, *Perceptions of ClubsNSW*, commissioned by ClubsNSW, 2004, p.62

Figure 2.2: Most important reasons for selecting a club



Source: ClubsConsulting, Club Goers Survey, 2006, p. 58.

In the community focus group conducted by Ucomm in July 2007, participants' comments demonstrated that people join clubs because they are a place to meet friends, build on their extended social networks and feel like part of the community. Their comments also indicate the wide range of facilities and services available at clubs and how they use them:

I'm a member of two clubs ... to me it gives a type of ownership to the community and it's a social outlet. It is a bit of pride about what they can give back to the community.

I'm a member of three clubs. More from the user point of view a golf club, the Sea Eagles which is a gymnasium and Dee Why RSL which I use for dining out. Each club fills a different role in our family life for different reasons.

It's the venue. I'm a member of two clubs and the facilities are very good because you've got small meeting rooms and large auditoriums, you've got gymnasiums which I don't use. We've got other types of venues that you can use either for the club itself or the family and that's terrific. Also eating places, fantastic places to go to for different types of meals. For example, at Blacktown, you've got the revolving restaurant where you've got some really top class stuff and you've got right down to just walk up to the bar and get a couple of things and everything in between. It's a meeting place, it's a venue for us.¹⁰⁹

Club goers use club services for different reasons and this reflects both the variety of services available at clubs and their diverse membership base. For example, one patron

¹⁰⁹ Ucomm, *Community Organisations Focus Group Report*, commissioned by ClubsNSW, July 2007, p. 6

may use their local club to play a social game of tennis or play in competitive golf competitions, while another might use the gym and childcare facilities simultaneously. An elderly person may visit the club to purchase their only hot meal of the week. A traveller may use the affordable accommodation facility and others may use it as a general meeting place for Friday night drinks.

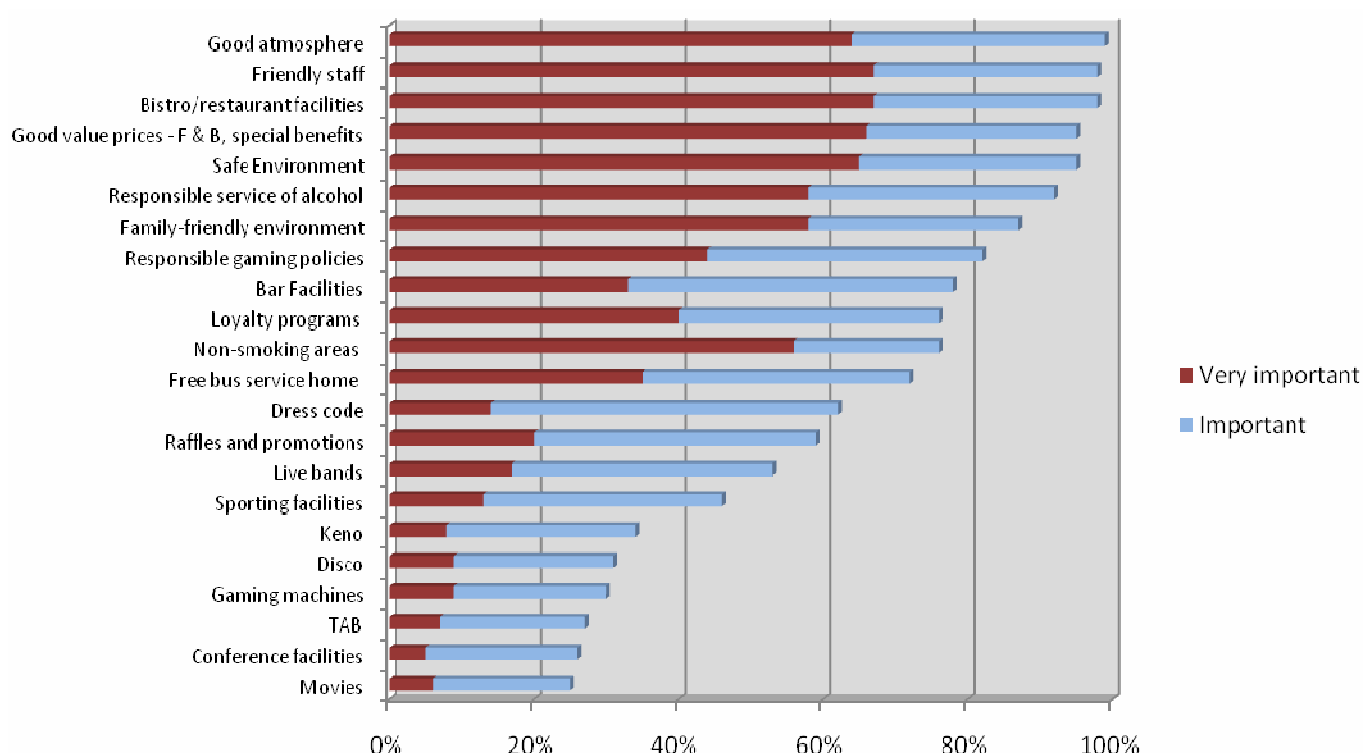
2.3.2 Club goes value more than just the services

When it comes to what people most enjoy about visiting their club, ClubsConsulting found that the primary benefits of club membership, in addition to the above, are:

- Safe environment;
- Responsible service of alcohol;
- Responsible gaming policies;
- Loyalty programs;
- Non-smoking areas; and
- Courtesy bus service.

An outline of the benefits of club membership and their importance is illustrated in Figure 2.3.

Figure 2.3: Aspects of club enjoyment and importance



Source: ClubsConsulting, Club Goers Survey, 2006, p. 61.

2.3.3 Clubs with large membership bases play an important role

It is true that the larger the club the greater the membership, and the more extensive the facilities available to members. Increasing the size of the club is often a necessary step to obtaining operating efficiencies and generating revenues adequate to fund member and community support programs. For instance, it is unlikely that a leagues club could financially support a team in the Australian Football or National Rugby Leagues without a significant

membership base. Part of the attraction for members to join such clubs is their size. It is wrong to conclude that just because a club has many members they have not joined together in a common interest on a not-for-profit basis, or that they have somehow moved away from their original purpose.

Club growth is a function of the community's demand for the services and facilities provided by clubs. Clubs are not-for-profit organisations and cannot distribute surpluses to their members; as such they do not seek to maximise individual shareholder/proprietor wealth through expansion. Clubs exist for their members. While there are restrictions to becoming a member, these are generally not meant to be so burdensome as to place a major impediment to adults in the community joining. For this reason many clubs try to keep joining fees low and membership criteria minimal.

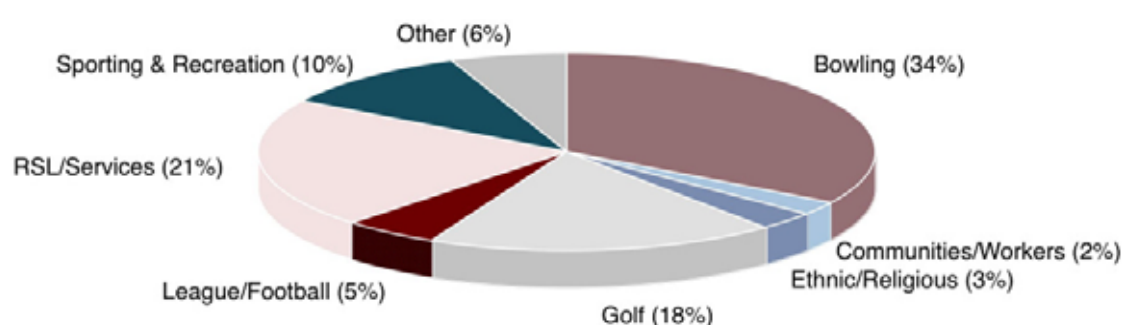
2.4 MEMBERSHIP PROFILE OF CLUBS

The diversity of the club membership profile was highlighted in 2007, when the Allen Consulting Group analysed NSW clubs in terms of membership structure and found that:

- Clubs in NSW had 5.5 million total memberships, up from 4.8 million in 2004 and 2.4 million in 1999. This equates to one club membership for every NSW adult;
- There is great diversity across NSW clubs, with the smallest club having 24 members and the largest club having 76,597;
- The average club membership level was 6,000. However, 73 per cent of clubs had a total membership of less than 6,000 members, highlighting the important role of smaller clubs to the people of NSW;
- Smaller clubs (by memberships) tended to be bowling clubs, which made up 34 per cent of total clubs but only 13 per cent of total memberships;
- 92 per cent of people in NSW have used club facilities in the past year, while 77 per cent visit a club at least monthly, with people aged 40 and over the most frequent users;

The figure below illustrates the different types of clubs in NSW.

Figure 2.4: Club type in 2007, NSW



Note: The 'Other' category includes clubs whose shared interest is described as graphic arts, social, business people, cultural, and music.

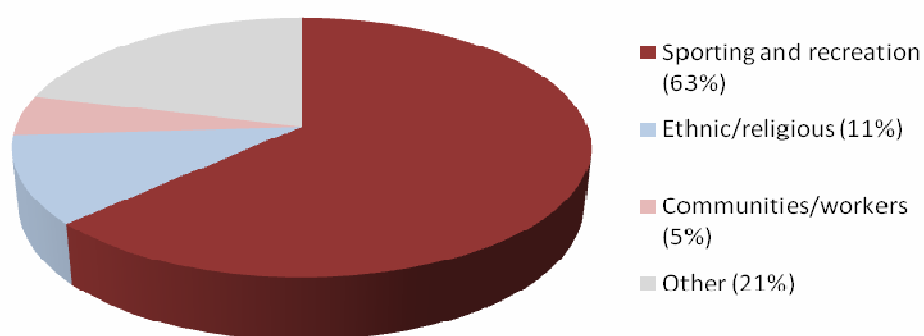
Source: Allen Consulting Group, Survey of Clubs in NSW 2007

The Allen Consulting Group also analysed ACT clubs and found that there are 31 clubs and club groups operating out of 53 venues across Canberra. Aggregate membership of clubs in

the ACT is now around 510,000, with the larger clubs having memberships in the range of 30,000 to 70,000. Statistically, every adult in Canberra is a member of 1.9 clubs.¹¹⁰

Sport and recreation clubs account for 63 per cent of all clubs (but make up 49 per cent of all memberships). Other clubs (including political, business, general or social clubs) account for 21 per cent of all clubs, but 30 per cent of all memberships.

Figure 2.5: Club type in 2007, ACT



Source: Allen Consulting Group, Survey of Clubs in the ACT 2007.

Detailed information on the types of clubs in Queensland, South Australia, the Northern Territory, Tasmania and Western Australia are not available at the time of writing; however, data for Western Australia and Queensland will soon be published. ClubsAustralia will provide copies of this data to the Commission as soon as they become available.

¹¹⁰ The Allen Consulting Group, *Socio-Economic Impact Study of Clubs in the Australian Capital Territory*, March 2008

Chapter 2: Purpose, profile & history of clubs

Registered and licensed clubs (hereafter simply referred to as clubs) are not-for-profit community-based organisations, formed and sustained by people with common interests to pursue those interests. They are immensely popular social and entertainment venues and have become an intrinsic part of the social life of a majority of people in Australia.

Clubs have been an important part of the life and development of Australia since before Federation. The first formal clubs were formed in the 1800s and have continued to be established throughout the 20th century and into the 21st. Forming clubs – associations of like-minded people – is a natural human characteristic. The reasons for establishing clubs were many and varied. Most were created to provide a community with a social meeting place or to provide sporting facilities. Others were established to support migrant communities or to preserve national culture and interests.

Club membership is notable in terms of its size and diversity, both demographically and geographically. Club membership is fundamental to the mutual nature of clubs and a foundation of the industry's relevance and capacity to deliver services and facilities to the community.

2.1 NUMBER OF CLUBS

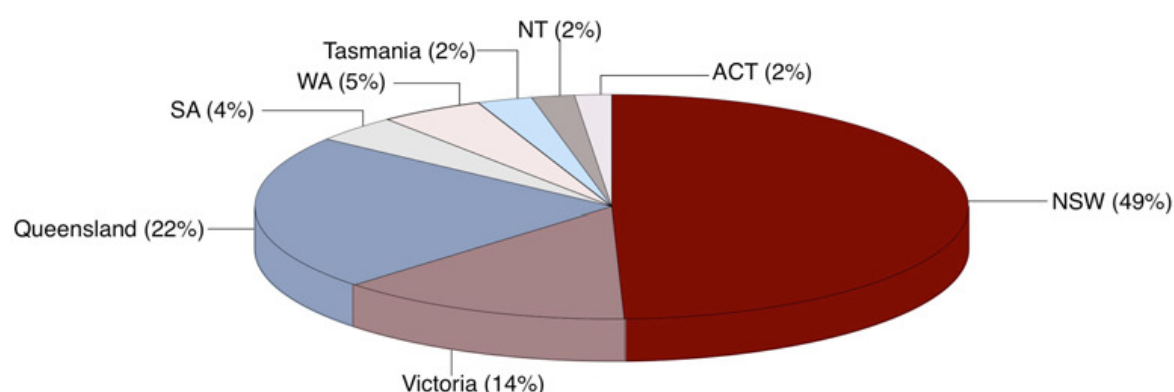
There are over 4,000 clubs in Australia. The Australian Bureau of Statistics Report *8687.0 - Clubs, Pubs, Taverns and Bars, Australia 2004/05* records there being 2,116 hospitality clubs operating in Australia at that time. However, it is noted that around 2,000 clubs did not class themselves as 'hospitality clubs' so were not included in the report. A proportion of these are included in the ABS Report *8686.0 (2004-05) Sports and Physical Recreation Services, Australia 2004-05*, although that report examines different statistics and also covers non-club sporting organisations, so it is difficult to draw meaningful figures. The *Clubs, Pubs, Taverns and Bars* report is also already four years old. Therefore, while the statistics are instructive at a national level, it must be remembered that the data set is incomplete. All ABS figures should therefore be viewed as incomplete.

More representative and, in many cases, more useful information can be derived from individual data sets from individual States and Territories, in particular the statistics compiled by gaming regulators and industry surveys such as the Socio-Economic Impact Studies conducted by the Allen Consulting Group.

Based on these studies, there are approximately 4,500 registered and licensed clubs in Australia. However, the club industry has been going through a period of rationalisation, with the number of clubs falling in recent years. For example, since 2003 the number of registered clubs which are members of ClubsNSW has fallen from 1,375 to 1,359 clubs. This mirrors the general decline in the number of registered clubs in New South Wales since 2003 from 1,560 clubs to 1,535 clubs. Similarly in the ACT, since 2001 the number of clubs and club groups that are members of ClubsACT have fallen by from 42 to 29 (or 31 per cent), which reflects both club closures and amalgamations.

As seen in the figure below, NSW, Victoria and Queensland account for around 85 per cent of registered and licensed clubs.

Figure 2.1: Percentage of registered/licensed clubs by State and Territory



Source: ABS 2005

2.2 VALUE OF THE INDUSTRY

According to the ABS, the total industry value added by these organisations was \$4,086.1 million, which was the equivalent of 0.5 per cent of Australia's GDP for 2004-05. Again it should be remembered that this underestimates the total value of the industry. Considerably more detail and discussion on the economic contribution of the Club Movement is provided throughout this submission, especially in Chapter 6.

2.3 CLUB MEMBERSHIPS

The majority of Australians are members of at least one club, and recent surveys point toward the growing popularity of clubs and an increase in club membership.

A survey conducted in 2006 by ClubsConsulting¹⁰¹ shows that 3.5 million people in NSW, or 69 per cent of the State's adult population, currently hold at least one club membership. This is an increase of more than 10 per cent compared with 2000, when just over half the adult population in NSW (54 per cent) were club members.¹⁰² It is clear that there is a growth trend in club membership and it is expected that this will continue. The number of memberships held is also remarkable, with 5.5 million memberships held in 2007, meaning an average of one membership for every adult person in NSW.¹⁰³

In Victoria, clubs account for 2.7 million memberships – covering approximately 50 per cent of the population.¹⁰⁴ ACT clubs have a total 510,000 memberships, with 80 per cent of residents being a club member of at least one club and an average of 1.9 memberships per resident.¹⁰⁵ There are approximately 400,000 club memberships in Western Australia¹⁰⁶ and 3.2 million memberships in Queensland.¹⁰⁷

At the time of writing, figures were unavailable for Tasmania, South Australia and the Northern Territory, and to ClubsAustralia's knowledge there are no official data collected on national club membership levels. However, using the most conservative estimates based on

¹⁰¹ ClubsConsulting, *Club Goers Survey*, 2006, p.22

¹⁰² ACNielsen, *Members and Patrons' Perceptions of the Registered Clubs Association*, August 1999

¹⁰³ The Allen Consulting Group, *Socio-Economic Impact Study of Clubs In New South Wales (2007)*, February 2008, p.44

¹⁰⁴ ClubsVIC, *Hear Our Voices: Celebrating Clubs As Communities Serving Communities*, March 2008.

¹⁰⁵ The Allen Consulting Group, *Socio-Economic Impact Study of Clubs in the Australian Capital Territory*, March 2008, p.vi

¹⁰⁶ Data provided by ClubsWA to ClubsAustralia, 9 March 2009

¹⁰⁷ ClubsQueensland, *Social and Economic Impact Study of Community Clubs in Queensland – 2009 Report*

the statistics above and the number of clubs in each State, we have estimated that there are at least 1.47 million club memberships held in these three jurisdictions.

This would mean a total of 11.8 million club memberships held across Australia – averaging just above one membership for every two Australians.

It is likely that this figure is substantially higher, given we have based our calculations for Tasmania, South Australia and the Northern Territory on a very conservative estimate of 1,000 members per club. This figure is drawn from the membership-to-club ratio in Western Australia, a State in which the Club Movement's penetration is less strong.

Whereas traditionally clubs have been the preserve of middle-aged males and older Australians, there is evidence that a significant proportion of clubs are broadening their appeal to younger people and women. For example, a comparison between 2001 and 2004 data profiling club membership shows that in the 18–24 age group, club membership increased from 38 to 51 per cent of the NSW population (for that age group). The survey also found that although there is a bias towards males, this is becoming less pronounced over time.¹⁰⁸

2.3.1 Members and patrons benefit from a wide range of club services

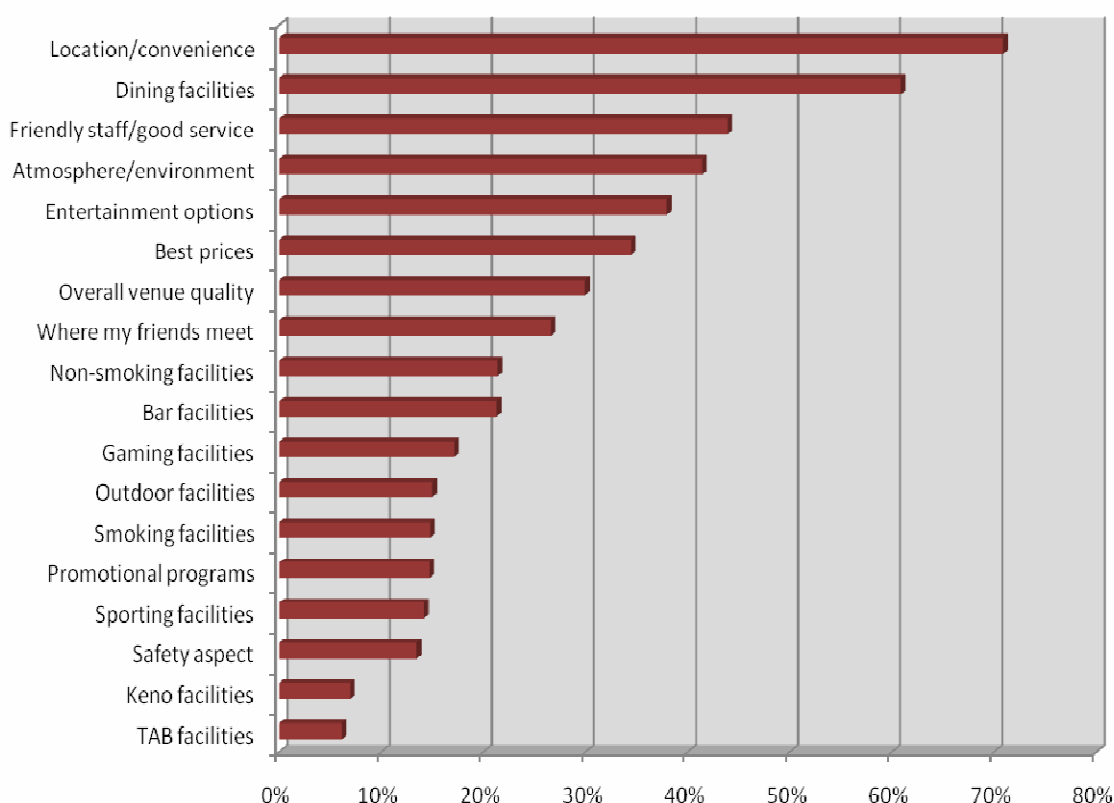
ClubsConsulting's study into patron attitudes found the top six reasons cited in selecting or joining a club are:

- Location;
- Dining facilities;
- Friendly staff/good service;
- Atmosphere/environment;
- Entertainment options;
- Affordability.

The reasons for selection are detailed in Figure 2.2 below. Significantly, gaming facilities were a primary reason for joining a club for only 17 per cent of respondents, although gaming revenue underwrites or facilitates many of the other factors.

¹⁰⁸ Q2 Strategic Market Research, *Perceptions of ClubsNSW*, commissioned by ClubsNSW, 2004, p.62

Figure 2.2: Most important reasons for selecting a club



Source: ClubsConsulting, Club Goers Survey, 2006, p. 58.

In the community focus group conducted by Ucomm in July 2007, participants' comments demonstrated that people join clubs because they are a place to meet friends, build on their extended social networks and feel like part of the community. Their comments also indicate the wide range of facilities and services available at clubs and how they use them:

I'm a member of two clubs ... to me it gives a type of ownership to the community and it's a social outlet. It is a bit of pride about what they can give back to the community.

I'm a member of three clubs. More from the user point of view a golf club, the Sea Eagles which is a gymnasium and Dee Why RSL which I use for dining out. Each club fills a different role in our family life for different reasons.

It's the venue. I'm a member of two clubs and the facilities are very good because you've got small meeting rooms and large auditoriums, you've got gymnasiums which I don't use. We've got other types of venues that you can use either for the club itself or the family and that's terrific. Also eating places, fantastic places to go to for different types of meals. For example, at Blacktown, you've got the revolving restaurant where you've got some really top class stuff and you've got right down to just walk up to the bar and get a couple of things and everything in between. It's a meeting place, it's a venue for us.¹⁰⁹

Club goers use club services for different reasons and this reflects both the variety of services available at clubs and their diverse membership base. For example, one patron

¹⁰⁹ Ucomm, *Community Organisations Focus Group Report*, commissioned by ClubsNSW, July 2007, p. 6

may use their local club to play a social game of tennis or play in competitive golf competitions, while another might use the gym and childcare facilities simultaneously. An elderly person may visit the club to purchase their only hot meal of the week. A traveller may use the affordable accommodation facility and others may use it as a general meeting place for Friday night drinks.

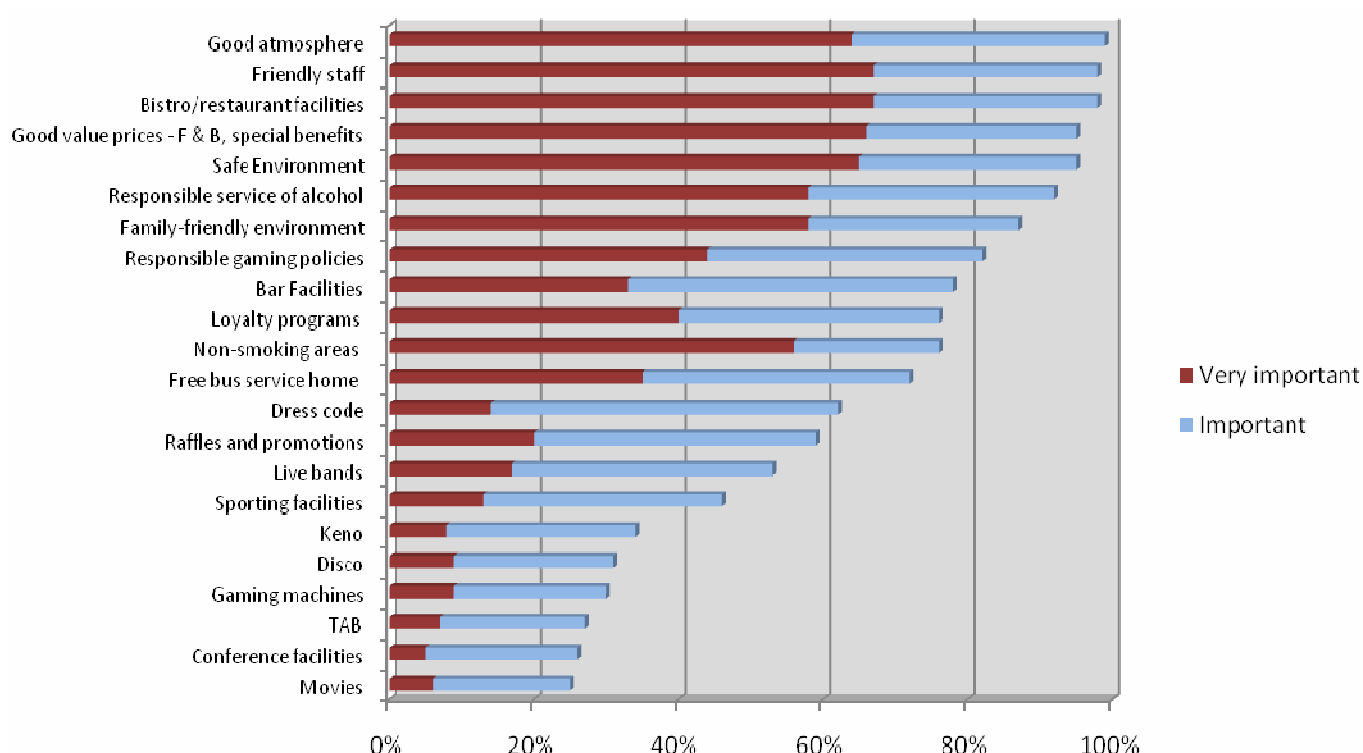
2.3.2 Club goes value more than just the services

When it comes to what people most enjoy about visiting their club, ClubsConsulting found that the primary benefits of club membership, in addition to the above, are:

- Safe environment;
- Responsible service of alcohol;
- Responsible gaming policies;
- Loyalty programs;
- Non-smoking areas; and
- Courtesy bus service.

An outline of the benefits of club membership and their importance is illustrated in Figure 2.3.

Figure 2.3: Aspects of club enjoyment and importance



Source: ClubsConsulting, Club Goers Survey, 2006, p. 61.

2.3.3 Clubs with large membership bases play an important role

It is true that the larger the club the greater the membership, and the more extensive the facilities available to members. Increasing the size of the club is often a necessary step to obtaining operating efficiencies and generating revenues adequate to fund member and community support programs. For instance, it is unlikely that a leagues club could financially support a team in the Australian Football or National Rugby Leagues without a significant

membership base. Part of the attraction for members to join such clubs is their size. It is wrong to conclude that just because a club has many members they have not joined together in a common interest on a not-for-profit basis, or that they have somehow moved away from their original purpose.

Club growth is a function of the community's demand for the services and facilities provided by clubs. Clubs are not-for-profit organisations and cannot distribute surpluses to their members; as such they do not seek to maximise individual shareholder/proprietor wealth through expansion. Clubs exist for their members. While there are restrictions to becoming a member, these are generally not meant to be so burdensome as to place a major impediment to adults in the community joining. For this reason many clubs try to keep joining fees low and membership criteria minimal.

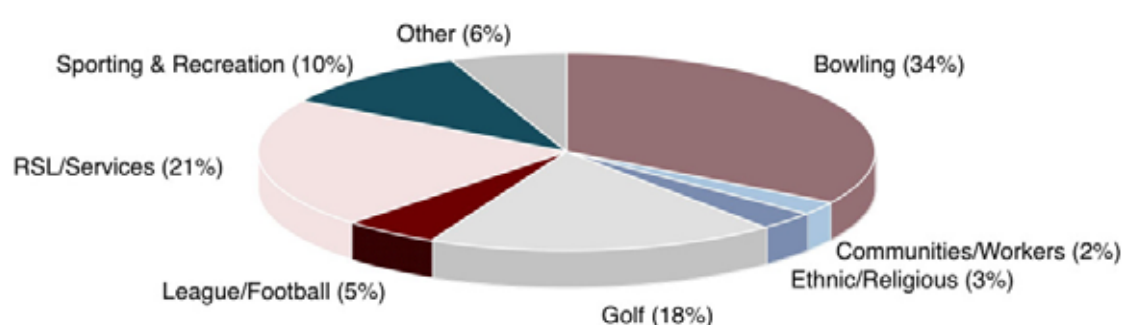
2.4 MEMBERSHIP PROFILE OF CLUBS

The diversity of the club membership profile was highlighted in 2007, when the Allen Consulting Group analysed NSW clubs in terms of membership structure and found that:

- Clubs in NSW had 5.5 million total memberships, up from 4.8 million in 2004 and 2.4 million in 1999. This equates to one club membership for every NSW adult;
- There is great diversity across NSW clubs, with the smallest club having 24 members and the largest club having 76,597;
- The average club membership level was 6,000. However, 73 per cent of clubs had a total membership of less than 6,000 members, highlighting the important role of smaller clubs to the people of NSW;
- Smaller clubs (by memberships) tended to be bowling clubs, which made up 34 per cent of total clubs but only 13 per cent of total memberships;
- 92 per cent of people in NSW have used club facilities in the past year, while 77 per cent visit a club at least monthly, with people aged 40 and over the most frequent users;

The figure below illustrates the different types of clubs in NSW.

Figure 2.4: Club type in 2007, NSW



Note: The 'Other' category includes clubs whose shared interest is described as graphic arts, social, business people, cultural, and music.

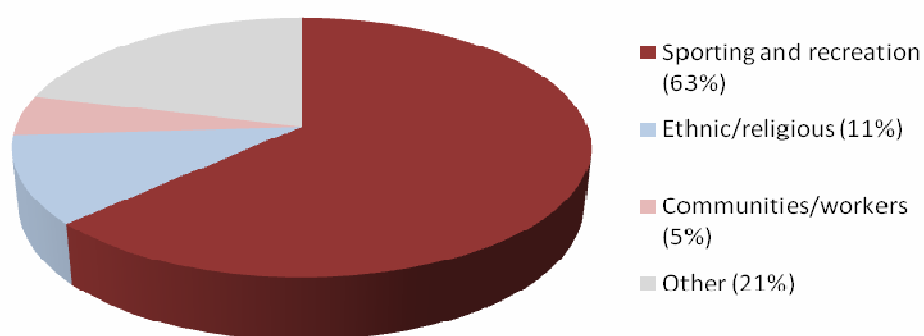
Source: Allen Consulting Group, Survey of Clubs in NSW 2007

The Allen Consulting Group also analysed ACT clubs and found that there are 31 clubs and club groups operating out of 53 venues across Canberra. Aggregate membership of clubs in

the ACT is now around 510,000, with the larger clubs having memberships in the range of 30,000 to 70,000. Statistically, every adult in Canberra is a member of 1.9 clubs.¹¹⁰

Sport and recreation clubs account for 63 per cent of all clubs (but make up 49 per cent of all memberships). Other clubs (including political, business, general or social clubs) account for 21 per cent of all clubs, but 30 per cent of all memberships.

Figure 2.5: Club type in 2007, ACT



Source: Allen Consulting Group, Survey of Clubs in the ACT 2007.

Detailed information on the types of clubs in Queensland, South Australia, the Northern Territory, Tasmania and Western Australia are not available at the time of writing; however, data for Western Australia and Queensland will soon be published. ClubsAustralia will provide copies of this data to the Commission as soon as they become available.

¹¹⁰ The Allen Consulting Group, *Socio-Economic Impact Study of Clubs in the Australian Capital Territory*, March 2008

Chapter 3: The nature of gambling in clubs

TERM OF REFERENCE:

The nature and definition of gambling and the range of activities incorporated within this definition

3.1 MAIN CHANGES TO GAMBLING INDUSTRY STRUCTURE AND CONDUCT

PC: What have been the main changes to the structure (shares, ownership patterns, location) and conduct of Australia's gambling industries? What are the likely future trends? What new technological platforms for gambling are emerging? What are the impacts of these changes on gamblers, businesses, and the likely social costs and benefits of gambling?

3.1.1 Internet gambling

The most significant new trend in the conduct of gambling is inarguably the rise in popularity of internet-based and mobile-phone-based gambling. This new delivery method for gambling products presents unique and unprecedented challenges for regulators, and risks to the consumer.

Despite an Australian ban on internet-based gambling through the *Interactive Gambling Act 2001*, internet users (and many mobile telephone users as well) are still able to access various forms of gambling, including online poker, casinos, sports betting and many other products. Because the internet is largely unregulated and crosses not only State but national borders, the consumer is able to access these products from the privacy and comfort of their home at any hour of the day, without supervision or interruption and for an unlimited amount of time. Offshore betting agencies are not required to adhere to Australia's rigorous standards for gambling operators and there is no quality assurance or consumer protection.

For problem gamblers and those at risk of problem gambling, this presents a particularly treacherous situation. The insular, antisocial nature of home computer usage means they are more vulnerable. The nature of the rise in internet gambling, and the need for an effective policy response has been discussed in detail in the submission in section 1.5.

Aside from the risk to the consumer, the funnelling of gambling revenue from Australian clubs and other local operators to unknown international companies represents millions of dollars in lost taxation revenue, lost Australian jobs, and foregone community benefits from sponsorships and other social dividends that are presented by clubs.

3.1.2 Growth in hotel gaming

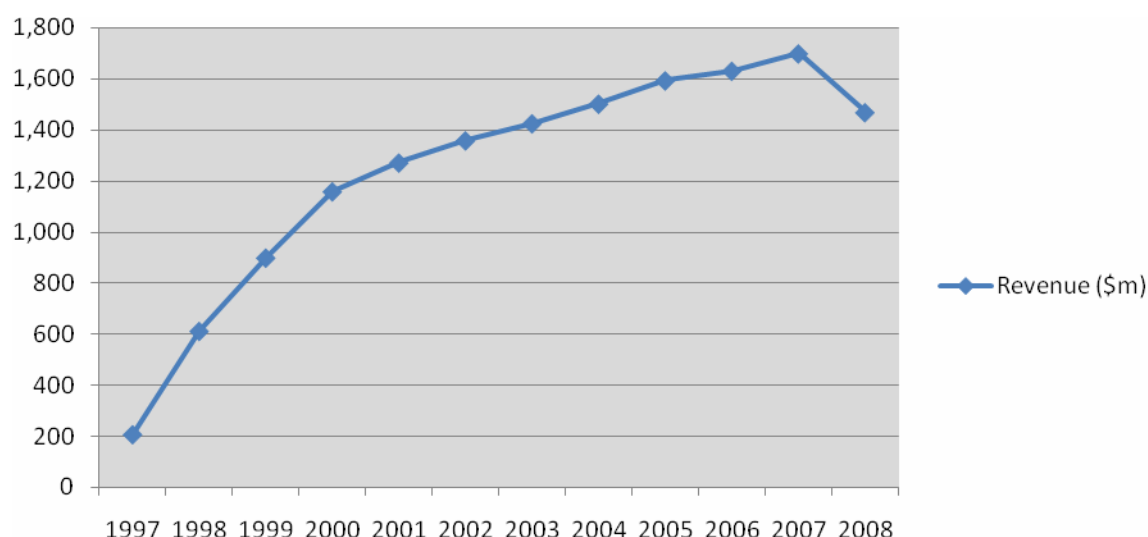
Although the operation of gaming machines was dominated by clubs for 40 years in NSW and the ACT, several States have in the last 15 years extended this right to hotels, allowing them to compete directly with the clubs. However, the nature of this competition is changing.

There has been considerable growth in hotel gaming since the last Productivity Commission inquiry in 1999. Hotel ownership has moved from individuals to publicly listed companies and now private equity firms. Woolworths now owns and operates more gaming machines than

any other single entity, and a number of hotel chains have listed on the Australian Stock Exchange.

In NSW, for example, hotel gaming machine revenue is more than seven times the level in 1997, when it was introduced. As shown in the figure below, the majority of this growth occurred within the first three years after gaming machines were extended to hotels.

Figure 3.1: NSW Hotel Gaming Machine Revenue Growth, 1997–2008



Because of their for-profit nature, hotels do not return the same social dividends as clubs. While clubs' income is returned to their members and the community in the form of services, facilities and charitable support, hotels exist to create profits for their owners. In contrast, none of clubs' surplus or excess revenue is able to be accrued privately – dividends are not paid to individuals and the money stays with the club and is used for the benefit of its members and the community.

The 'corporatisation' of the hotel market has not only generated substantial wealth for hotel owners (the sale price of certain hotels with 30 gaming machines has exceeded \$50 million), it has, in ClubsAustralia's view, increased the intensity of gaming in hotels as they now seek to maximise shareholder dividends.

3.1.3 Club industry consolidation

Since 1999 there has been a trend towards the formation of club 'groups' via amalgamations, to the benefit of local communities. In NSW, for example, over 100 amalgamations¹¹¹ have taken place since 1998, with approximately equal numbers in metropolitan and regional areas.

This has largely been brought about by the deteriorating financial position of smaller clubs due to many factors, including increased competition, dependence on volunteers, non-professional management, demographic changes and declining populations in country towns. It is a sign of the difficult economic times that smaller clubs are increasingly viewing amalgamation with a financially stable larger club as a way of preserving member and community facilities.

¹¹¹ Independent Pricing and Regulatory Tribunal of NSW, *Review of the Registered Clubs Industry in NSW*, Final Report, June 2008, p.175

IPART found that where a club cannot achieve financial viability, no matter how good its financial management is, amalgamation can provide a better alternative to closure in that it can protect and preserve the club's assets and their benefits to the community. In particular, IPART found that amalgamation can be of benefit to the community in areas where several clubs are struggling financially, and areas that are over-serviced by clubs.¹¹²

'White knight' amalgamations – such as the Panthers group's takeover and rejuvenation of several clubs in western Sydney and regional NSW – see a successful, professionally run larger club merge with a small, usually struggling club to ensure its survival and the retention of it as a social asset for its local area.

Consolidation can bring cost savings through volume discounts on purchasing and other expenses, access to better financial management systems and management talent, funding for renovations and infrastructure to improve the offering of the club, and improved career prospects for staff, to name just a few of the benefits.

It is important to achieve these efficiencies as in most cases the amalgamation means the club pays increased gaming machine tax because the multiple sites are considered one venue for the purpose of calculating revenue. The amalgamation process itself is also costly, taking anywhere between six and 18 months to complete and costing a minimum of \$50,000 in due diligence, legal fees and other associated costs. If a local impact assessment is also required, the cost of an amalgamation can rise further.

Experience has shown that the most successful amalgamations have been those involving a large parent club partnering with a smaller club, and thereby bringing better management skills and resources to bear on the smaller club's operations. Where amalgamation has been less successful is when two or more small clubs, each in financial distress, seek to amalgamate. In such cases, the underlying financial problems can be compounded.

It is ClubsAustralia's view that the facilitation of amalgamations should be supported by government policy. This is especially so in the current financial environment, and as clubs seek to ensure their long-term survival.

3.1.4 Amalgamations: future paths

There are also opportunities for clubs to come together in a way akin to mergers between corporations in the business sector. This would require a review of the regulatory framework with a view to enabling an efficient and effective process for this to occur. Such repositioning would enable amalgamations to be seen in a more positive light, as a strategic merger that leverages the combined resources of the entities. A merger (or dissolution of amalgamating clubs and creation of a new entity) rather than a strict amalgamation where an existing club continues on, can address issues that stand in the way of amalgamations, including suspicion over the motives of a parent club or doubts over the autonomy of members of a dissolving club.

Currently, some clubs see the prospect of an amalgamation as a negative reflection on their administration of the club. However, amalgamation needs to be seen not always as a bailout or rescue mission but as an opportunity to strengthen and secure the future viability of the clubs involved. The Club Viability Panel recommended by IPART in NSW, for example, will therefore play an important role in identifying not just those in need of amalgamation but instances where amalgamation can result in a net gain for the community.

¹¹² Ibid, p.178

There is a perception among some in the club industry that amalgamation means that one club identity simply disappears, but this need not be the case. There are many instances of amalgamations in which the 'child' club continues to operate and retain its identity, strengthened by the management resources of the parent. While the reality is that the separate legal entity of the child club disappears as the company is wound up and the assets and undertaking are combined into the parent club, it is often very much in the interests of the parent club for the child club to retain its unique identity in the community, and this is often what occurs in practice.

In the ACT, for example, the merger between two long-standing Australian Rules Football clubs in the early 1990s – Manuka and Eastlake – under the Eastlake banner has resulted in the continued viability and expansion of a club which is vital to the support of the sport in the ACT.

In recognition of the benefits of amalgamation, the NSW Government recently changed the law to facilitate amalgamations, including incentives relating to the movement of gaming machine entitlements. Following the 1999 Productivity Commission Report, the NSW Government legislated for caps on gaming machine numbers in clubs and hotels. A statutory review of the *Gaming Machines Act 2001* commenced in 2007 and the review process concluded on 31 January 2009. Changes included:

- Replacing the Social Impact Assessment (SIA) process with a Local Impact Assessment (LIA) process. The SIA and LIA processes are designed to regulate increases in gaming machine numbers at the venue level. The LIA process is based on local government areas (LGAs), which are split into three categories based on gaming machine density and other socio-economic indicators. An increase in gaming machine numbers at a venue is subject to rules which take into account the number of machines sought and the LGA in which the club is located.
- The gaming machine entitlement trading scheme was retained together with a forfeiture mechanism. Forfeiture is a scheme where one in three entitlements traded is forfeited to the Government, thus reducing the overall number of gaming machines. The overall statewide cap on gaming machine is to be periodically adjusted as entitlement trading forfeiture reduces the total number of gaming machines.
- Amalgamated clubs receive some concessions in relation to the operation of forfeiture. Clubs within the same LGA are not subject to forfeiture or one in six if in different LGAs.

3.1.5 New gaming ownership structure planned for Victoria

In Victoria the Government has announced plans to end the duopoly of Tabcorp and Tattersall's by establishing a venue-operated structure overseen by a single monitoring licence by 2012. Clubs and pubs will bid for licences that will return a greater share of gross revenue, but with a concomitant increase in tax rates and operating costs.

A restriction will also be placed on the ownership of hotel gaming machine entitlements "so that no individual or organisation will be able to own more than 35 per cent of hotel entitlements. Presently, the ALH Group (75 per cent owned by Woolworths) operates more than 35 per cent of hotel gaming machines in Victoria."¹¹³

¹¹³ Ferrier Hodgson, *Ferriers Focus*, accessed 16 March 2009 at <http://www.ferrierhodgson.com/en/~media/Files/Newsletters/Ferriers%20Focus/Ferriers%20Focus%202009%2002%20-%20February.ashx>

Gaming Minister Tony Robinson has stated that the proposed plan would maintain the current “50/50 distribution of gaming machines between clubs and hotels; the commitment that no more than 80 per cent of gaming machines will be allocated within metropolitan Melbourne; the regional caps policy; and the maximum limit of 105 machines per venue.”¹¹⁴

Although Clubs Victoria has expressed some concern about the impact of a purely price-based bidding system on smaller clubs' role in the market, it hopes to work these issues through with the Government and overall anticipates the planned system will give venues more local control. The announcement is also a recognition that the current for-profit duopoly, with mega-consortia having enormous control over the State's gaming operations, is not desirable.

3.2 CHANGES TO GAMING MACHINE NUMBERS, LOCATIONS & CHARACTERISTICS

PC: What have been the changes to gaming machines (numbers, location and characteristics)? Why have these occurred and what have been the impacts? What future trends are likely in the characteristics of gaming machines?

3.2.1 Number and location of gaming machines

Since the Productivity Commission's 1999 inquiry, the number of gaming machines in Australia has increased. Up to around 2001, this was mainly due to gaming machines being allowed into more venues including hotels, and in some jurisdictions increasing numbers generally. From 2001, the number of gaming machines has been fairly stable, and in some jurisdictions numbers have decreased.

However, caps (both venue-level and jurisdiction-wide) on the number of gaming machines have dramatically slowed or stopped growth, and the number of machines Australia-wide has been broadly stable since 2001/02, reflecting caps on gaming machine numbers. The figures below are the most recent national data available and do not depict decreases that have occurred in both NSW and SA in the time since.

Figure 3.2: Number of gaming machines by State and Territory

| Year | NSW No. | VIC No. | QLD No. | SA No. | WA No. | TAS No. | ACT No. | NT No. | Total No. |
|---------|------------|------------|------------|-----------|-----------|------------|------------|-----------|--------------|
| 2001/02 | 102,958 | 29,900 | 39,761 | 15,430 | 1,283 | 3,194 | 4,970 | 1,506 | 199,002 |
| 2002/03 | 100,969 | 29,760 | 40,836 | 15,740 | 1,286 | 3,409 | 5,020 | 1,618 | 198,638 |
| 2003/04 | 100,656 | 29,632 | 41,824 | 15,624 | 1,300 | 3,447 | 5,000 | 1,672 | 199,155 |
| 2004/05 | 100,233 | 29,624 | 43,590 | 15,001 | 1,500 | 3,566 | 5,144 | 1,849 | 200,507 |
| 2005/06 | 100,034 | 29,647 | 45,396 | 13,581 | 1,500 | 3,680 | 5,150 | 1,862 | 200,850 |

Source: Australian Gambling Statistics: 1980-81 to 2005-06.

¹¹⁴ Victorian Minister for Gaming, The Hon Tony Robinson MP, Media release: “Call for comment on new gaming machine arrangements”, 11 December 2008, accessed 16 March 2009 at <http://www.premier.vic.gov.au/minister-for-gaming/call-for-comment-on-new-gaming-machine-arrangements.html>

Of the 201,000 gaming machines in Australia in 2005/06, 58 per cent were located in clubs, 35 per cent in pubs and 6 per cent in casinos.

The allocation of gaming machines across venue types is very different in each State, depending on the regulations. For instance, almost three-quarters of gaming machines in NSW were located in clubs in 2005/06, while in Victoria less than half of machines were located in clubs.¹¹⁵ In the ACT almost all the gaming machines (99 per cent) are allocated to clubs, with only a very small number (of drawcard machines) being in the hands of hotels and taverns.

3.2.2 Increases in hotel gaming

As stated above in section 3.1, hotels have accounted for much of the growth in gaming in NSW since 1999.

In NSW, gaming machines were introduced to hotels in 1997 and from March 1997 to March 2007, hotel annual gaming machine revenue in NSW increased from \$178 million to \$1.682 billion. In this period of time hotels increased their share of club and hotel gaming machine revenue from 6 per cent to 32 per cent.

Figure 3.3 below shows the comparative growth in gaming in NSW clubs and hotels. While the number of gaming machines in clubs has increased by 17 per cent since 1995, hotels have more than doubled their holdings.

The Sydney Star City Casino commenced operation in 1995 in temporary premises with 500 gaming machines and 150 tables. The permanent Casino was opened on 26 November 1997 with 1,500 gaming machines and 210 tables. Legislation was amended in 1996 allowing hotels to operate up to 15 poker machines and this was increased to 30 machines per hotel in 1998.

A freeze on increases in club gaming machine numbers occurred in March 2000, followed by a freeze on hotel gaming machines in April 2001. With the commencement of the *Gaming Machines Act 2001* in late 2001 and the *Gaming Machine Regulations 2002* in early 2002, a cap on gaming machine numbers became law and an 'entitlement trading' scheme was established, allowing for movement of gaming machine entitlements within the cap and subject to a Social Impact Assessment process. The entitlement trading scheme has a '1 in 3 forfeiture' mechanism¹¹⁶ built in, whose primary purpose is to reduce the number of gaming machines over time. The impact of this can be seen in the small but noticeable decline in gaming machine numbers.

Figure 3.3 illustrates the growth and decline in the number of gaming machines authorised for operation in NSW clubs and hotels. The Casino gaming machine numbers remain at 1,500. However, as a result of a reclassification of multi-terminal gaming machines (MTGMs) from gaming machine to a table game during recent contract renewal negotiations, the Casino will be able to increase the number of MTGMs and gaming machines.

¹¹⁵ Centre for Independent Economics, *Gambling with policy: The economic contribution of gaming machines to the Australian economy*, January 2009, p.9

¹¹⁶ New South Wales *Gaming Machines Act 2001*, Part 3, Division 2

Figure 3.3: Electronic gaming machines in NSW clubs, hotels 1995–2008

| Date | EGMs installed in clubs | EGMs installed in hotels |
|-----------|-------------------------|--------------------------|
| June 1995 | 62,215 | 11,607 |
| June 1996 | 64,087 | 11,548 |
| June 1997 | 65,668 | 17,452 |
| June 1998 | 66,489 | 24,985 |
| June 1999 | 73,094 | 23,727 |
| June 2000 | 76,309 | 24,826 |
| June 2001 | 74,806 | 25,053 |
| June 2002 | 75,485 | 24,262 |
| June 2003 | 75,055 | 23,981 |
| June 2004 | 74,990 | 24,166 |
| June 2005 | 74,672 | 24,215 |
| June 2006 | 74,280 | 24,040 |
| June 2007 | 73,417 | 23,943 |
| June 2008 | 72,819 | 23,802 |

Source: NSW Office of Liquor Gaming and Racing and ClubsNSW

The decline in overall gaming machine numbers is a direct result of the forfeiture mechanism present in the entitlement trading scheme. This is discussed in more detail in section 3.2.4.

3.2.3 Ratio of gaming machines to population

The total Australian population was 21,015,042 and the adult (over 18) population 16,073,572 at June 2007.¹¹⁷ With 199,000 gaming machines in Australia,¹¹⁸ the number of gaming machines per 1,000 people (total population) was 9.5 and the number of gaming machines per 1,000 *adults* was 12.4.

The following figure provides further detail on the ratio of gaming machines to adult population in each State and Territory.

Figure 3.4: Gaming machine to adult population ratios by State and Territory

| | ACT | NSW | NT | Qld | SA | Tas | Vic | WA |
|----------------------------------|-------|---------|-------|--------|--------|-------|--------|-------|
| Adult (18+) population (million) | 0.251 | 5.211 | 0.145 | 3.033 | 1.203 | 0.370 | 3.896 | 1.542 |
| EGMs | 5,150 | 100,034 | 1,862 | 45,396 | 13,581 | 3,680 | 29,647 | 1,500 |
| EGM per 1,000 adults | 20.5 | 19.2 | 12.8 | 15 | 11.3 | 9.9 | 7.6 | 1 |

Note: Figure represents data for 2006.

Source: Gaming Machines (Source Australian Gambling Statistics 2005-6, Table 61 for each State)

¹¹⁷ Australian Bureau of Statistics, *3201.0, Population by Age and Sex, Australian States and Territories*, June 2007

¹¹⁸ Australasian Gaming Council, "A Database on Australia's Gambling Industries 2008/9", Table 9-13, accessible at <http://www.austgamingcouncil.org.au/>

3.2.4 Movement of gaming machines

In NSW, a statewide cap on club and hotel gaming machine numbers meant that the machine population has been prevented from increasing in response to market demand for at least eight years.¹¹⁹ The introduction of a legislated cap was accompanied by an entitlement trading scheme.¹²⁰ The purpose of the entitlement trading scheme was to allow for the movement of gaming machines in response to changing demand and to reduce the number of gaming machines through a forfeiture mechanism built into the trading scheme. Clubs are only permitted to trade entitlements between clubs and hotels with other hotels. In the case of hotels there are also some disincentives¹²¹ designed to discourage migration of gaming machine entitlements from regional to metropolitan regions.

The trading scheme was subject to a Social Impact Assessment process,¹²² which from 31 January 2009 was replaced by a Local Impact Assessment process.

Figure 3.5 shows that for the period starting at the respective ‘freezes’ in gaming machines until November/December 2008, the percentage fall in gaming machines authorised for operation in clubs and hotels is almost the same. However, in the case of hotels and clubs there is a marked difference in trends.

Figure 3.5 – Club and hotel gaming machines movements

| ABS region or sub- region | EGMs in clubs @ May 00 | EGMs in clubs @ Nov 08 | Percent change May 00 to Nov 08 | EGMs in hotels @ Jun 01 | EGMs in hotels @ Dec 08 | Percent change Jun 01 to Dec 08 |
|---------------------------|------------------------|------------------------|---------------------------------|-------------------------|-------------------------|---------------------------------|
| Metropolitan | 42,444 | 39,098 | -7.9% | 13,695 | 13,802 | 0.8% |
| Regional | 33,865 | 33,332 | -1.6% | 11,358 | 9,990 | -12.0% |
| State | 76,309 | 72,430 | -5.1% | 25,053 | 23,792 | -5.0% |

Note: The club gaming machine freeze commenced on 28 March 2000 and the hotel freeze on 19 April 2001. The number of gaming machines authorised for use in clubs and hotels at the next quarter end was 76,309 (May 00 qtr) and 25,053 (June 01qtr).

In the case of hotels, the number of gaming machines in metropolitan areas has increased marginally despite the forfeiture process, while in regional areas there is a significant drop despite the legislative disincentives against movement to metropolitan areas. In the case of clubs, metropolitan areas have suffered a larger decline than regional, but not as large as regional hotels. While there are no doubt other factors contributing to this result, ClubsAustralia submits that the changes can largely be attributed to the dominance of commercial considerations in privately/corporate owned gaming and the commercial value attached to gaming machines, as opposed to that in community owned gaming. These factors can best be seen in the difference in price for hotel compared with club entitlements. Hotel entitlements in NSW sell for more than ten times the price of club entitlements.

¹¹⁹ A club gaming machine “freeze” on gaming machines numbers commenced on 28 March 2000 and the hotel freeze on 19 April 2001.

¹²⁰ New South Wales *Gaming Machines Act 2001*, Part 3, Division 2

¹²¹ New South Wales *Gaming Machines Act 2001*, Sections 22(1) & 22(1)

¹²² New South Wales *Gaming Machines Act 2001*, Part 4, Division 1

3.2.4.1 ACT

Currently in the ACT gaming machines are not allowed to be transferred between venues or clubs. In the context of a review of the Territory's cap on gaming machines – currently at 5,200 – the ACT Government has foreshadowed its intention to allow some form of transfer. This reflects the need for greater flexibility in the establishment of new clubs in new areas of Canberra, and aims to allow a better utilisation of the existing stock of gaming machines.

3.3 TRENDS IN GAMBLING EXPENDITURE & THE MATURING MARKET

PC: What factors explain trends in gambling expenditure, particularly in gaming machine expenditure, since 1999? Has the gaming machine market 'matured'? What roles have harm minimisation measures played?

3.3.1 Expenditure trends and maturing market

Gaming machine expenditure escalated with the introduction and growth in hotel gaming, but has tapered off. Clubs are now achieving relatively modest growth, typically in line with CPI.

Rising expenditure has generally been underpinned by increased expenditure per machine. On national averages, expenditure per machine rose from \$45,000 in 2000/01 to \$52,000 in 2005/06.¹²³ The amount spent on each gaming machine differs between States and between venues. For instance, expenditure per machine was about \$47,000 in NSW clubs, \$71,000 per machine in NSW hotels and \$100,000 per machine in Victorian pubs.¹²⁴ This can partly be attributed to the impact of machine caps, with a now relatively finite number of machines to serve a growing population leading to a higher spend per machine. Natural inflation also plays a small role in the growth.

While the anti-gambling lobby and sections of the media have drawn significant and ongoing attention to increasing gaming revenues, and either implied or overtly stated that this is evidence of increased problem gambling, ClubsAustralia believes there is no nexus between the level of gambling expenditure and the level of problem gambling. This absence of a positive relationship can be seen by looking at the experience in Queensland. There is empirical evidence from Queensland that the incidence of problem gambling has been decreasing over time despite increases in revenue and gaming machine numbers. Both trends are discussed in more detail in 4.2.2.

3.3.2 What affects expenditure growth?

Expenditure growth is affected both positively and negatively by many factors. These include availability of product, for example, the introduction of EGMs in hotels, availability of new product with new features/technology, public perception and attitude, for example negative press. Additionally, in a mature market such as the NSW club market there appears to be a strong relationship between household disposable income and expenditure, which is further examined below, and most recently the impact of smoking bans.

ClubsAustralia suggests that the timing of the 1999 Report – which coincided with a rapid expansion in revenue in the privately and corporate owned gaming sectors – is important, and that the environment confronting the Productivity Commission in 2009 is substantially different and much more indicative of a mature industry.

¹²³ Centre for Independent Economics, *Gambling with policy: The economic contribution of gaming machines to the Australian economy*, January 2009

¹²⁴ Ibid; it is not known what the difference is between machines in Victorian pubs as opposed to clubs.

3.3.3 Expenditure growth mirrors disposable income growth

The drivers of gaming expenditure growth are difficult to isolate; however, there appears to be at least a casual relationship between gaming revenue and household disposable income (HDI). Figure 3.6 below shows the 10-year trend in gaming revenue and the striking correlation between the two. That is, over a period of 10 years commencing in 1997 (which predates the 1999 Report), the growth in club gaming revenue has closely tracked growth in HDI.

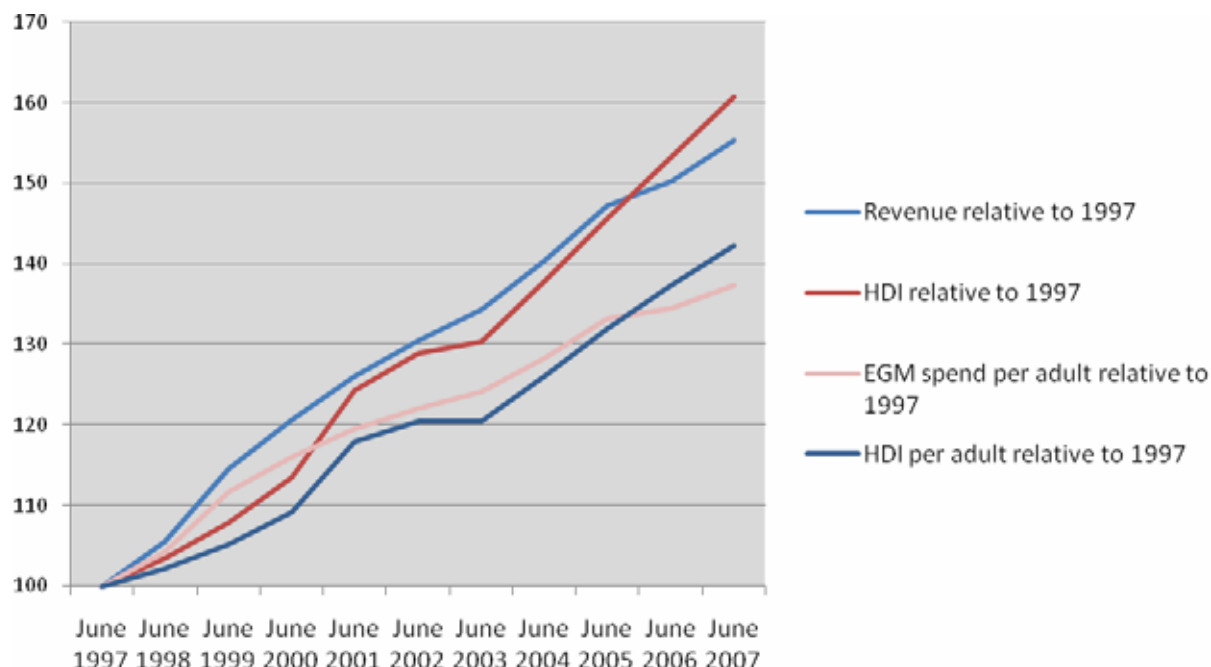
Figure 3.6 – NSW Club EGM Revenue and NSW Household Disposable Income

| Year end | NSW club EGM revenue (\$m) | NSW HDI (\$m) | EGM spend per adult (\$) | HDI per adult (\$) | EGM spend per adult as % of HDI per adult |
|-----------|----------------------------|---------------|--------------------------|--------------------|---|
| June 1997 | 2,259 | 134,287 | 484 | 28,761 | 1.68% |
| June 1998 | 2,386 | 138,956 | 505 | 29,390 | 1.72% |
| June 1999 | 2,588 | 144,895 | 541 | 30,262 | 1.79% |
| June 2000 | 2,724 | 152,529 | 561 | 31,430 | 1.79% |
| June 2001 | 2,849 | 167,055 | 579 | 33,927 | 1.71% |
| June 2002 | 2,949 | 173,166 | 591 | 34,675 | 1.70% |
| June 2003 | 3,035 | 175,104 | 601 | 34,653 | 1.73% |
| June 2004 | 3,171 | 185,136 | 621 | 36,273 | 1.71% |
| June 2005 | 3,323 | 195,693 | 645 | 37,969 | 1.70% |
| June 2006 | 3,393 | 205,799 | 651 | 39,493 | 1.65% |
| June 2007 | 3,507 | 215,926 | 665 | 40,925 | 1.62% |

Source: AGS 2005/6, ABS, NSW OLGR.

Figure 3.7 shows the trends over time.

Figure 3.7: Relative % trends in club EGM revenue and household disposable income



It is also likely that gaming machine spend per adult has grown less than shown, because club membership has grown faster than the general population growth. As shown in the Allen Consulting Group's 2007 SEIS of the NSW Club Industry, this is due in large part to the ageing population. Indeed, the per-adult spend on gaming machines slightly *declined* as a proportion of household disposable income per adult.

3.3.4 Expenditure impact of gaming machine accessibility is negligible

Figures 3.8 to 3.11 below show the real per-capita expenditure in a number of jurisdictions where availability of gaming machines was expanded, and the impact that this has had on real per-capita expenditure.

These figures show that after an initial increase in per capita expenditure the real increase settles around 0 per cent, even though in absolute terms gaming revenue has increased.

Figure 3.8: % Change in real per capita expenditure in NSW

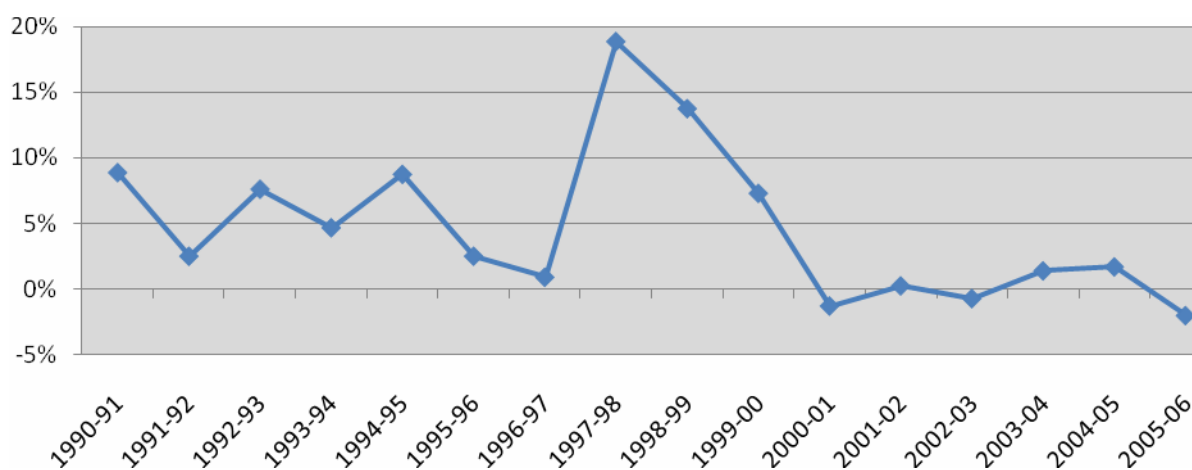


Figure 3.9: % change in real per capita expenditure in Victoria

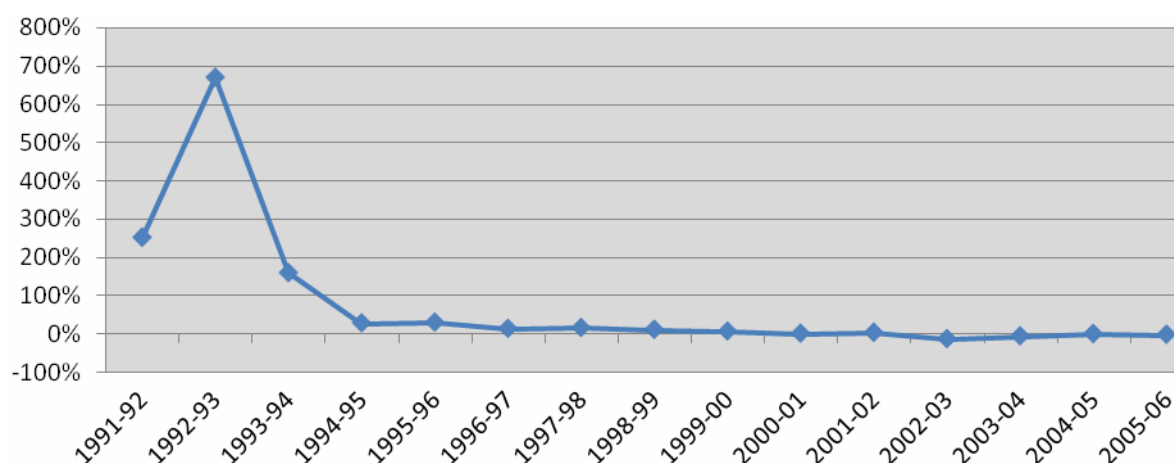


Figure 3.10: % change in real per capita expenditure in Queensland

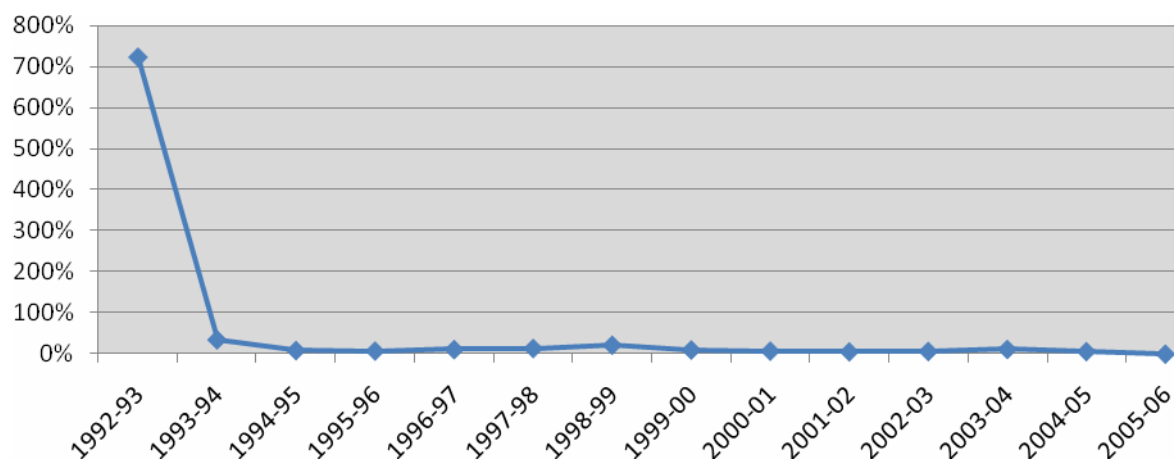
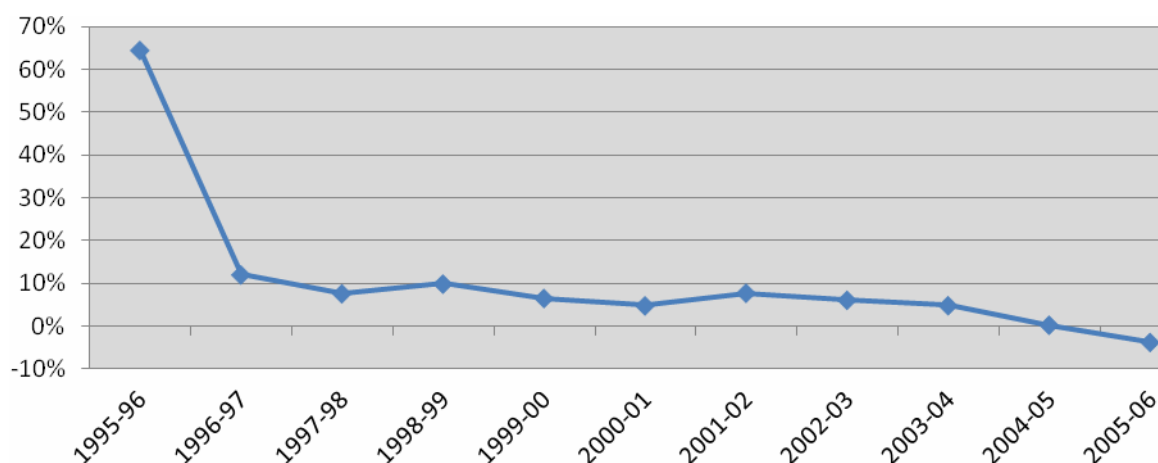


Figure 3.11: % change in real per capita expenditure in South Australia



Unlike most jurisdictions, NSW had a well-established club gaming environment that can be traced back to the introduction of gaming machines to clubs in 1956. In the mid-1990s casino gaming (poker machines and live table games) and privately owned gaming (poker machines) were introduced.

Figures 3.12 and 3.13 show the gaming revenue trends in NSW from 1995.

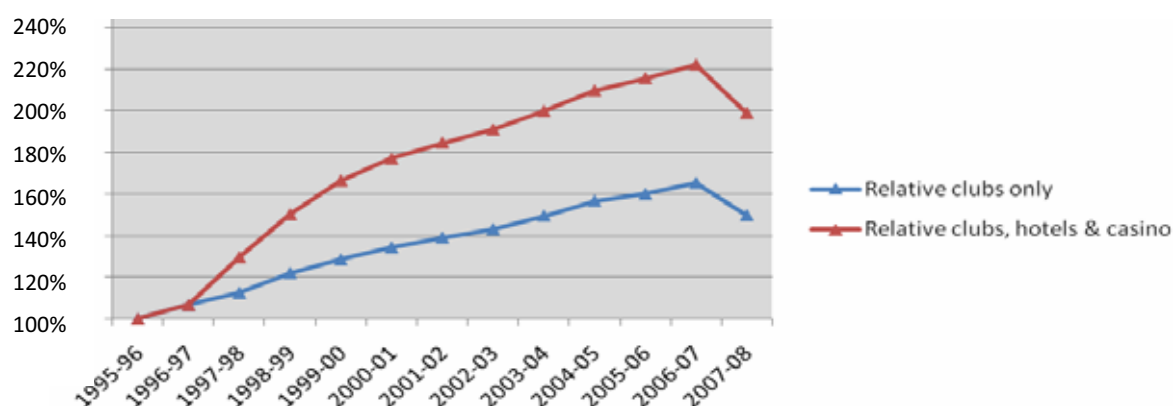
Figure 3.12 – NSW casino, hotel and club EGM revenues

| Year | Estimated ¹ casino EGM revenue (\$m) | Hotel EGM revenue (\$m) | Club EGM revenue (\$m) | Total EGM revenue |
|---------|---|----------------------------|---------------------------|----------------------|
| 1995/96 | 104 | 215 | 2,121 | 2,440 |
| 1996/97 | 134 | 205 | 2,259 | 2,599 |
| 1997/98 | 166 | 610 | 2,386 | 3,163 |
| 1998/99 | 178 | 898 | 2,588 | 3,665 |
| 1999/00 | 181 | 1,158 | 2,724 | 4,063 |
| 2000/01 | 197 | 1,271 | 2,849 | 4,316 |
| 2001/02 | 199 | 1,358 | 2,949 | 4,506 |
| 2002/03 | 201 | 1,425 | 3,035 | 4,661 |
| 2003/04 | 205 | 1,502 | 3,171 | 4,877 |
| 2004/05 | 202 | 1,593 | 3,323 | 5,118 |
| 2005/06 | 237 | 1,631 | 3,393 | 5,261 |
| 2006/07 | 216 | 1,699 | 3,507 | 5,422 |
| 2007/08 | 210 | 1,468 | 3,176 | 4,855 |

Source: AGS 2005/6, Casino Control Authority Annual Reports, NSW Office of Liquor, Gaming & Racing

Notes: 1. Casino EGM revenue is approximated as 37% of general gaming floor revenue.
2. Indoor smoking ban introduced from 1 July 2007.

Figure 3.13: Relative percentage changes in NSW EGM revenue – NSW clubs, hotels and casino (1995-96 is taken as base year 100%)



3.3.5 The evolution of gambling consumption

ClubsAustralia believes that the declining incidence of problem gambling partly reflects a maturing market and a natural development in consumer behaviour, as occurs with many products.

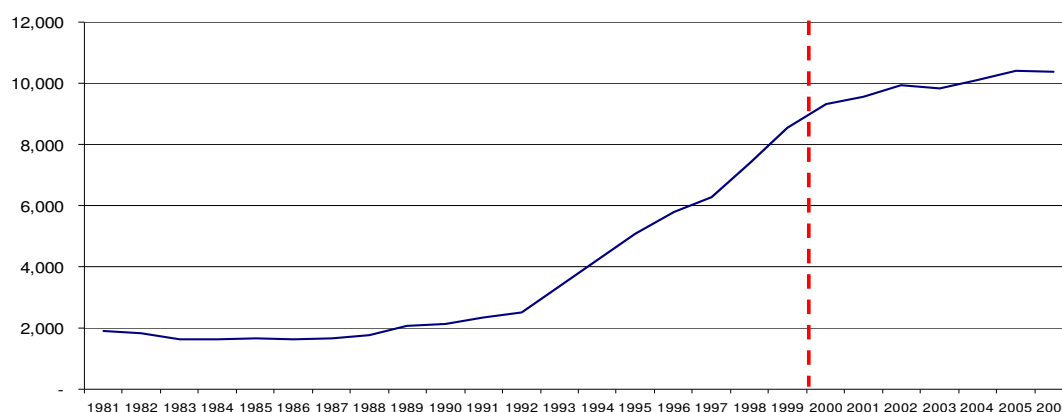
An established body of marketing literature suggests that consumption patterns for many products evolve over time.¹²⁵ Such evolutionary patterns are clearly evidenced in gambling, and particularly electronic gaming machine (EGM) consumption. It is clear that EGM consumption has entered a 'mature' phase.

Characteristic of the mature phase is that there are few new purchasers of a product, and most purchase is drawn from existing consumers.

Figure 3.14 illustrates the change and development of gaming in the Australian market since the introduction of EGMs in 1981 to 2006. The data trend illustrates the maturity of the product in the Australian market.

¹²⁵ For example, Bass, Frank, "A New Product Growth Model of Consumer Durables," *Management Science*, 15 January 1969, pp.215-227; Borden, N, *The Economics of Advertising*, Chicago: Irwin, 1942; Polli, Rolando and Victor Cook, "Validity of the Product Lifecycle Model," *The Journal of Business*, Volume 42, October 1969, pp 385-400

Figure 3.14: Australian total real EGM expenditure 1981–2006



Source: The Australian Gambling Statistics is the collection of Australian data for legalised regulated gambling for which accurate figures are available. The Australian Gambling Statistics is produced by OESR in co-operation with all State and Territory governments.

Value in \$ million

EGMs: All jurisdictions, except Western Australia, have a state wide gaming machine (poker machine) network operating in clubs and/or hotels. The data reported under this heading do not include gaming machine data from casinos.

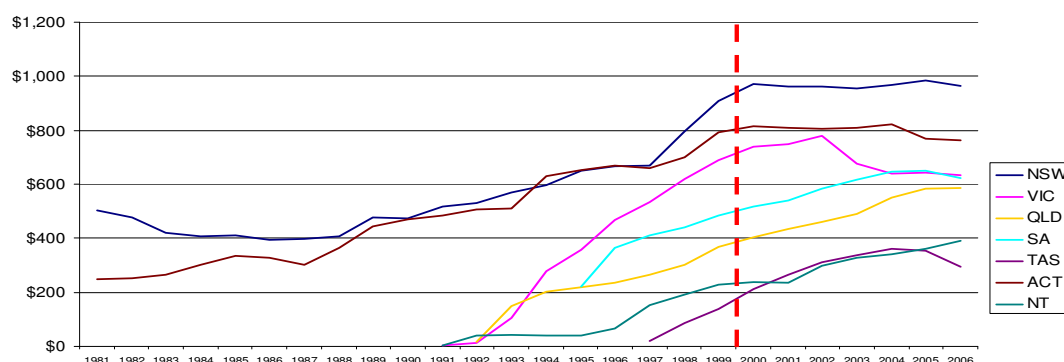
'Real' variables: Real variables refer to data that have had the effects of inflation removed. This is achieved by specifying a base year (in this instance 2004-05) and 'deflating' each previous year by the CPI. This means that all data in a table showing real values may be compared directly, the effects of inflation having been removed.

The vertical red line is placed to coincide with the Productivity Commission's 1999 Report into Gambling. Subsequent to this report, the gambling industry has showed very little growth. As the Productivity Commission Report is still considered an influential body of work ten years after publication, it is suggested this report had a profound impact on the gambling industry.

Following the arguments presented in this paper, supported by theory and empirical data when possible, there is considerable score for realignment based on actual evidence in any future report.

Figure 3.15 maps the real per capita expenditure for EGMs over time.

Figure 3.15: By State and Territory real per capita EMG expenditure 1981–2006



Source: The Australian Gambling Statistics is the collection of Australian data for legalised regulated gambling for which accurate figures are available. The Australian Gambling Statistics is produced by OESR in co-operation with all State and Territory governments.

EGMs: All jurisdictions, except Western Australia, have a state wide gaming machine (poker machine) network operating in clubs and/or hotels. The data reported under this heading do not include gaming machine data from casinos.

'Real' variables: Real variables refer to data that have had the effects of inflation removed. This is achieved by specifying a base year (in this instance 2004-05) and 'deflating' each previous year by the CPI. This means that all data in a table showing real values may be compared directly, the effects of inflation having been removed.

These data do not include figures from the EGMs operating on casino floors. Figure 3.15 illustrates expenditure per capita declining in all States and Territories except the Northern Territory, where there was small but continued growth. NSW, Victoria, the ACT and South Australia have all registered negative growth in real per capita expenditure.

In contrast, Queensland shows sustained increases in real per capital EGM expenditure, yet prevalence studies in Queensland have confirmed a decline in respondents in 5+ SOGS and 8+ CPGI registered the lowest level at 0.47 per cent (n=141 of a sample n=30,000).

3.3.6 Harm minimisation

Since 1999 the States and Territories have instituted a range of measures to mitigate the potential harm of gaming. Some harm minimisation programs are believed to have achieved substantial good. Others have been relatively ineffective, and/or have come at a financial or administrative cost which questions whether the measure was worthwhile.

However, it is misleading to draw a nexus between access to gambling and the rate of problem gambling or to conflate growth in gaming machine expenditure figures with a supposed increase in the number of people with problems, and/or increased spend by people who have a problem with gambling.

As IPART's 2008 report states:

[IPART] found no firm evidence that the provision of gaming machines in clubs has led to a higher overall level of gambling or incidence of problem gambling....

*While the provision of gaming machines in NSW clubs may have an influence on where people gamble, the evidence does not show that it necessarily increases the total amount of gambling and problem gambling in the State.*¹²⁶

IPART also stated:

In 1999, the Productivity Commission found that, overall, the evidence appeared to suggest there was a significant connection between greater access to gaming machines and a higher prevalence of problem gambling.

*Based on more recent studies measured via the Canadian Problem Gambling Index (CPGI) (listed in Figure D.2) it appears that greater access to gaming machines between States does not necessarily translate into a higher incidence of problem gambling.*¹²⁷

ClubsAustralia elsewhere has highlighted the fact that a substantial proportion of harm minimisation measures are in fact *access* or *demand* minimisation. It is important that a sledgehammer approach not be taken when dealing with this product which the vast majority of the population enjoy safely.

¹²⁶ Independent Pricing and Regulatory Tribunal of NSW, *Review of the Registered Clubs Industry in NSW*, Final Report, June 2008, p.62

¹²⁷ Ibid, p.235

3.3.7 Gaming machines' increased share in total gambling expenditure

PC: What factors explain the increased share of gaming machine expenditure in total gambling expenditure since 1999?

ClubsAustralia suggests that because gaming machines were a relatively new form of gaming entertainment introduced into many States and Territories in the late 1980s and early 1990s, it experienced a growth in market share in the subsequent years. It is likely that some of this growth was the result of transfer from existing markets, such as wagering or the already existing club gaming machine market in NSW. However, the overall market also expanded in this time, so that gambling generally was growing as a form of leisure and entertainment activity.

Since the early years of this decade, gaming machine growth has been marked by relatively flat real per-capita expenditure in most States and Territories. When viewed alongside the growth in turnover, this indicates that gaming machines are broadly popular with widespread participation. Figure 3.15 illustrated that real per-capita expenditure on gaming machines as a form of entertainment has stabilised. That is, gaming machines can now be regarded as a mature national industry sector just like other well established land-based gambling industries such as wagering and lotteries.

In our view any increases or decreases in market share that may be observed are largely the result of changing patron preference for one form of entertainment over another. In this respect it is worth noting that in most jurisdictions gaming machine advertising is subject to significant restrictions or prohibitions when compared to other forms of gambling.

3.4 FUTURE GAMBLING EXPENDITURE CHANGES

PC: What are likely to be the future changes in spending for different types of gambling, especially in relation to gaming machines and to new technologies (such as those involving the internet or mobile phones)?

ClubsAustralia believes that while gaming machines have plateaued, revenue for internet and other new-generation gambling technologies will continue to grow strongly at a much slower rate for the foreseeable future.

It is likely that total expenditure on gaming will also increase – but with most of the gains flowing to this new sector, which is able to provide greater innovation and penetrate the market through advertising and promotions.

It is likely that problem gamblers in particular will increasingly turn to internet gambling because of its novelty, accessibility, anonymity and marketing practices. A more detailed discussion of internet gambling can be found in Chapter 1.5.

Chapter 4: Participation profile: Who gambles and why

TERM OF REFERENCE:

The participation profile of gambling, including problem gamblers and those at risk of problem gambling

4.1 A REVIEW OF PROBLEM GAMBLING INSTRUMENTS

PC: What new problem gambling instruments have been developed since 1999, either in Australia or overseas? How adequate are the instruments, particularly the Canadian Problem Gambling Index and the Victorian Gambling Screen, in measuring problem gambling prevalence in Australia? How do these new instruments compare with the South Oaks Gambling Screen? Is it possible to refine these instruments further, or to change the survey methodology that applies to them, to make them more accurate or counter the inherent bias in responses?

4.1.1 Quality and the Productivity Commission's meta-analysis

Having undertaken a national study in 1998/99, ClubsAustralia understands the Productivity Commission now intends on relying on a meta-analysis to garner a more contemporary overview of gambling in Australia.

As ClubsAustralia will demonstrate, any meta-analysis of Australian studies is inevitably flawed due to the many problems besetting gambling research in Australia and overseas. As outlined, the problems in Australian gambling studies are systematic and endemic to gambling research.

The meta-analysis proposed by the Productivity Commission has no apparent way of scrutinising the quality and objectivity of problem gambling research in Australia. Moreover, the vast majority of research relating to the broader issue of 'problem consumption' is descriptive and many theoretical and methodological issues remain unresolved.¹³⁰ Most research into gambling belongs to this categorisation and is deficient in theory and methods.

ClubsAustralia requests that as part of the meta-analysis process the quality of the research, including the number of claimed 'problem gamblers' be formally evaluated before they are included in the analysis. We also seek information about the meta-analysis processes that will be used, and the studies that the Productivity Commission will be drawing from.

Of particular concern for the meta-analyses is publication bias and repetitive errors apparent in gambling studies; as stated by the South Australian Centre for Economic Studies:

¹³⁰ Ridgway, Nancy M, Monika Kukar-Kinney and Kent B Monroe, "Special Session Summary: New Perspectives on Compulsive Buying: Its Roots, Measurement and Physiology," *Advances in Consumer Research*, Volume 33, 2006, p.131

*The literature points to the need for improved data and monitoring of the gambling sector, and to take a community-wide standpoint, rather than focusing purely on the effects on just one group.*¹³¹

The different conceptualisations of gambling-related issues have resulted in different screening tools, and these generate “different empirical findings about the prevalence of the problem”¹³². As outlined herein, it is clear that the SOGS method employed by the Productivity Commission in the 1999 inquiry does not represent best practice, and was never an accurate or adequate measure of gambling-related issues.

Even the best meta-analysis of badly designed studies will result in flawed statistics that are not a reflection of the true situation with gambling in Australia.

Any report utilising meta-analysis of gambling studies in Australia will result in outcomes that are likely to be misleading and history shows that these outcomes will be misused by industry commentators.

ClubsAustralia urges the Productivity Commission to take a clear and transparent view of the implications of the methods used in research. Much of the research and emanating claims that are circulated as mass media headlines pertaining to gambling are derived from studies that are fundamentally flawed. A more constructive and objective leadership role is required in defining what is really known about gambling research, and the profound weaknesses in gambling research.

To address these questions in further detail, ClubsAustralia commissioned an expert technical response from by Dr Rohan Miller MAcc (NE) MBA (Bond) PhD (UWA), of Harvest Data. Dr Miller, a lecturer in the University of Sydney’s Faculty of Economics, is a recognised expert in gambling behaviour whose research foci include the role of habit in consumption, problem consumption and the role played by marketing and promotion in consumption behaviour. A full biography of Dr Miller is attached at Appendix B.

4.1.2 Adequacy of South Oaks Gambling Screen (SOGS)

There are fundamental flaws with the SOGS system, as Dr Miller states:

There is a growing chorus stating there is no real “gold standard” in the measurement of problem gambling.¹³³

The South Oaks Gambling Screen [SOGS] was *not* designed for use as an epidemiological tool, and was first selected in the absence of alternatives. Indeed, SOGS was developed for “rapid screening of alcoholic, drug dependent, and other patients (of the 334 South Oaks psychiatric hospital in New York) for pathological gambling”¹³⁴. Thus the selection of SOGS is critically deficient as a tool for policy evaluation if policy makers extend high standards to their constituents.

¹³¹ South Australian Centre for Economic Studies, *Social and Economic Impact Study into Gambling in Tasmania*, commissioned by Tasmanian Gaming Commission, December 2008, p.18, s2.7, available at <http://www.tenders.tas.gov.au/domino/df/df.nsf/v-liq-and-gaming/019422A0FDAB5832CA25748E00810386>

¹³² McMillan, Jan and Michael Wenzel, “Measuring Problem Gambling: An Assessment of Three Prevalence Screens”, *International Gambling Studies*, Volume 6, Issue 2, 2006, pp.147-174

¹³³ This has also been noted in Shaffer, Howard J, Matthew N Hall and Joni Vander Bilt, “Estimating the Prevalence of Disordered Gambling Behavior in the United States and Canada: A Research Synthesis”, *American Journal of Public Health*, Volume 89, Issue 9, September 1999, pp.1369-1376, among other studies

¹³⁴ Lesieur, Henry R and Sheila B Blume, “The South Oaks Gambling Screen (SOGS): A New Instrument for the Identification of Pathological Gamblers”, *American Journal of Psychiatry*, Volume 144, Issue 9, September 1987, p.1186, comments in brackets added

The SOGS was based on the earliest and now superseded version of the American Psychiatric Association's Diagnostic Statistical Manual [DSM/DSMIV]. Over time SOGS has been "subject to growing criticisms... and that the screen is being applied inappropriately"¹³⁵.

Moreover, there is a strong and empirically justified argument that SOGS prevalence levels should be "10" to reflect the average scores from gamblers in treatment.¹³⁶ Empirical support is provided that the "power to detect pathological gambling (positive predictive value) does not reach 90 per cent until scores of 9 or higher or on the SOGS, and of 6 or higher using the DSMIV."¹³⁷

SOGS generates false positives

In prevalence studies using SOGS, the concept of false positives means that past surveys have resulted in inaccurate claims, and have overstated the true prevalence of gambling related issues among populations.

Further, the influences of comorbidity, sampling bias and survey bias, will likely inflate estimates of gambling related problems. The following discussion provides evidence that SOGS over-estimates prevalence.

There is substantial evidence that the prevalence of problem gambling has been over stated as SOGS generates a high proportion of false positives.^{138, 139}

The first and only attempt that we can find at trying to validate the SOGS as a prevalence screen against a clinical population of persons with gambling related problems in Australia resulted in the following comment:

*significant concerns have been raised about the accuracy of the SOGS; specifically its probable over-estimation of 'cases' by a factor of 5.*¹⁴⁰

This empirical finding warranted test-retest validity before being dismissed. Unfortunately, no researcher has chosen to undertake this task. Many researchers who have used SOGS in prevalence studies should have been aware of this finding and in the absence of superior research, should consider themselves bound to employ the more rigorous and accurate 10+ SOGS score (rather than the 5+ SOGS). Arguably, failure to follow this guide reflects chronic publication bias among gambling researchers and seriously compromises their findings.

For the record, as a clinical screener SOGS was initially designed to capture as many potential clients as possible. The SOGS was followed by an in-depth diagnostic interview to assess the client's potential problems and here false positive reports could be identified and appropriately dealt with. In this clinical application of SOGS, false positives are less of

¹³⁵ McMillan, Jan and Michael Wenzel, "Measuring Problem Gambling: An Assessment of Three Prevalence Screens", *International Gambling Studies*, Volume 6, Issue 2, 2006, p.148

¹³⁶ Dickerson, Mark G, E Baron, SM Hong and D Cottrell, "Estimating the Extent and Degree of Gambling Related Problems in the Australian Population", *Journal of Gambling Studies*, Volume 12, 1996, pp.161-178

¹³⁷ Gambino, Blasé, "Interpreting Prevalence Estimates of Pathological Gambling: Implications for Policy", *Journal of Gambling Issues*, Volume 14, September 2005, p.9

¹³⁸ Ladouceur, Robert, C Bouchard, N Rheamume, C Jacques, F Ferland, J Leblond and M Walker, "Is the SOGS and Accurate Measure of Pathological Gambling Among Children, Adolescents and Adults," *Journal of Gambling Studies*, Volume 16, 2000, pp.1-24

¹³⁹ Abbott, Max and Rachel A Volberg, *Taking the Pulse on Gambling and Problem Gambling in New Zealand: A Report on Phase One of the 1999 National Prevalence Survey*, Wellington, New Zealand, Department of Internal Affairs, 2000

¹⁴⁰ Dickerson, Mark, C Allcock, A Blaszczyński, B Nicholls, R Williams, and R Maddern, *An Examination of the Socio-economic Effects of Gambling on Individuals, Families and the Community Including Research into the Costs of Problem Gambling in New South Wales*, report prepared for the Casino Community Benefit Fund, NSW Government, 1996, p.58

an issue than in prevalence studies and the larger number of questions was thought would assist with the diagnosis.¹⁴¹ Lesieur and Blume counsel “wherever possible, this type of cross-checking (interviews with spouses and significant others) should be used to augment the South Oaks Gambling Screen”.¹⁴² There is no cross-checking available in telephone surveys.

Unlike clinical studies, SOGS is not administered by a trained expert in a face to face environment. In contrast, SOGS prevalence studies are administered by call centre staffs who typically receive minimal training (perhaps a two-hour long briefing). Coding or data entry errors are more likely using telephone methodologies, and while a 99 per cent accuracy level is good for most telecentre workers, this level of accuracy has massive implications in SOGS studies approximating 1 per cent. The PC must check the quality assurance record of all call centres which administered prevalence screens to confirm 100 per cent accuracy (which is impossible), or make adjustments to the confidence intervals for these studies.

When SOGS is used in prevalence studies, then the likely false positives typically remain unqualified and distort estimates of gambling prevalence. This is a considerable oversight manifest in most gambling research and results in systematic bias overstating the levels of prevalence using SOGS. In an attempt to remedy this error, in 2004 the GRA recommended tools other than the SOGS be used in gambling prevalence research (though the measures these researchers developed was compromised and has subsequently not been used in later studies).

Further reflecting systematic publication bias, it is interesting to observe that where more than one gambling screen has been applied to a sample, then SOGS typically results in the highest of all gambling scores (for example, Gambling Research Panel 2004). Moreover, the higher SOGS score is typically used to demonstrate prevalence levels.

Another problem with SOGS is that it is claimed that it will not accurately assess problem gambling in large population studies or the Australian context. To this end, McMillan and Wenzel have cited several studies acknowledging the need for dedicated gambling-studies measures for Australia.¹⁴³ Similar rationale was provided in the development of the CPGI (which is acknowledged as culturally in-sensitive).

The best available research indicates SOGS will likely result in false-positives and over state prevalence levels when used as a general population screen. This evidence is inconsistent with comments made that SOGS is likely to under-estimate problem gambling prevalence because people may be reluctant to acknowledge a problem and make themselves look bad to the interviewer¹⁴⁴. Indeed, as explained elsewhere in this report, what the PC were expecting is one form of bias called substantive management bias to dominate other possible distortions. However, this is assumption understates the potential perils of psychometric data collection and is unsupported by theory, experts and empirical evidence.

Inferences from outside SOGS

¹⁴¹ This seems particularly the case as so many of SOGS questions are directed at the source of funds used to gamble.

¹⁴² Lesieur, Henry R and Sheila B Blume, “The South Oaks Gambling Screen (SOGS): A New Instrument for the Identification of Pathological Gamblers”, *American Journal of Psychiatry*, Volume 144, Issue 9, September 1987, p.1187

¹⁴³ McMillan, Jan and Michael Wenzel, “Measuring Problem Gambling: An Assessment of Three Prevalence Screens”, *International Gambling Studies*, Volume 6, Issue 2, 2006, pp.148,186

¹⁴⁴ Comment attributed to G Banks 2002 in a paper presented to the 12th Annual Conference of the National Association of Problem Gambling Studies, Melbourne, p.4 and cited in the Gambling Research Panel, 2003 *Victorian Longitudinal Community Attitudes Survey*, 2004, p.14

All gambling screens are focused on the act of gambling, per se. These screens do not make inferences about any particular or specific forms of gambling, frequencies or expenditure levels.

SOGS and other gambling screens deliberately did not include behavioural (that is, gambling specific) components included as part of the screen. This was a specific feature reflecting the clinical orientation of SOGS. Specific details of particular gambling behaviours typically emerge during the clinical assistance process.

Asking for every piece of gambling information from someone diagnosed with a disorder will likely result in cognitive overload, evasion of facts or the formation of responses that may not reflect the truth. These biases are discussed at length elsewhere in this report.

Any claims pertaining to SOGS or another screen's scores and preferences for a type of game, frequency or other matter are derived from outside the gambling screen. These additional questions have not been validated in any sense, so their accuracy is entirely unproven. Indeed, as identified in the Tasmanian case, the nature of these questions and the order of these questions preceding the SOGS or other screening questions will likely inflate prevalence estimates and taint responses.

No standardised or commonly accepted methods have been developed pertaining to the measurement of games played, frequency, preferences or expenditure. Therefore, different questions are asked in different surveys about these items. This makes any comparison between different surveys inappropriate (as comparisons could be between apples with oranges) unless these measures are empirically tested and show no statistically significant difference in results.

“How much money did you spend on lunch in the last 12 months?”

SOGS, and most other gambling screens, do not measure real behavioural (that is, gambling specific) as part of a validated gambling screen. All inferences from gambling preferences and expenditure are external to the gambling screen.

A critical structural flaw in most gambling studies pertains to asking respondents, often on the telephone and embedded among of dozens of questions, is how much money they spent gambling on particular products in the last twelve months.

To illustrate the difficulties associated with recall over the last 12 months, readers are asked to immediately provide answers to each of the following questions:

- How much money they spent on lunch in the last twelve months;
- How much money they spent on sandwiches at lunch in the last twelve months; and
- To estimate the times they took lunch to work, went to a restaurant, ate rolls or wraps or hamburgers rather than paid money for a sandwich;
- (Further: this is merely one question embedded amongst dozens of others. The respondent has been on the telephone for some time is unsure of how long the interview is really going to take. How does one estimate one's sandwich expenditure in mere seconds?)

Whatever response is given to the questions about lunch expenditure and how much was spent on sandwiches, it will only be a very rough estimate of what was really spent. Similar issues arise with survey questions asking respondents to estimate their gambling expenditure over 12 months, and be product specific.

Most people are poor at estimating numerical information about their lives. Hence surveys should be designed with care taken when offering sets of response categories for questions. Such care needs to be displayed in the survey items relating to gambling behaviours and the time spent actively gambling, so not to influence the answers. Significant effects have been shown by using different response sets,¹⁴⁵ so skewing results is a critical issue that must be managed, and be seen to be managed to avoid inaccuracies in survey research.

Unfortunately, like the lunch example, gambling research is replete with examples of poor questions that typical people will not be able to answer without excessive effort, and they probably do not know the answer anyway. The Tasmanian research included as a case (but not limited to these researchers), as an example:

Q5D AMOUNT SPENT ON PLAYING POKER MACHINES AT PUB ETC
Q5D Approximately how much money were you out of pocket when you finished gambling or did you win on the last occasion you gambled on poker machines at a PUB, CLUB OR HOTEL? By out of pocket, I mean the difference between what you spent and eventually got back at the end? _NOTE: SPECIFY EITHER AMOUNT WON OR AMOUNT LOST – DO NOT INCLUDE DOLLAR SIGNS_
NUM 1-10000
1. I won (specify Q5D01)
2. I lost (specify Q5D02)
3. None

Substantial difficulties and ambiguity exist in this question (and recall respondents are to answer dozens of questions over the telephone.

To start, 5D requires a clarifying statement. Respondents need to be able to interpret what “out of pocket” means.

In the qualifying statement, “out of pocket” is stated to mean “the difference between what you spent and what you got back at the end”.

There is no mention of gambling in the qualifying statement. This omission creates ambiguity and it is possible respondents gave a number of what they thought they spend on the entire occasion (including dinner, drinks etc) and recalled they gambled on a poker machine (and their wins and losses). It is possible respondents won on poker machines but were out of pocket because they ate and drank on the same occasion.

Providing an estimate of what they thought they spent on one occasion would be cognitively easier for most respondents than recalling what they thought they won or lost on poker machines on that last occasion. That is, respondents are more likely to overstate their expenditure on poker machines as they will bundle in the outing’s entire costs to their estimate.

To answer Question 5D, respondents would need to be able to accurately recall:

- How much money they had immediately before they entered a licensed premises (after paying for taxi or other transport costs)
- How much they had when they left the venue
- Thereafter, to determine how much money that they spent on:
 - Alcohol and other drinks (did they purchase drinks or have them purchased for them; if so, how many and how often, what was the price of drinks, et cetera)

¹⁴⁵ Dillman, DA, *Mail and Internet surveys – The tailored design method*, New York, John Wiley & Sons, Inc, 2000, p.30

- Food (dinner, snacks)
- Purchase of cigarettes or cigars, lighters or other goods
- Entertainment (entry to bands, juke boxes, pool tables, video games)
- Charitable donations (such as Salvation Army or raffles)
- Loans to or from friends, whether they spent money on anything else
- Whether they dropped, loaned or lost any money

Furthermore, memory structures are likely to recall our last “big nights out” rather than a few spins of the pokies while at a pub (for example, on the way home). The outcome would lead to overestimation of what was won or lost if respondents extrapolate this sum out over a twelve-month period (assuming they can do such maths in their head while talking on the telephone).

Question 5D is only one example of a poorly designed item that will lead to inaccurate responses in the Tasmania 2008 Survey.

In the case of Question 5D, there will likely be an overestimation of expenditures attributed to poker machine play (and hide other purchases).

In addition, many gambling related questions asked about consumption “*in the last 12 months.*”

For the vast majority of respondents, it is not reasonable to expect them to accurately recall their consumption patterns over this period of time. This is particularly the situation if the consumer’s expenditure pertained to only a small proportion of their overall expenses. Even the most involved consumers will not reasonably be able to recall their expenditures on product categories over the last twelve months.

Shorter periods, such as yesterday or over the last week, as measures are so much more accurate.

In addition to recall effects, gamblers typically consume a range of other products and services (food, coffee, drinks, snacks, music and amusements) during their visit to a club, and most patrons who gamble participate in more than one form of gambling inside the club (including EGMs, raffles, TAB, KENO) and externally (such as lotteries, scratch, TAB, Internet).

For example, a study of excluded gamblers from Missouri identified that 54 per cent of men and 27 per cent of women engaged in mixed forms of play.¹⁴⁶ In Australia, the Gambling Research Panel (Victoria)¹⁴⁷ identified over 65 per cent of regular gamblers take breaks, with the most common reasons including getting a drink (56.9 per cent), eating (26.9 per cent) and smoking (26.9 per cent). With the exception of cigarettes that are portable, eating and drinking in a gambling environment typically means spending money inside a venue. This is supported by other Australian research that shows gamblers typically spend money on a range of products during a visit to a venue.¹⁴⁸

A growing body of literature supports the view that there is serious doubt that self-reported expenditure on gambling products is anywhere near accurate. For example, gamblers in

¹⁴⁶ Nower, Lia and Alex Blaszczynski, “Characteristics and Gender Differences in Casino Self-Excluders,” *Journal of Gambling Studies*, Volume 22, 2006, pp.82-99

¹⁴⁷ Gambling Research Panel, *2003 Victorian Longitudinal Community Attitudes Survey*, 2004, p.20

¹⁴⁸ Miller, Rohan, “Assessing the Impact of Smoking Bans in Hotels, Bars and Taverns: Implications for the Consumption of Smoking, Drinking and Gambling?”, *Marketing and Public Policy Conference proceedings*, Long Beach, California, June 2006

Washington State reported losses two to ten times higher than actual government gambling revenues.¹⁴⁹

A Canadian study reported gambling expenditures to actual revenue varied from a low of 0.77 to a high of 4.2, with an average ratio of 2.1 – that is, self-reported estimates of gambling expenditure were more than double actual receipts.¹⁵⁰ Other studies observe that respondents underestimate their estimates of gambling expenditure.¹⁵¹

In their review of the CPGI, McCready and Adlaf note:

*there is considerable doubt about subjects' ability to accurately recall and estimate gambling frequency, duration and spending....causing a significant number to consider data unreliable.*¹⁵²

McCready and Adlaf further comment that “gamblers have problems remembering the amount spent over any period of time.”¹⁵³

In sum, self-report expenditure is notoriously inaccurate and a poor way of measuring expenditure. In the absence of validating information, the estimates provided in gambling prevalence studies should be disregarded for policy decisions as they are too inaccurate to be meaningful. This is particularly the case for estimates of life-time expenditure and longer term estimates such as a twelve month period.

Conclusions about SOGS

There is consensus among gambling researchers that the SOGS is inappropriate for use in monitoring gambling related behaviours in Australia. SOGS is clearly outdated and acknowledged as generating high levels of error in gambling prevalence studies. It also appears to have been systematically misused by researchers leading to data pollution and invalid conclusions.

It follows that SOGS, due to substantial and documented flaws, is an inappropriate instrument for use in research or to validate other prevalence screens and any scales. Thus, any screen relying on SOGS for validation should be critically examined and subject to logic tests and test-retest review before being included in a meta-analysis. If SOGS scores are to be used in a meta-analysis, the cut-off point must be set at 10+.

This review of SOGS suggests results from the 1999 Productivity Commission report should be used with extreme caution, if at all. The 1999 study should be regarded a learning exercise, and the lessons should be acknowledged. The simple lesson is that SOGS was never an appropriate tool to use as the bases for policy related to gambling, and it is certainly not appropriate to base future policy decisions on SOGS.

¹⁴⁹ Volberg, Rachel A, WL Moore, EM Christiansen, WE Cummings and SM Banks, “Unaffordable Losses: Estimating the Proportion of Gambling Revenues Derived from Problem Gamblers,” *Gaming Law Review*, Volume 2, Issue 4, November 1998, pp.349-360

¹⁵⁰ Williams, Robert J and Robert T Wood, “The Proportion of Gaming Revenue Derived from Problem Gamblers: Examining the Issues in a Canadian Context,” *Analyses of Social Issues and Public Policy*, Volume 4, Issue 1, 2004, pp.33-45

¹⁵¹ Abbott, Max and Rachel A Volberg, *Taking the Pulse on Gambling and Problem Gambling in New Zealand: A Report on Phase One of the 1999 National Prevalence Survey*, Wellington, New Zealand, Department of Internal Affairs, 2000

¹⁵² McCready, John and Edward Adlaf, *Performance Enhancement of the Canadian Problem Gambling Index (CPGI): Report and Recommendations*, Health Horizons Consulting for Canadian Centre on Substance Abuse, 2006, p.8

¹⁵³ Ibid

4.1.3 Adequacy of the Canadian Problem Gambling Index (CPGI)

In ClubsAustralia's view the CPGI is a superior screening instrument to SOGS and is now the preferred screen of state and territory governments. However the CPGI is also an imperfect screening tool that does not accurately determine the level of problem gambling. Notwithstanding these faults (which are discussed in detail below) where CPGI has been used over time for example in Queensland a downward trend is evident.

In relation to the CPGI, Dr Miller's assessment is as follows.

The next generation gambling screen to be used in Australia, the CPGI, although new and developed for prevalence studies, is regarded as materially deficient. It is acknowledged as inappropriate for use in non-English-speaking Canadian culture, and has generally been misapplied in Australian studies.

We are reminded that the CPGI is new and developed for prevalence studies, but as McCready and Adlaf have stated:

*The CPGI is state of the art, but the state of the art is not very good.*¹⁵⁴

McCready and Adlaf further state:

*our understanding of gambling problems is so underdeveloped that no gambling instrument, including the CPGI, can be considered valid. They ask how we can measure something we don't understand.*¹⁵⁵

The suitability of CPGI to Australia

The 31-item CPGI measures have been publicly scrutinized and undergone item, confirmatory and reliability analysis, plus test and retest analysis as part of their development in Canada.

However, it is our belief that no tests confirming the suitability of applying the CPGI to Australia have been undertaken. Thus, although validated, but still debated for use in Canadian conditions, *no reliability or validity testing has occurred in Australia for the CPGI in Australia.*

It is very important that policy makers know the research tools they are using are accurate and suitable for use where they are being applied. Otherwise, the resources used to collect and analyse data, and write reports are all wasted. This also implies policy is not based on evidence.

Unfortunately, the application of the CPGI in Australia has typically not followed the recommended protocols for administering the CPGI. As one example of the misuse of this tool, the 2008 Social and Economic Impact Study into Gambling in Tasmania merely include nine (9) questions from the CPGI rather than the 31 items.

Further in this study, the CPGI questions were not the lead questions in the survey administered.¹⁵⁶ By definition, the CPGI has not been used in this study (although some of the questions may have been used, but under different conditions).

¹⁵⁴ Ibid, p.23

¹⁵⁵ Ibid, p.23

¹⁵⁶ Attitudinal items that seem to ask leading and unobjective questions preceded the CPGI-items, and this would logically have resulted in skewed results to the CPGI questions. It is a classic case of 'what not to do'.

There are considerable conceptual difficulties including measures that have not been validated and proven to be relevant, and have been applied in different ways, in the management of public policy and a meta-analysis. At the least, studies breaching the published protocols implementing the CPGI (including the need to place CPGI items in order and first at the commencement of any data collection) should be disqualified from the PC's meta-analysis and policy recommendations.

CPGI and false positives

It has been reported that Canadian research suggests that the CPGI may give rise to false positives in community samples.¹⁵⁷

With reference to the Tasmanian 2008 study used as a case in this paper, false positives mean prevalence levels would be overstated. This has massive and adverse implications to the confidence policy makers and analysts can derive from the data as problem gambling prevalence information is obtained from only n=22. This supports the earlier argument that confidence intervals and statistical rigour must be used for the results to be respected by all stakeholders for policy, business and social decision making.

Cultural incompatibilities: Australia v Canada

Australia and Canada clearly have different cultural backgrounds. One of the issues concerning the application of the CPGI is the difficulty Ferris and Wynne reported when testing the CPGI measures in another culture (that is, French Canadians compared to Canadians). It was noted there were issues related to "timing" and the topic generally didn't "fly well".¹⁵⁸

The differences between the Canadian and Australian cultures should be specifically discussed when the CPGI is used, and should be taken into account as a potential limitation of the research method in the meta-analysis.

Attempts have been made to assess the CPGI relative to other gambling screens; however, this work is developmental and does not offer suitable justification or sophistication to comment on the CPGI *without* limitations in Australian culture.

We believe that it is in the interest of all stakeholders to provide transparency about the strengths and weaknesses of the measures used.

Research quality

Even if the Productivity Commission is not so much concerned with absolute indicators of the numbers of problem gamblers, rather than affirmation through empirical data that gambling related problems may exist,¹⁵⁹ most gambling studies provide little constructive information suitable for use in meta-analysis.

¹⁵⁷ South Australian Centre for Economic Studies and Department of Psychology, University of Adelaide, *Problem Gambling and Harm: Towards a National Definition*, published by the Office of Gaming and Racing, Victorian Government Department of Justice Melbourne Victoria Australia, November 2005

¹⁵⁸ Ferris, Jackie and Harold Wynne, *The Canadian Problem Gambling Index: Final Report*. Canadian Centre on Substance Abuse, 2001, s2.2.2.2

¹⁵⁹ It is claimed Gary Banks commented "Whether the actual number of problem gamblers equates to 1, 2, or 3 percent of the population... the precise number is a nicety with little bearing on the need for effective policy action" at the National Association for Gambling Studies, November 2002.

Concerns published in the literature

A growing and substantial body of literature has been published raising doubt about the quality of gambling studies. In short, concerns have been documented about:

- The validity and reliability of applying clinical measures outside their intended purpose;^{160,161}
- The low response rates in most surveys;¹⁶²
- A lack of sophistication in the design and analyses of many studies that make inferences about problem gambling from generalized sampling;¹⁶³
- An external validity problem as many problem gambling studies fail to take into account the frequent and significant real-world phenomena of comorbidity;^{164,165}
- Survey fatigue: the Gambling Research panel suggests there is “survey fatigue” in the Victorian population, and this will further undermine how representative the sample is and may suggest acquiescent biases are present in order to “speed-up” lengthy surveys; and
- Inconsistent data: the 1999 Seventh Survey, which reported SOGS 5+ of 0.8 per cent for Victoria, was substantially lower than the Productivity Commission’s Victorian statistic for the same period of 2.14 per cent.

Providing further documentation of flaws, Stucki and Rihs-Middel reviewed 33 prevalence studies between 2000 and 2005 and identified:

- Varying time frames (that is, reported behaviour may be in the gambler’s lifetime, past year, or last month) making comparisons difficult;
- A lack of accessibility of studies which may suggest publication bias;
- Selection bias (as more women are at home);
- Sampling bias in excluding various groups; and
- The redundancy of conventional telephone networks among some people.¹⁶⁶

Another study revealed that Maryland’s gambling study used:

- Incorrect sampling;
- Inferences drawn from small numbers of probable pathological (n=11) and problem gamblers (n=18);
- Flaws with the analytical techniques used; and
- The existence of other potential confounds that may lead to over-estimates of compulsive gambling.¹⁶⁷

Replication of methods does not imply accuracy. In the case of most gambling research, replication implies publication bias and systematic flaws. Flaws in gambling studies are clearly apparent in Australia. These flaws seriously question the plausibility of undertaking a meta-analysis.

¹⁶⁰ Wiebe, J, E Single and A Falkowski-Ham, *Measuring Gambling and Problem Gambling in Ontario*, Responsible Gambling Council, 2001, accessed at <http://www.responsiblegambling.org> 6 August 2007

¹⁶¹ Stinchfield, Randy, “Reliability, Validity and Classification Accuracy of the South Oaks Gambling Screen (SOGS),” *Addictive Behaviors*, Volume 27, 2002, pp.1-19

¹⁶² Abbott, Max, Rachel A Volberg and Sten Ronnberg, “Comparing the New Zealand and Swedish National Surveys of Gambling and Problem Gambling,” *Journal of Gambling Studies*, Volume 20, Fall 2004, pp.237-258

¹⁶³ Ibid

¹⁶⁴ Nathan, Peter E, “Methodological Problems in Research on Treatments for Pathological Gambling,” *Journal of Gambling Studies*, Volume 21, Spring 2005, pp.111-116

¹⁶⁵ Kearney, Margaret (ClubsVic Executive Director), Evidence to the Victorian Parliament’s Legislative Council Select Committee on Gaming Licensing, 11 December 2007, pp.281-302

¹⁶⁶ Stucki, Stephanie and Margret Rihs-Middel, “Prevalence of Adult Problem and Pathological Gambling between 2000 and 2005: An Update,” *Journal of Gambling Studies*, Volume 23, 2007, pp.245-257

¹⁶⁷ Yaffee, Robert A and Robert M Politzer, *A Review of Prevalence Estimates, Report for the Maryland Task Force on Gambling Addiction*, 1990, accessed at http://www.nyu.edu/its/socsci/Docs/task_force_6.html 7 April 2006

4.1.4 Reviewing claims on gambling expenditure

A number of claims have been made about expenditure levels assumed to be drawn from consumers with gambling related issues.^{168,169,170} It is generally known that self-reports of gambling expenditure from clinical gambling screens administered by telephone are unreliable.

The Productivity Commission in 1999 first estimated the level of problem gambling expenditure as a percentage of total gambling revenue. Most recently in the Australian context, Livingstone and Woolley¹⁷¹ claimed that:

*.... on our estimates, problem or at-risk gamblers spent about 53 per cent (AU\$1.3 billion) of the money expended on hotel and club EGMs in 2005–06 in Victoria. The PC's 1999 estimate was that severe and moderate problem gamblers contributed about 33.7 per cent and 8.7 per cent, respectively, of total EGM expenditure—a total of 42.4 per cent.*¹⁷²

These claims have been used to fuel the gambling debate and are examined in detail below by Dr Rohan Miller.

It should be stressed that Livingstone and Woolley did not derive their estimates from any raw data, but from the summary results from the Gambling Research Panel's 2003 study, from which they assume would apply across the entire population.

There are considerable problems with the *2003 Longitudinal Community Attitudes Survey* that invalidate many of the research findings in this report. To merely extrapolate numbers extrapolates the issues inherent in this study. Indeed, even the simple estimate of the number of "gamblers" and "problem gamblers" is too imprecise a number to use as a base for other calculations.

The number of respondents scoring above the cut-off points for each of the gambling screens is not provided by the Gambling Research Panel. This may be because n=68 split three ways leads to very small numbers.

The fractured Victorian sample shows prevalence rates of:

- 0.74 per cent (VGS 21+); to
- 0.97 per cent (CPGI); to
- 1.12 per cent (SOGS 5+).¹⁷³ The highest estimate from SOGS was used by Livingstone & Woolley.

From these percentages, it is *estimated* that the weighted number of respondents for each respective screen above the nominated cut-off point was:

¹⁶⁸ Volberg, Rachel A, WL Moore, EM Christiansen, WE Cummings and SM Banks, "Unaffordable Losses: Estimating the Proportion of Gambling Revenues Derived from Problem Gamblers," *Gaming Law Review*, Volume 2, Issue 4, November 1998, pp.349-360

¹⁶⁹ Grinols, EL and JD Omorov, "Department of Dreamfield Delusions? Assessing Casino Gambling's Costs and Benefits," *Journal of Law and Commerce*, 1996, p.49

¹⁷⁰ Dickerson, Mark G, E Baron, SM Hong and D Cottrell, "Estimating the Extent and Degree of Gambling Related Problems in the Australian Population", *Journal of Gambling Studies*, Volume 12, 1996, p.161

¹⁷¹ C. Livingstone and R. Woolley, "Risky Business: A Few Provocations on the Regulation of Electronic Gaming Machines," *International Gambling Studies*, Volume 7, Issue 3, December 2007, pp.361-367, at p.365

¹⁷² *Ibid*, p.365

¹⁷³ Gambling Research Panel, *2003 Victorian Longitudinal Community Attitudes Survey*, conducted by The Centre for Gambling Research, Australian National University, 2004, p.87

- VGS: n=18;
- CPGI: n= 23;
- SOGS: n= 27.

Thus, the estimates used by Livingstone and Woolley are based on n=27.

All survey data-collection is imprecise and comes with a level of error. The Gambling Research Panel does comment that:

Because statistical power can be increased by increasing sample size, we recommend that future studies obtain data from a larger sample particularly concerning problem gamblers.¹⁷⁴

This is an acknowledgement that the statistical power in each of the gambling screens is too low for meaningful inferences to be drawn from the data.

The relevant database could not be obtained for analysis.

The Gambling Research Panel's 2003 study states multiple and conflicting methods of sampling were used. In one part the GRP claims to use a "random sample of responses from 8,479 Victorian residents".¹⁷⁵ This is an incorrect claim.

The GRP really employs a "selected sample approach" whereby "regular gamblers were over-sampled providing reasonable numbers for analysis purposes.....at the same time selecting only a proportion of non-gamblers [1 in 3] and non-regular gamblers [1 in 6]."¹⁷⁶

This selected sampling technique will result in unspecified or unknown levels of error if the results are extracted as proportional to the population. According to the ABS,¹⁷⁷

Non-random sampling is useful when descriptive comments about the sample itself are desired. However, it can be difficult to draw conclusions about the population based on information derived from a sample, as samples are often unrepresentative of the population.

Reviewing claims by Livingstone and Woolley

With reference to the Gambling Research Panel's 2003 Longitudinal Community Attitudes Survey, Livingstone and Woolley claim that:

According to a 2003 survey, about 1,259,000 people, 33.5 per cent of Victorian adults used EGMs at least once in that year with 1.12 per cent of all adults estimated to be problem gamblers and another 1 per cent borderline or at-risk of gambling problems (CGR, 2004, pp. 11–12; Australian Bureau of Statistics (ABS), 2006, Table 2). Sample Size: n=27 (estimated)

¹⁷⁴ Ibid, p.173

¹⁷⁵ Ibid, p.167

¹⁷⁶ Ibid; numbers in italics added, but drawn from p.168

¹⁷⁷ Australian Bureau of Statistics, "Education Services - Statistics - A Powerful Edge - Sampling Methods - Non-Random Sampling", accessed 13 February 2009, <http://www.abs.gov.au/websitedbs/d3310116.NSF/4a255eef008309e44a255eef00061e57/a9a3a3d8155170954a2567ac002161a6!OpenDocument>

Multiple problem gambling screens were administered to “regular gamblers”, a group defined as “regular gamblers were defined as those who gamble weekly on forms of gambling other than lotteries”.

Without any explanation or rationale, Livingstone and Woolley selected the SOGS 5+ level. There were n=27 respondents in above SOGS5+ to this series of questions. This provides too little statistical power to have any confidence in the results.

Why not the use the CPGI or the VGS?

It is possible that the SOGS was chosen, regardless of the known errors and false positives, because it presented the highest estimates of gambling related problems.

It must be reiterated that SOGS provides an estimate only, and is likely to be very inaccurate. If estimates from the VGS were used, then levels of problem gambling drop by approximately 35%. This has massive implications on the rest of the equation.

The SOGS estimate was drawn from approximately n=27 in only one state. This is too low a number to extrapolate in blanket statements and suggest this as an absolute fact. *The need for statistical power is often disregarded in making assertions related to gambling.*

“At-risk”

The manner in which the Gambling Research Panel addresses the concept of “at risk” is entirely unsatisfactory. Our readings of the GRP’s report did not reveal from which screen(s) the “at risk” category is drawn.

This total lack of disclosure is unacceptable and provides the reader with no information about which screen generated most or any “at risk” data.

Further, it is apparent that the prevalence screens are too imprecise to measure “at risk” and as pathological progression has not been proven to exist in any empirical study, this construct is doubtful.

Without knowing how the “at risk” category was determined, it is inadvisable to compare the GRP’s data with that from Caraniche¹⁷⁸ – as apples and oranges may be compared. To this end, we note the GRP’s warning that was not heeded by Livingstone and Woolley:

The survey methodology utilised in this particular study differs in a number of ways from previous Victorian community attitude surveys. Thus direct comparability is problematic. Caution is advised when comparing the results of these different surveys.

Opportunistic Data

Sampling for the Carraniche study was described by the researchers as “opportunistic, particularly in relation to the sample of EGM players”.

¹⁷⁸ Caraniche Pty Ltd, *Evaluation of Electronic Gaming Machines Harm Minimisation Measures in Victoria*, Community Support Fund, Victorian Government, 2005

It is inappropriate to extrapolate data from such a convenience sample to a general population

Unfortunately, there are no appendices in the Caraniche document made available for the public. This makes it impossible to review the measures pertaining to “spend” and “visits per week”.

The “favourite” construct does not exist

In our opinion, one example where the GRP is incorrect and creates misleading impressions is in its statement that:

Playing EGMs/pokies was the favourite type of gambling among problem gamblers (84.2 per cent) (emphasis added)

There is no question to measure “favourite” form of gambling in the GRP’s survey instrument. Instead, without any rationale or discussion, the GRP assume a definition for the construct of “favourite” from the question, “On which gambling activity have you spent the most money overall in the last 12 months?”¹⁷⁹

A common usage of the term “favourite” is typically *liked or preferred above all others*. This misuse of the term “favourite” is either deliberate in order to mislead readers or reflects the imprecise reporting.

It is entirely possible and feasible for respondents to spend more money in one or two days playing EGMs (for example, a weekend away) without EGMs being the respondent’s favourite form of gambling. Moreover, this expenditure only had to occur on one occasion.

In context with Livingstone and Woolley’s claims, the GRP’s Victorian research presents no data indicating frequency of purchase, or “mostly gamble”. It is not possible to “extrapolate” from data that was not collected.

Further, Livingstone and Woolley make a claim that “as gambling increases so does the incidence of harm”.¹⁸⁰

Our modelling of the Productivity Commission’s dataset, using ordinal logistic regression of EGM frequency and cut-off points defined by Winters, Stinchfield and Kim,¹⁸¹ shows that the effect of increasing EGM play frequency is not statistically significant to levels of gambling.

What does “spend” mean to gamblers?

As pointed out by Blaszczynski¹⁸² and others, “How much do you spend gambling?” is an ambiguous question with multiple and different meanings. For instance, spend could mean: stake, net losses, outlays, average bet and so forth. Blaszczynski et al’s study showed that in the absence of instructions on estimating “expenditure”, half the sample uses net

¹⁷⁹ Gambling Research Panel, *2003 Victorian Longitudinal Community Attitudes Survey*, conducted by The Centre for Gambling Research, Australian National University, 2004, pp.91, 92

¹⁸⁰ Livingstone, Charles and Richard Woolley, “Risky Business: A Few Provocations on the Regulation of Electronic Gaming Machines,” *International Gambling Studies*, Volume 7, Issue 3, December 2007, pp.361-367, at p.364

¹⁸¹ Winters, Ken C, Randy D Stinchfield and Leigh G Kim, “Monitoring Adolescent Gambling in Minnesota”, *Journal of Gambling Studies*, Volume 11, Issue 2, Summer 1995, p.176

¹⁸² Blaszczynski, Alex, Robert Ladouceur, Annie Goulet and Cathy Savard, “How Much Do you Spend Gambling?: Ambiguities in Questionnaire Items Assessing Expenditure,” *International Gambling Studies*, Volume 6, Issue 2, 2006, pp.123-128

expenditure and the remainder uses turnover. This finding is supported by other research that shows self-reported gaming expenditures are 2.1 times higher than actual revenues.¹⁸³ So “spend” is an ambiguous construct that means different things to different people.

The GRP determine “favourite” can be defined as the gambling activity respondents said they “spent” most money on in the last 12 months”.¹⁸⁴

The GRP misuse the concept “spend” as “the proportion of problem gamblers who prefer EGMs” in the Table, “Favourite of types of gambling among problem gamblers”.¹⁸⁵

Not only does the definition of “spend” mean different things in this study, there are two sets of numbers for this “spend” construct.

First, Livingstone and Woolley claim that “In Victoria, 85.1 per cent of problem gamblers mostly gamble using EGMs (CGR, 2004, page 97).”

However, according to the GRP’s Table 58, the appropriate statistic is 84.2 per cent:

... Favourite of types of gambling among problem gamblers

Gambling activity

| | |
|---|-------|
| Playing poker machines or gaming machines | 84.2% |
| Betting on horse or greyhound races/Betting on a sporting event | 8.8% |
| Playing table games at Crown Casino | 5.1% |
| Other | 1.8% |

Source: QM1. All problem gamblers. Weighted n = 68.

Further, with reference to “spend”, page 24 of the GRP 2003 Report contains estimates of 84.2 per cent. In addition, the authors also add 27.8 per cent as the proportion of problem gamblers who prefer EGMs:

Playing EGMs/pokies was the favourite type of gambling for 84.2 per cent of problem gamblers identified by the three screens. The proportion of problem gamblers who prefer EGMs (27.8 per cent) is substantially higher than the average for all forms of gambling (15 per cent).

The implication of the ambiguity and misuse of the concept “spend” to mean favourite (a concept not asked about), is that Livingstone and Woolley’s claim is necessarily invalidated.

Funny business, risky maths

Table 1 in *Risky Business* provides four CPGI categories. However, Woolley and Livingstone do not extrapolate out the non-risk gambler expenditure in the same manner as they did with other gamblers.

Rather, Livingstone and Woolley simply multiply out the estimated weekly expenditures (\$449) for problem gamblers from the SOGS screen from the 2003 Survey, which was 1.12 per cent. This generates what Livingstone and Woolley claim is about \$876 million (although our multiplication is \$873.2 million; there may be a rounding error).

¹⁸³ Williams, Robert J and Robert T Wood, “The Proportion of Gaming Revenue Derived from Problem Gamblers: Examining the Issues in a Canadian Context,” *Analyses of Social Issues and Public Policy*, Volume 4, Issue 1, 2004, pp.33-45

¹⁸⁴ Gambling Research Panel, *2003 Victorian Longitudinal Community Attitudes Survey*, conducted by The Centre for Gambling Research, Australian National University, 2004, p.98

¹⁸⁵ Ibid, p.92

To calculate “at risk” Livingstone and Woolley again take estimates from the 2003 Victorian study at approximately 1 per cent and multiply 33,400 by \$256, and arrive at \$876 million (although it is not clear whether “low risk” is included in that 1 per cent and why \$256 was chosen.).

The calculation Livingstone and Woolley omit to make is for the non-problem category. From Livingstone and Woolley’s data, they estimate there are 1,259,000 Victorian adults who used EGMs at least once in a year. If we deduct 70,800 (37,400+33,400) we estimate there are 1,188,200 non-problem EGM gamblers, each spending \$71 weekly. If we multiply the estimated non-problem EGM gamblers by their estimated average weekly spend over a year we get \$ 4,386.8 million.

Based on the Livingstone and Woolley’s logic, Victoria’s EGM gambling consumption was \$4,386 million + \$446 million + \$876 million, which aggregates to \$5,708 million.

However, Livingstone and Woolley claim Victoria’s revenue from EGMs for that period of time is only \$2,470 million.¹⁸⁶ There is an apparent error in the vicinity of \$3,238 million.

These calculations would suggest that the combination of the Caraniche self-report estimates of gambling expenditure, together with the prevalence statistics from the GRP and Livingstone and Woolley maths, overstate actual gambling expenses by 2.31 times. This finding is consistent with other research that shows self-reported gaming expenditures are 2.1 times higher than actual revenues.¹⁸⁷

To review the self-report estimate of the proportion of “problem gamblers” and “at risk” gamblers against the total self-report, we find approximately these groups may contribute to 23.1 per cent of all gambling revenues. However, even this estimate is highly doubtful.

Depending on how much you stretch the assumptions, this self-report data may suggest that the proportion of gambling expenditure by at-risk and problem gamblers has declined since the 1999 Productivity Commission Inquiry. This is consistent with the overall trends in problem gambling levels.

4.2 PROFILE AND PREVALENCE OF PROBLEM GAMBLERS

PC: What changes have occurred to the incidence, prevalence and profile of problem gamblers once account is taken of the potentially different thresholds used to define problem gambling? What has happened to ‘at risk’ groups’?

4.2.1 Incidence of problem gambling reducing

Clubs are committed to minimising the incidence of problem gambling, and the latest empirical data shows that the incidence of problem gambling has reduced since 1999. Clubs have contributed to this result through the implementation of responsible gambling programs.

¹⁸⁶ Livingstone, Charles and Richard Woolley, “Risky Business: A Few Provocations on the Regulation of Electronic Gaming Machines,” *International Gambling Studies*, Volume 7, Issue 3, December 2007, pp.361-367, at p.365

¹⁸⁷ Williams, Robert J and Robert T Wood, “The Proportion of Gaming Revenue Derived from Problem Gamblers: Examining the Issues in a Canadian Context,” *Analyses of Social Issues and Public Policy*, Volume 4, Issue 1, 2004, pp.33-45

4.2.2 Prevalence trends from Australian States

Since 1994 various State and Territory jurisdictions have commissioned 23 prevalence research studies, not including the national 1999 Productivity Commission. As illustrated in Figure 4.1, the overall trend in the identification of respondents who reported a 5+ SOGS and/or 8+ CPGI is declining over time.

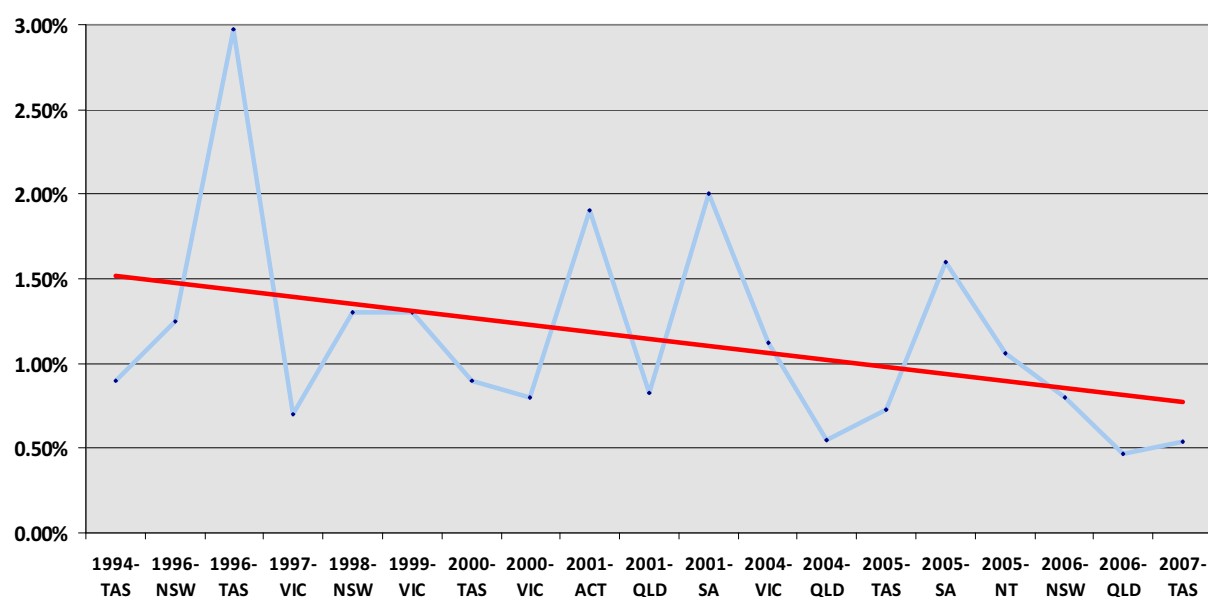
This trend is particularly interesting in Queensland, the one State which still shows real increases in per-capita EGM expenditure.

Queensland has conducted three studies since the introduction of EGMs. Queensland's research utilises the largest sample sizes (2001: 16,000, 2004: 30,000 and 2006: 29,923) and this reveals a reduction in gambling prevalence to 0.47 per cent or 141 respondents in 2006.

In contrast, the highest prevalence score reported was 2.97 per cent in Tasmania in 1996 before EGMs were introduced into clubs and pubs.

The red line in Figure 4.1 shows the trend line for prevalence studies over time.

Figure 4.1: Percentage of respondents +5 SOGS and +8 CPGI Australia as reported in State and Territory studies, 1994–2006



Sources: Survey and the Nature and Extent of Gambling and Problem Gambling in the ACT 2001; Study 2 - 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; A repeat of Study 2 - 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; Prevalence of Gambling and Problem Gambling in NSW - a Community Survey 2006; Northern Territory Gambling Prevalence Study 2005; Queensland Household Gambling Survey 200; Queensland Household Gambling Survey 2003-04; Queensland Household Gambling Survey 2006-07; Gambling Prevalence Study in South Australia 2001; Gambling Prevalence Study in South Australia 2005; Social and Economic Impact Study into Gambling in Tasmania 1994; Social and Economic Impact Study into Gambling in Tasmania 2000; Social and Economic Impact Study into Gambling in Tasmania 2005; Fifth Survey of Community.

4.2.3 The NSW experience

In 2006, the NSW Minister for Gaming and Racing released a major study revealing a significant trend toward a lower rate of problem gambling in that State. The study, *Prevalence of Gambling and Problem Gambling in NSW: A Community Survey*, was

conducted by ACNielsen with a sample of over 5,000 people. It is the largest such study ever commissioned in NSW.¹⁸⁸

The report shows the rate of problem gambling in NSW is 0.8 per cent of the adult population and is confirmation of a significant downward trend in the incidence of problem gambling in NSW, when compared to the prevalence rate of 2.55 per cent measured using SOGS by the Productivity Commission in 1999. This result is also consistent with downward trends exhibited in other States, such as Queensland and South Australia.

Importantly, the evidence shows there is *not* a direct correlation between the growth of gaming revenue and the incidence of problem gambling. In the right policy environment, it is possible to grow gaming revenues without increasing social harm.

4.2.4 Increased gambling spend does not mean increased gambling problems: The Queensland experience

The nexus between increased gaming machine revenue and problem gambling assumed by some is not true – that is, increased spending does not mean more problem gamblers.

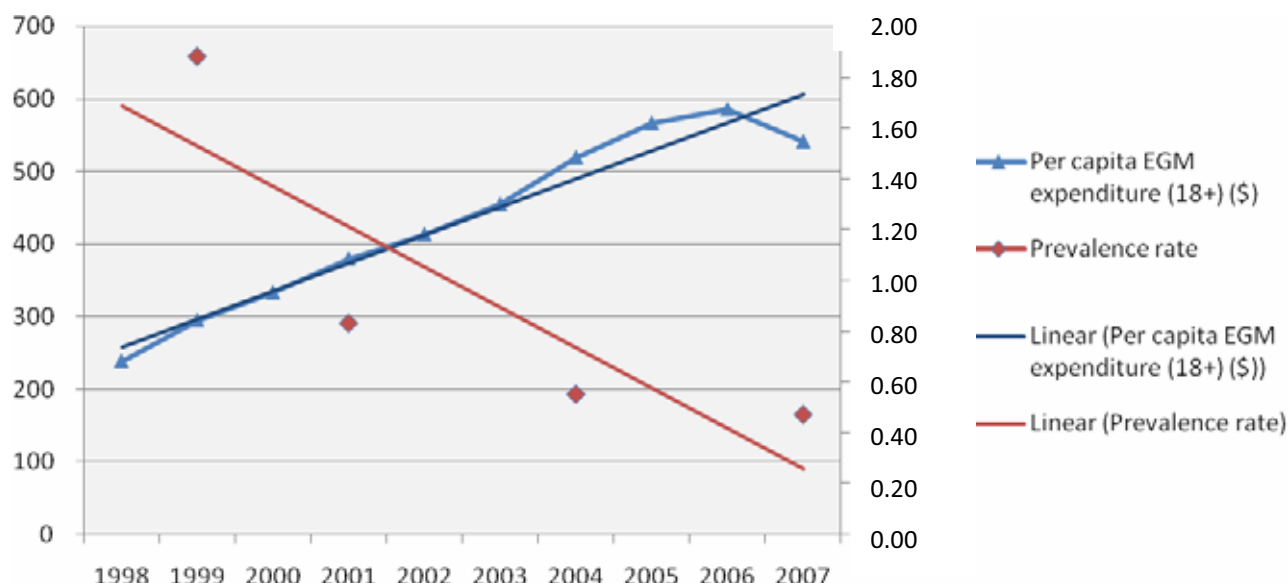
This has been demonstrated in Queensland, which has the most appropriate longitudinal data set for assessing the incidence rate of problem gambling. Using the same measuring instrument (CPGI), the rate has dropped from 0.83 per cent in 2001 to 0.55 per cent in 2003 to 0.47 per cent in 2006 (the Productivity Commission 1999 estimate using SOGS 5+ was 1.88 per cent).

Since 2001, Queensland gaming machine revenue in clubs and hotels grew from \$1,014 million (2001) to \$1,676.8 million (2007) – an increase of 65.4 per cent. At the same time the adult population grew from 2.67 million to 3.1 million – an increase of 16 per cent between 2001 and 2007.

In summary, per capita (adult 18+) expenditure on gaming machines increased from \$330 to \$541 between 2001 and 2007 (a rise of 42 per cent) – but the rate of problem gambling has decreased over the same period from 0.83 per cent to 0.47 per cent – an effective reduction of 46 per cent in the rate of problem gambling. This is shown in stark relief in Figure 4.2.

¹⁸⁸ ACNielsen, *Prevalence of Gambling and Problem Gambling in NSW: A Community Survey 2006*, March 2007, accessible at www.olgr.nsw.gov.au/pdfs/rr_prevalence_gambling.pdf

Figure 4.2: Gaming machine expenditure (\$m) vs prevalence rates (%), Queensland 1998-2007



Source: Australian Gambling Statistics 2005/6, ABS, Queensland OLGR, Queensland Household Gambling Surveys 2003/4 & 2006/7, PC 1999 Report, ClubsNSW

There is no reason to suggest that this is not the same in other States and Territories, where the incidence rate is trending down while per capita expenditure on gaming machines has generally increased.

4.2.5 Trends from international prevalence studies

As outlined earlier in the discussion on causality, international gambling studies have reviewed changes in problem gambling from two sampling snapshots (rather than any sort of panel data). In general, these studies produce findings that dissent from the dominant assumption that more EGMs (or gambling products) will lead to higher scores on gambling screens.

The trends over time show strong declines in prevalence scores.

For instance, there was an increase the amount of gambling in Louisiana between 1995 and 1998, but that the prevalence of gambling-related problems declined.¹⁸⁹ The University of Windsor's Problem Gambling Research Group found that although there was a growing availability and acceptance of gambling activities in the Windsor area between 1993 and 1999 that "the risk of developing a gambling related problem has not changed significantly".¹⁹⁰ Other prevalence studies in Minnesota,¹⁹¹ South Dakota,¹⁹² Texas¹⁹³ and

¹⁸⁹ Volberg, Rachel and WL Moore, *Gambling and Problem Gambling in Washington State: A Six-Year Replication Study, 1992 to 1998*, Olympia, WA: Washington State Lottery, 1999

¹⁹⁰ Frisch, G Ron, Media release, "Community Impact of Increased Gambling Availability on Adult Gamblers - A Four Year Follow-up", 4 March 1999, accessed at <http://web2.uwindsor.ca/pgrg/fyear.htm> 24 September 2005

¹⁹¹ Emerson, Michael O and J Clark Laundergan, "Gambling and Problem Gambling among Adult Minnesotans: Changes 1990 to 1994," *Journal of Gambling Studies*, Volume 12, Fall 1996, pp.291-304

¹⁹² Volberg, Rachel and Randall M Stuefen, *Gambling and Problem Gambling in South Dakota: A Follow-up Survey*. Vermillion, SD: Business Research Bureau, University of South Dakota, March 1994

¹⁹³ Texas Commission on Alcohol and Drug Abuse, *Gambling in Texas: 1995 Surveys of Adult and Adolescent Gambling Behavior*, Austin TX, 1996

New Zealand¹⁹⁴ similarly report stable rates of pathological gambling over time regardless of large increases in the availability of gambling products in their jurisdictions.

This demonstrates that the trends from Australia that show a decline in the average scores reported from the prevalence gambling screens are not unusual. Rather, the Australian trends are consistent with evidence from other markets that have undertaken at least one follow-up survey. Moreover, they provide generalised support that there does not seem to be any relationship between product availability and gambling prevalence over time.

4.3 CHANGES IN PROBLEM GAMBLING TRENDS

PC: Have new groups of problem gamblers emerged? Have problem gambler spending patterns changed? What factors are likely to have affected problem gambling prevalence?

ClubsAustralia believes the key trend in the characterisation and prevalence of problem gambling is the boon in online and mobile gambling offerings. There is clear evidence that the growth in internet and mobile gambling has seen the birth of a new breed of problem gambler; moreover, those who already had problems have been presented with another, far less regulated outlet.

We believe there are more problem gamblers online than in land-based providers of gambling, and online gambling has the potential to cause far greater (unchecked) harm than traditional products. This is unsurprising, as effective regulation and taxation of internet and wireless gaming worldwide can be regarded as relatively non-existent in comparison to the established forms of land-based gaming in Australia.

Further detailed discussion of the types of people who are vulnerable to the new mobile gambling technologies, the ways in which online purveyors target those at risk, and ClubsAustralia's recommendations to address the problem, can be found in Chapter 1.

4.4 OTHER SURVEYS ON PREVALENCE AND PROFILES

PC: What other Australian or overseas surveys of problem gambling prevalence and profiles have occurred since 1999? How robust are the results?

Below at Figure 4.3 is an overview compiled by Dr Rohan Miller of prevalence studies conducted in Australia, the majority of which took place after 1999. As outlined elsewhere in this submission, many of these studies are based on flawed methodology.

¹⁹⁴ Abbott, Max, *Problem and Non-problem Gamblers in New Zealand: A Report on Phase Two of the 1999 National Prevalence Survey. Report Number Six of the New Zealand Gaming Survey*, Wellington, New Zealand: Department of Internal Affairs, 2001

Figure 4.3: Overview of past prevalence studies

| Name of Study | Year | Commissioned by | Screening Tool | Researchers | Survey Instrument | Actual Sample | Prevalence | Total EGM expenditure (in Millions) | EGMs | Regular Gamblers | Non Regular Gamblers | Problem Gamblers <5 <8 |
|---|------|--|--|---|---|---------------|------------|-------------------------------------|-------|------------------|----------------------|------------------------|
| ACT | | | | | | | | | | | | |
| Survey and the Nature and Extent of Gambling and Problem Gambling in the ACT | 2001 | The ACT Gambling and Racing Commission | South Oaks Gambling Screen (SOGS) | Australian Institute for Gambling Research | questionnaire | 2,011 | 1.90% | 192,306 | 38.1% | 432 | 851 | 38 |
| New South Wales | | | | | | | | | | | | |
| Study 2 - 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 | 1996 | The Casino Community Development Fund | South Oaks Gambling Screen (SOGS) | Australian Institute for Gambling Research | Questionnaire (not provided) 12 SOGS questions | 1,390 | 1.25% | 3,062.35 | | 525 | 588 | 82 |
| A repeat of Study 2 - 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 | 1998 | The Casino Community Development Fund | | | Questionnaire (not provided) 13SOGS questions | 1,209 | 1.30% | 3,769.60 | 34.0% | 459 | 423 | 30 |
| Prevalence of Gambling and Problem Gambling in NSW - a Community Survey 2006 | 2006 | NSW Office of Liquor, Gaming and Racing, Department of the Arts, Sports and Recreation | Canadian Problem Gambling Index (CPGI) | AC Neilson | 96-item questionnaire | 5,026 | 0.80% | 5,023.55 | 31.0% | 324 | 802 | 111 |
| Northern Territory | | | | | | | | | | | | |
| Northern Territory Gambling Prevalence Study | 2005 | Community Benefit Fund | Canadian Problem Gambling Index (CPGI) and South Oaks Gambling Screen (SOGS) | Charles Darwin University | 20-item SOGS and 9-item (CPGI) | 1,873 | 1.05% | 191,105 | 27.0% | 369 | 1217 | 54 |
| Queensland | | | | | | | | | | | | |
| Queensland Household Gambling Survey 2001 | 2001 | Queensland Department of Treasury and Department of Corrective Services | Canadian Problem Gambling Index (CPGI) | Office of the Government Statistician | 115-item questionnaire | 16,537 | 0.83% | 2,714.66 | 48.0% | 1475 | 12072 | 137 |
| Queensland Household Gambling Survey 2003-04 | 2004 | Queensland Treasury | Canadian Problem Gambling Index (CPGI) | Office of the Government Statistician | 115-item questionnaire | 30,000 | 0.55% | 2,421.89 | 32.2% | 2190 | 21600 | 165 |
| Queensland Household Gambling Survey 2006-07 | 2006 | Queensland Treasury | Canadian Problem Gambling Index (CPGI) | Office of the Government Statistician | 122-item questionnaire | 29,923 | 0.47% | 2,472.45 | 30.0% | 2250 | 20190 | 141 |
| South Australia | | | | | | | | | | | | |
| Gambling Prevalence Study in South Australia | 2001 | Department of Families and Communities and South Australian Independent Gaming Authority | South Oaks Gambling Screen (SOGS) | Population Research and Outcome Studies Unit of the South Australian Department of Health | 142-item questionnaire | 6,045 | 2.00% | 623.545 | 36.4% | 333 | 4117 | 120 |
| Gambling Prevalence Study in South Australia | 2005 | Department of Families and Communities and South Australian Independent Gaming Authority | Canadian Problem Gambling Index (CPGI) | Population Research and Outcome Studies Unit of the South Australian Department of Health | 142-item questionnaire | 17,140 | 1.60% | 773.215 | 30.2% | 2486 | 9310 | 67 |
| Tasmania | | | | | | | | | | | | |
| Social and Economic Impact Study into Gambling in Tasmania | 1994 | Tasmania Department of Health and Human Services | South Oaks Gambling Screen (SOGS) | Australian Institute of Gambling Research and Roy Morgan | questionnaire | 1,220 | 0.90% | 0 | 27.0% | 295 | 878 | 11 |
| Social and Economic Impact Study into Gambling in Tasmania | 1996 | Tasmania Department of Health and Human Services | South Oaks Gambling Screen (SOGS) | Australian Institute of Gambling Research and Roy Morgan | questionnaire | 1,211 | 2.97% | 0 | 32.0% | 192 | 1078 | 36 |
| Social and Economic Impact Study into Gambling in Tasmania | 2000 | Tasmania Department of Health and Human Services | South Oaks Gambling Screen (SOGS) | Roy Morgan | questionnaire | 1,233 | 0.90% | 73.892 | 27.0% | 313 | 1012 | 11 |
| Social and Economic Impact Study into Gambling in Tasmania | 2005 | Tasmania Department of Health and Human Services | Canadian Problem Gambling Index (CPGI) and South Oaks Gambling Screen (SOGS) | Roy Morgan | questionnaire | 6,048 | 0.73% | 129.735 | 29.0% | 328 | 3479 | 42 |
| Social and Economic Impact Study into Gambling in Tasmania | 2007 | Tas Department of Treasury and Finance | Canadian Problem Gambling Index (CPGI) | South Australian Centre for Economic Studies | 120-questionnaire | 4,051 | 0.54% | n/a | 28.5% | 304 | 2904 | 22 |
| Victoria | | | | | | | | | | | | |
| Survey of Community Gambling Patterns | 1992 | Victorian Gaming Authority | none used | | Not provided | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Second Survey of Community Gambling Patterns | 1994 | Victorian Gaming Authority | none used | | Not provided | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Third Survey of Community Gambling Patterns | 1995 | Victorian Casino and Gaming Authority | none used | | Not provided | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Fourth Survey of Community Gambling Patterns | 1996 | Victorian Casino and Gaming Authority | none used | | Not provided | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Fifth Survey of Community Gambling Patterns and Perceptions Combined With Second Positive And Negative Perceptions Of Gambling Survey | 1997 | Victorian Casino and Gaming Authority | South Oaks Gambling Screen (SOGS) | Market Solutions | 51-item questionnaire | 1,712 | 0.70% | 1,835.56 | | | 1473 | 11 |
| Sixth Survey of Community Gambling Patterns and Perceptions | 1999 | Victorian Casino and Gaming Authority | South Oaks Gambling Screen (SOGS) | Roy Morgan | 51-item questionnaire | 1,737 | 1.30% | 2,432.61 | 30.0% | 225 | 1083 | 26 |
| Seventh Survey of Community Gambling Patterns and Perceptions | 2000 | Victorian Casino and Gaming Authority | South Oaks Gambling Screen (SOGS) | Roy Morgan | 51-item questionnaire | 1,760 | 0.80% | 2,639.13 | | 209 | 1212 | 12 |
| 2003 Victorian Longitudinal Community Attitude Survey | 2004 | Victorian Government and Community Support Fund | VGS | The Centre for Gambling Research, Australian National University | 21 - item questionnaire | 1,758 | 1.12% | 2,421.89 | 33.5% | 433 | 717 | 68 |

Chapter 5: Economic contribution of clubs

TERM OF REFERENCE:

The economic impacts of the gambling industries, including industry size, growth, employment, organisation and interrelationships with other industries such as tourism, leisure, other entertainment and retailing

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

PC: Have the nature and extent of impacts from gambling on the gambling industries, other industries, gamblers and the wider community changed since 1999? In what way? What factors have contributed to any changes? For example, have measures introduced by governments to address problem gambling and those at risk of problem gambling reduced the extent of social costs of gambling?

5.1 ECONOMIC IMPACT OF THE CLUB MOVEMENT

Clubs play a significant role in Australian economic life. Clubs are important engines of economic activity and job creation, generating significant economic flow-on benefits and acting as catalysts for economic growth especially in regional areas (e.g. tourism).

The larger clubs, with annual gaming revenue exceeding \$1 million, are mainly responsible for this economic activity, employing 72 per cent of club workers, generating 97 per cent of total gaming machine revenues (and the same share of total gaming tax) and contributing 88 per cent of total capital works spend.

Clubs, especially in regional areas where banks, post offices and other institutions have withdrawn services, remain significant employers and contributors to local economic activity. Indeed, in many regional and suburban areas, local clubs are among the largest employers.

The Australian Bureau of Statistics Report 8687.0 – *Clubs, Pubs, Taverns and Bars, Australia 2004/05* found that the total industry value added by the nation's 2,116 'hospitality' clubs was \$4,086.1 million, which is the equivalent of 0.5 per cent of Australia's gross domestic product for 2004/05. As outlined in Chapter 2, this figure represents only part of the club industry and thus is a significant underestimation of the Club Movement's full contribution. Hospitality clubs are defined as those which provide drinking facilities, meals, gambling and other hospitality services; this excludes clubs whose main purpose is providing sporting services.

However, in the absence of other nationwide figures it goes some way to demonstrating the importance of the industry. Throughout this chapter, ClubsAustralia presents the ABS data, followed by the available State and Territory data obtained from various Socio-Economic Impact Studies.

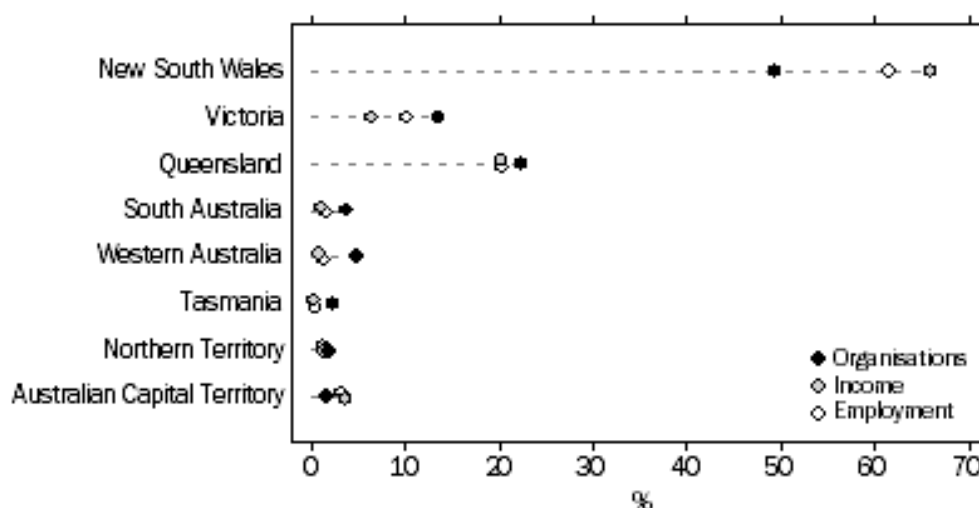
5.2 INDUSTRY CHARACTERISTICS

The ABS found that the majority (59.2 per cent or 1,252) of hospitality club organisations employed fewer than 20 persons. These small organisations accounted for 18.7 per cent of total employment in hospitality club services, 30.6 per cent of income from sales of liquor and other beverages, 10.9 per cent of gambling income and 16.3 per cent of total income.

In comparison, there were 120 organisations (or 5.8 per cent) which recorded employment of 100 or more persons. These large organisations accounted for 34.4 per cent of total employment in hospitality clubs, 24.3 per cent of income generated from sales of liquor and other beverages, 47.3 per cent of gambling income and 40.2 per cent of total income. In other words, the size of gaming revenue is generally in proportion to the size of a club's income, expenditure on sales and liquor and ability to generate employment. The 'multiplier effect' of gaming in clubs, as will be shown in greater detail, is significant and facilitates disproportionately large social and economic dividends.

New South Wales accounted for just under half of all hospitality clubs (49.4 per cent), while Queensland accounted for 22.4 per cent and Victoria accounted for 13.5 per cent. However, NSW accounted for two-thirds of all income (65.9 per cent), while Queensland accounted for 20.3 per cent and Victoria 6.5 per cent.

Figure 5.1 State and Territory comparisons, all organisations



(a) As a percentage of total for each state/territory.

Source: ABS 2005 Report 8687.0 - *Clubs, Pubs, Taverns and Bars, Australia 2004/05*

Employment in New South Wales comprised 61.5 per cent of all employment, while Queensland had 20.4 per cent of all employment. Victoria had 10.2 per cent of all employment.

5.3 REVENUE

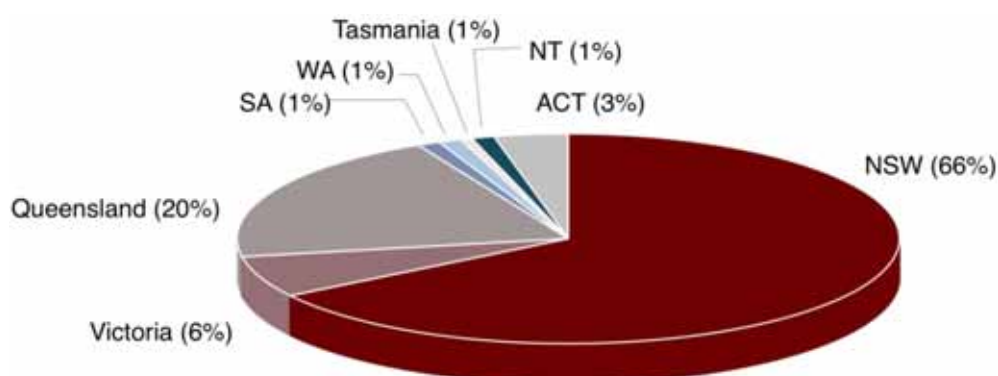
(a) National ABS data

According to the ABS, during 2004/05, income generated by hospitality clubs was \$7,374.7 million, which represented an average of \$3.5 million per organisation. (It should be noted that income in 2004/05 excluded GST paid by consumers to hospitality clubs.)

The figure below shows the division of income between jurisdictions. It is relevant to note the extent to which Western Australia has little income, relative to the number of clubs in that

jurisdiction, as opposed to New South Wales. The key reason for this difference is Western Australia's absence of gaming.

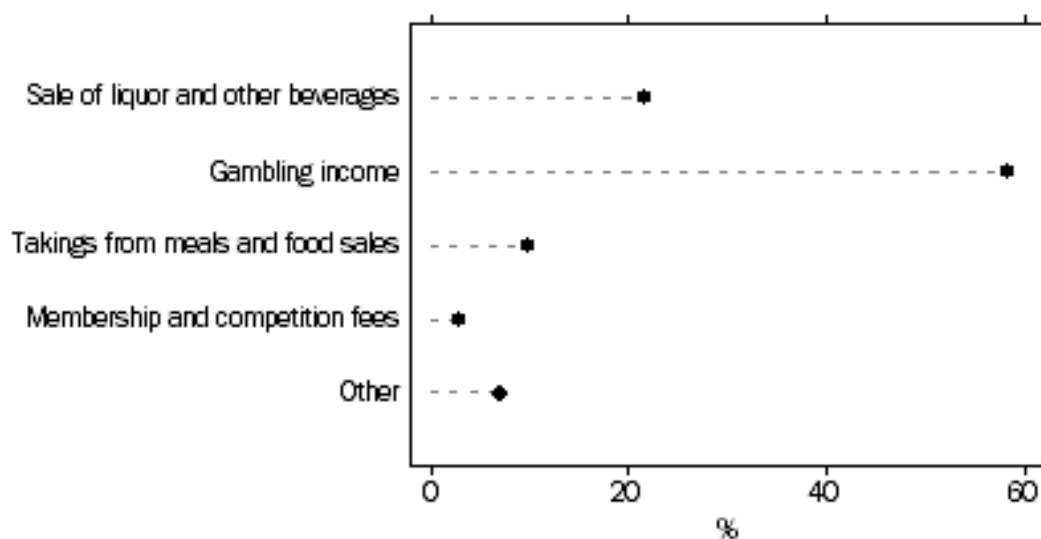
Figure 5.2: Division of income across the States and Territories



Source: ABS 2006a.

The figure below shows that the main source of income for hospitality clubs in 2004/05 was from gambling (\$4,305.1 million or 58.4 per cent of total income). Other major income items were sales of liquor and other beverages, which accounted for 21.7 per cent (\$1,600.8 million) of total income, and takings from sales of meals and food, which accounted for 9.9 per cent (\$726.4 million).

Figure 5.3: Selected sources of income, all organisations



(a) As a percentage of total income.

Source: ABS 2005 Report 8687.0 - *Clubs, Pubs, Taverns and Bars, Australia 2004/05*

Other major sources of income included membership fees (\$210.4 million), casual playing fees (\$82.7 million), sponsorship and fundraising (\$80.2 million), rent, leasing and hiring (\$58.1 million) and interest income (\$44.7 million).

Since the ABS statistics were completed, club associations have completed independent analysis of the size of State and Territory Movements which give a more complete picture of the industry's economic value. ClubsNSW and ClubsACT have completed Socio-Economic Impact Studies by The Allen Consulting Group (2007 and 2008 respectively). ClubsQld completed a study in March 2009, though data is not available at time of writing. Western

Australia is in the process of completing a study of their Club Movement and will provide it direct to the Commission. A review of the data from these studies follows.

Based on these data sets national club revenue is estimated at approximately \$10 billion per annum.

(b) New South Wales

Clubs in NSW provide a range of services that generate income (revenue). The 2007 Allen Consulting Group Survey estimates that total revenue earned by clubs in NSW was around \$5.4 billion in 2007.

Gaming machine revenue accounted for a significant share of all revenue (63 per cent) in 2007, though this share fell by more than 5 percentage points since 2003. Some of this has been replaced by an increase in bar sales and memberships which increased by 3.6 percentage points. However it is apparent that many NSW clubs have successfully diversified a portion of their revenue over time. It is important to note that IPART, in its assessment of opportunities for diversification, noted that:

... despite the common belief that diversification is an effective means of reducing reliance on gaming revenue, there is no other business line that can feasibly replace gaming in a club's business model. Figure 5.4 shows the sources of revenue for NSW clubs.¹⁹⁶

Figure 5.4: Sources of revenue, NSW

| | % of total revenue | | Change since 2003 (percentage point change) |
|---------------------------|--------------------|-------|--|
| | 2003 | 2007 | |
| Membership | 1.4% | 3.2% | 1.8% |
| Food | 7.0% | 7.0% | No change |
| Bar | 14.8% | 16.6% | 1.8% |
| Facilities & venue rental | 0.8% | 1.1% | 0.3% |
| Gaming machines | 68.4% | 63.2% | -5.2% |
| Other gaming | 1.9% | 2.2% | 0.3% |
| Sports | 1.3% | 2.0% | 0.7% |
| Ancillary business | 1.4% | 1.8% | 0.4% |
| Other ^(a) | 3.1% | 2.9% | -0.2% |
| Total | 100.0% | 100% | |

Note: May not add precisely to 100 per cent due to rounding.

(a) Other includes donations, cash grants, abnormal & extraordinary and other revenue.

Source: Allen Consulting Group, 2007 Survey of Clubs in NSW.

¹⁹⁶ Independent Pricing and Regulatory Tribunal of NSW, *Review of the Registered Clubs Industry in NSW*, Final Report, June 2008, p.106

Figure 5.5 summarises the share of revenue for each club size category. The share of gaming machine revenue was higher for medium and large-sized clubs than for smaller clubs. For the largest clubs, 76.7 per cent of their total revenue was sourced from gaming machines.

This compares with the smallest clubs (clubs earning less than \$200,000 per year in gaming machine revenue) which sourced 10 per cent of their total revenue from gaming machines. The smaller clubs relied more on bar and food sales and membership fees (66 per cent) compared to the largest clubs (16 per cent). Since 2003, smaller clubs (clubs earning less than \$1 million) have diversified their revenue sources and were considerably less reliant on gaming machine revenue.

Figure 5.5: Sources of revenue for each club size (percentage of total revenue)

| Sources of revenue | \$0 – 200K | >\$200K – 1M | >\$1M – 5M | >\$5M – 10M | >\$10M | Total clubs |
|-----------------------------|------------|--------------|------------|-------------|--------|-------------|
| Membership | 31.2% | 6.2% | 1.5% | 0.8% | 0.6% | 3.2% |
| Food | 9.5% | 5.0% | 6.0% | 8.8% | 7.2% | 7.0% |
| Bar | 24.8% | 37.5% | 21.1% | 15.5% | 8.1% | 16.6% |
| Facilities/venue rental | 1.3% | 3.3% | 1.3% | 0.7% | 0.6% | 1.1% |
| Gaming machines | 10.2% | 33.6% | 61.9% | 66.7% | 76.9% | 63.2% |
| Other gaming ^(a) | 0.9% | 4.3% | 3.5% | 2.6% | 1.0% | 2.2% |
| Sports | 11.1% | 6.0% | 1.2% | 0.6% | 0.8% | 2.0% |
| Ancillary business | 2.3% | 0.5% | 1.4% | 2.4% | 2.1% | 1.8% |
| Other ^(b) | 8.7% | 3.6% | 2.1% | 1.9% | 2.7% | 2.9% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Note: May not add precisely to 100 per cent due to rounding.

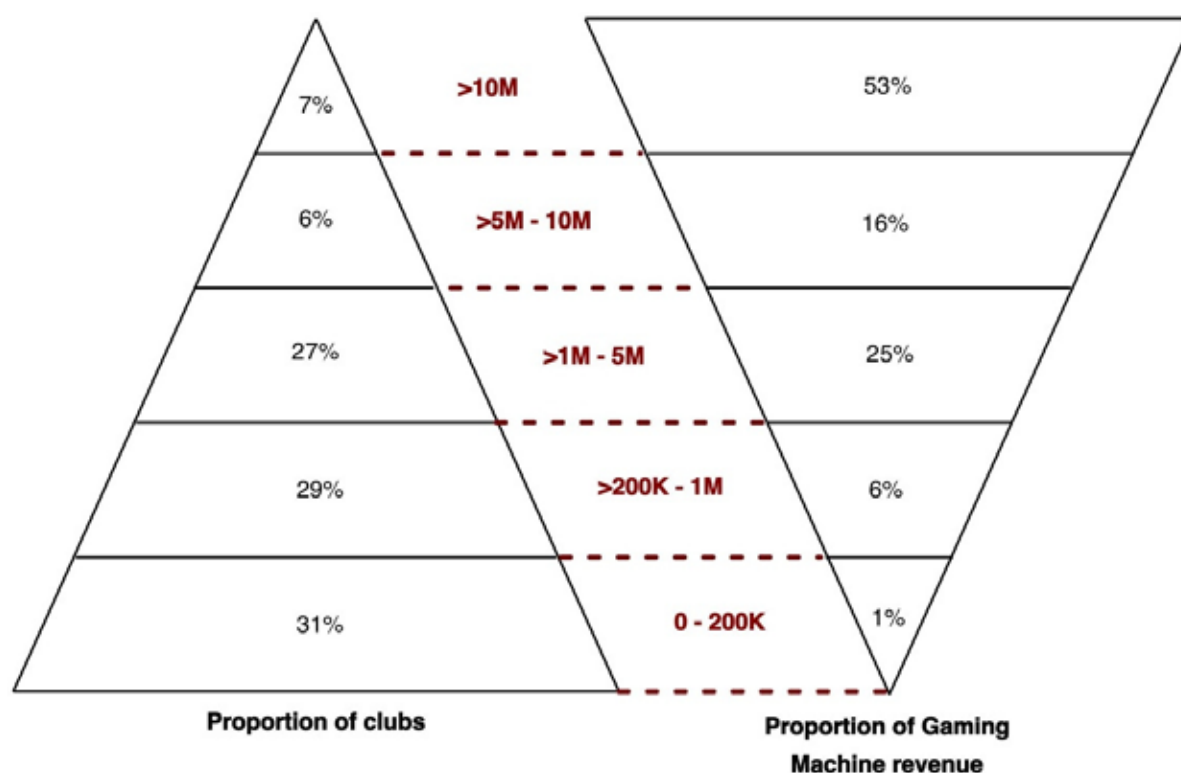
(a) Keno, TAB, Raffles, etc

(b) Other includes donations, cash grants, abnormal & extraordinary and other revenue.

Source: Allen Consulting Group, 2007 Survey of Clubs in NSW.

Figure 5.6 depicts the inverse relationship between the number of clubs (in a club size category) and the proportion of total gaming machine revenue earned by clubs (in a club size category). The largest clubs (earning more than \$10 million gaming machine revenue) accounted for 7 per cent of clubs but 53 per cent of total gaming machine revenue, while small clubs (earning less than \$200,000 in gaming machine revenue) accounted for 31 per cent of all clubs but only around 1 per cent of gaming machine revenue.

Figure 5.6: Representation of clubs by size in NSW



Source: NSW Office of Liquor, Gaming and Racing *Quarterly Gaming Machine data* and ClubsNSW.

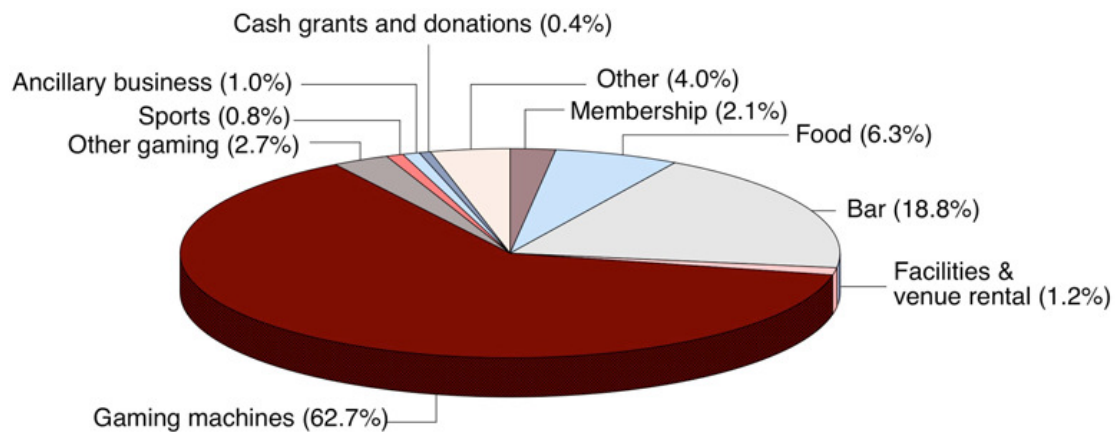
(c) Australian Capital Territory

According to the 2007 Socio-Economic Impact Study (SEIS) of the ACT Clubs Movement by The Allen Consulting Group, clubs generated \$272 million in gross revenue in 2006/07. In 2002, the reported level of revenue earned was \$280.2 million (CPI adjusted), indicating that clubs' overall revenue has declined by 3 per cent in the five years to 2007.

Of those clubs surveyed, gaming machine revenue in 2007 continued to represent the greatest source of revenue for clubs (63 per cent). However, gaming revenue as a proportion of total revenue has dropped by nearly 8 per cent since 2002. Over the same period the percentage of revenue from bar sales have increased by nearly 5 per cent suggesting that clubs addressed declining revenue from gaming machines through an increase in bar sales.

Figure 5.7 illustrates the dominance of gaming machine revenue for clubs in the ACT in 2007, comprising 63 per cent of all revenue. The next largest revenue category was bar sales, comprising 19 per cent of total revenue, followed by food sales, making up 6 per cent of revenue.

Figure 5.7: Revenue by types of revenue – ACT clubs



Source: Allen Consulting Group, Survey of Clubs in the ACT 2007.

In terms of club size, gaming machine revenue was relatively more important for the large clubs in the ACT than for medium and small clubs. Large clubs relied on gaming machine revenue to source 70 per cent of their total revenue, while medium and small sized clubs reported a considerably reduced dependence on gaming machine revenue (53 per cent). Medium and small sized clubs had a relatively larger reliance on membership subscriptions (4 per cent compared to 1 per cent for large clubs), bar sales (23 per cent compared to 16 per cent for large clubs) and other gaming (4.7 per cent compared to 1.3 per cent for large clubs) as sources of revenue.

(d) South Australia

It is estimated that South Australian clubs have annual turnover of \$272 million.¹⁹⁷

(e) Queensland

Clubs in Queensland generate \$1.895 billion in revenue every year.¹⁹⁸

(f) Gaming revenue as a percentage of total revenue – ABS data

According to the Australian Bureau of Statistics, in 2004/05 the total income of hospitality clubs with gambling facilities was \$7,103 million. Gambling income accounted for 60.6 per cent of the total income for these organisations. Nearly all the gambling income was generated by poker/gaming machines (\$4,221.8 million or 98.1 per cent), with the remainder of gambling income received as commissions for the provision of Keno and TAB facilities (1.4 per cent and 0.6 per cent respectively). Other important sources of income for hospitality clubs with gambling facilities included sales of liquor and other beverages (\$1,503.6 million) and takings from meals and food (\$664.9 million).

The total income for hospitality clubs without gambling facilities was \$271.8 million during 2004/05, or 3.8 per cent of the total income of clubs with gambling facilities, according to the ABS. Income from sales of liquor and other beverages (\$97.2 million), takings from sales of meals and food (\$61.5 million) and income from membership fees (\$60.6 million) were the main sources of income for these organisations.

¹⁹⁷ Unpublished data provided by ClubsSA

¹⁹⁸ ClubsQueensland, Submission to the Productivity Commission *Review of Australia's Gambling Industries*, March 2009

It is noted that any club can choose to not have gambling facilities, through a vote of club members. Many of the clubs that do not have gambling facilities are exclusive member clubs with high annual fees, such as golf and yacht clubs.

5.4 EMPLOYMENT

(a) Jobs in industry

At the end of June 2005, according to the ABS, there were 63,734 persons employed in Australian hospitality clubs. Of the total employment, 30,897 persons (48.5 per cent) were casual employees, 21,060 persons (33 per cent) were permanent full-time employees and 11,777 persons (18.5 per cent) were employed in a permanent part-time capacity. Female employees accounted for 54.8 per cent of total employees, 39.9 per cent of permanent full-time employees, 65.8 per cent of permanent part-time employees and 60.8 per cent of casuals.

However, as with all ABS data relating to this sector, this is a substantial underestimation as the data omits a significant number of clubs. Estimated employment statistics for each State and Territory are more instructive. Data held by State and Territory club industry bodies indicates there are approximately 43,300 people employed in NSW clubs, 2,200 in the ACT, 3,200 in South Australia, 440 in Tasmania, 36,450 in Queensland¹⁹⁹ and more than 800 in the Northern Territory.

This gives a total of 86,390 jobs, not including Victoria, for which data are unavailable at the time of writing.

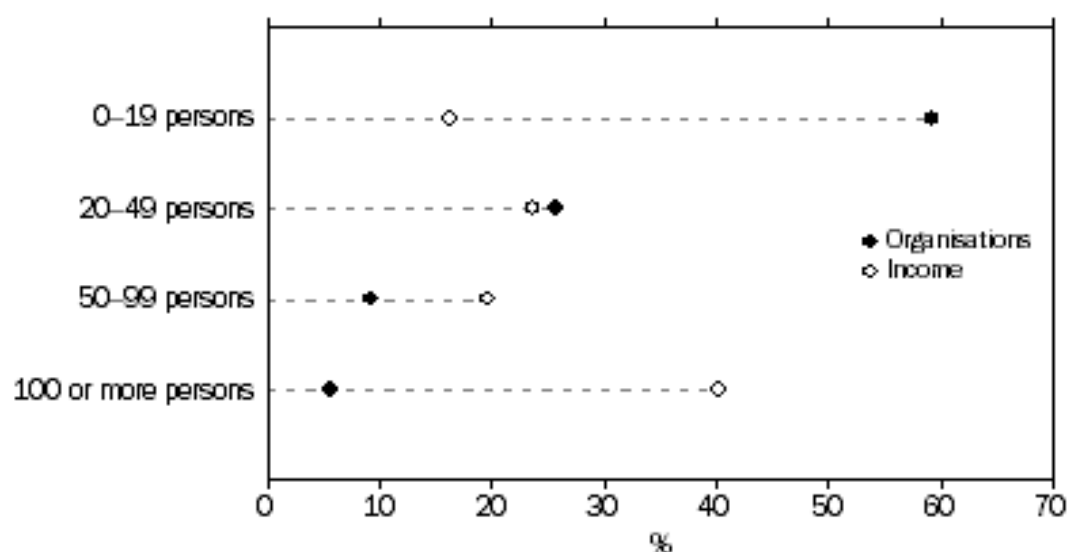
According to the ABS, the total number of employees in clubs with gambling facilities was 60,200 persons, or 94.5 per cent of total employment in all hospitality clubs. Clubs with gambling facilities had 19,798 persons employed in a permanent full-time capacity, 11,586 persons employed on a permanent part-time basis and 28,815 persons employed on a casual basis. Of the total number of employees, 23,813 (37.4 per cent) were licensed gaming staff.

In comparison, the ABS found that there were 3,534 persons employed in clubs without gambling facilities in 2004/05. Over one-third of all persons employed were female casual employees who accounted for 36.8 per cent of the total employment in these organisations.

Figure 5.8 shows that the few clubs with large numbers of employees have disproportionately large revenue.

¹⁹⁹ ClubsQueensland, Submission to the Productivity Commission *Review of Australia's Gambling Industries*, March 2009

Figure 5.8: Key characteristics by organisation size, all organisations

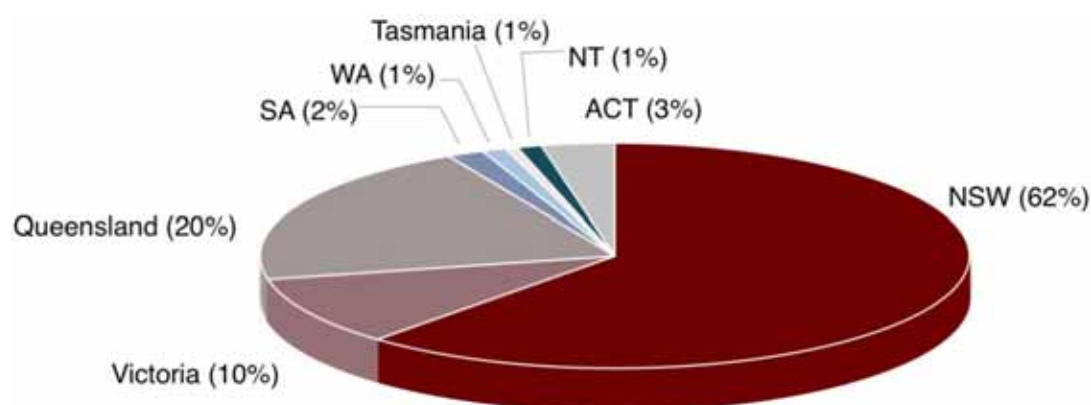


(a) as a percentage of total for each size category.

Source: ABS 2005 Report 8687.0 - *Clubs, Pubs, Taverns and Bars, Australia 2004/05*

A breakdown by State of club employment shows that three States account for over 90 per cent of all club industry employment, with NSW making up nearly two-thirds of club jobs.

Figure 5.9: Share of club (hospitality) employment by jurisdiction



Source: ABS 2006a.

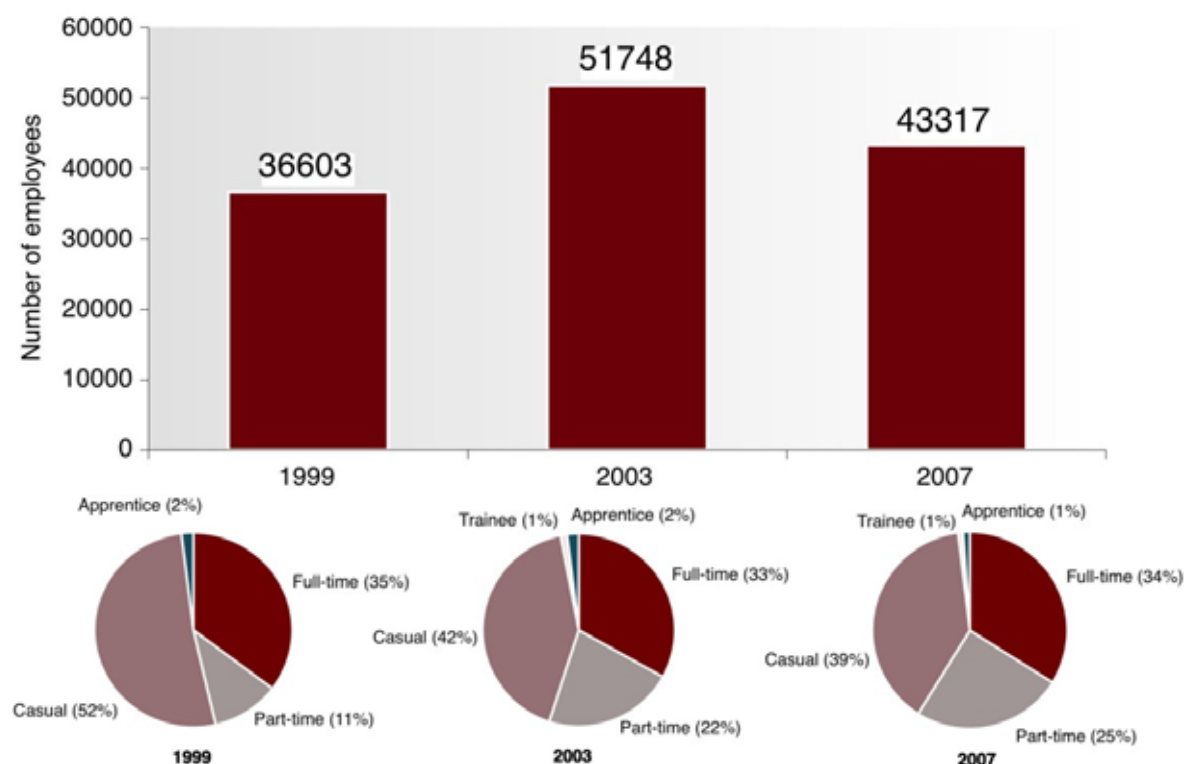
(b) Employment Trends

Employment in the largest club jurisdiction, NSW, has fallen in recent times. Clubs are significant providers of employment to communities across NSW. Figure 5.10 shows that there were around 43,300 people employed in the NSW club industry in 2007. This represents a 16 per cent fall in club employment since 2003 (when around 51,700 were employed) and contrasts with the 7 per cent growth in employment in NSW during this period.²⁰⁰

²⁰⁰ Australian Bureau of Statistics, 8601.0, *Service Industries Statistics Newsletter*, March 2007, March 2003

Furthermore, there has been a change in the types of club employees (full-time, part-time, casual, trainee, and apprentice positions). The proportion of casual employees has decreased from 52 per cent in 1999 to 42 per cent in 2003 to 39 per cent in 2007. Part-time employees, on the other hand, have increased in the share of total employment in the club industry. Part-time workers have increased from 22 per cent in 2003 to 25 per cent in 2007.

Figure 5.10: Number and type of employment over time



Source: Allen Consulting Group, *2007 Survey of Clubs in NSW*.

The explanation for the decrease in employment between 2003 and 2007 is the significant increase in NSW gaming machine tax paid by the largest clubs. In order to meet their increased tax obligations, clubs sought to control employment costs by reducing the number of employees and restructuring their workforce (changing the mix between full-time, part-time and casual employees, and trainees).

Apart from pressures in the club industry, the general economy experienced a shortage of workers during this time (as evidenced by the low unemployment rate). This may also explain why clubs found it hard to attract skilled staff between 2003 and 2007. Clubs and other service industries have been identified as industries with significant skills shortages.²⁰¹ Furthermore, recent research on job vacancies showed that the food and hospitality industries were in the top four occupational groups with job vacancies.²⁰² A recent survey of clubs in NSW identified that the most difficult positions to fill included bar staff (54 per cent of respondents), duty managers (38 per cent of respondents), chefs (29 per cent of respondents) and food staff (27 per cent of respondents).²⁰³

²⁰¹ Australian Bureau of Statistics, *8601.0, Service Industries Statistics Newsletter*, March 2007

²⁰² Commonwealth Department of Education, Science and Training, *National Skills Shortages Strategy – About*, accessed at <http://www.skillsinitiative.gov.au/about.htm>, July 2007

²⁰³ ClubsConsulting, *Survey of NSW Clubs*, 2006

Figure 5.11 shows the number of employees by club size in 2007. The largest clubs (those earning more than \$10 million in gaming machine revenue) employed 35 per cent of all club employees in NSW. Middle-sized clubs (those earning between \$1 million and \$5 million in gaming machine revenue) employed 27 per cent of all staff.

For the three smallest clubs size categories, casual employees represented nearly half of all employees whereas they represented around 35 per cent of all employees for the other club size categories.

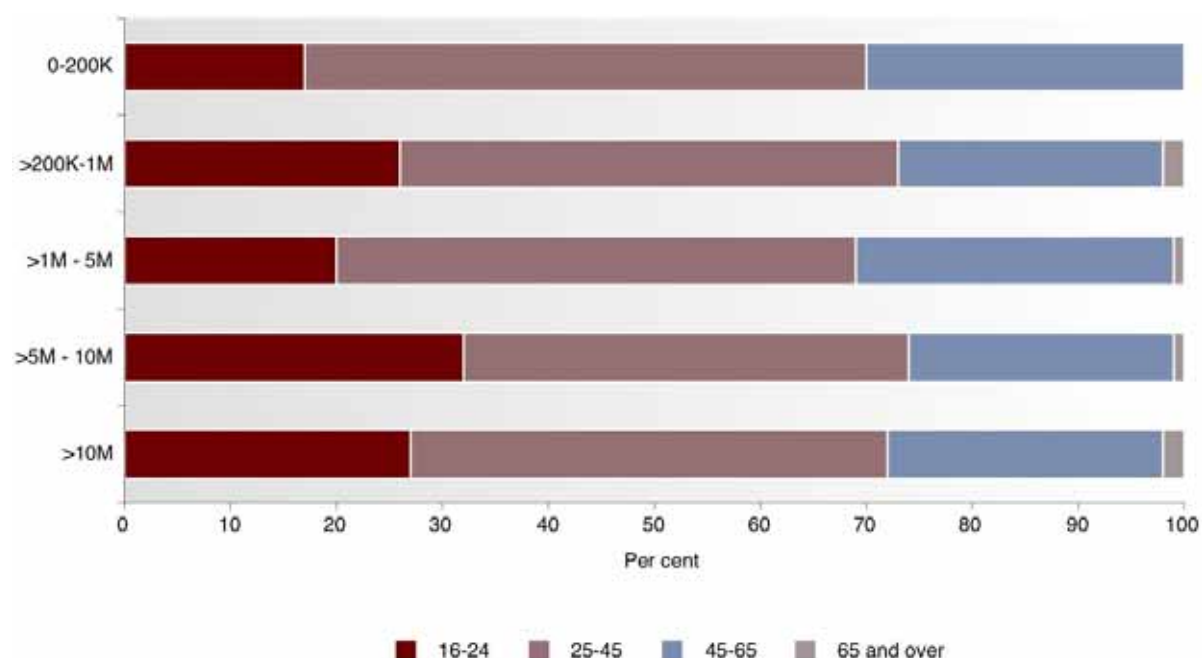
Figure 5.11: Type of employment by club size

| Club size (by gaming revenue, \$) | Full-time | Part-time | Casual | Trainee | Apprentice | Total |
|---|---------------|---------------|---------------|------------|------------|---------------|
| 0-200K | 1,384 | 531 | 1663 | 14 | 123 | 3,715 |
| >200K – 1M | 1,659 | 865 | 3,186 | 30 | 132 | 5,872 |
| >1M – 5M | 3,566 | 2,784 | 5,145 | 177 | 137 | 11,808 |
| >5M – 10M | 2,150 | 1,929 | 2,519 | 57 | 83 | 6,738 |
| >10M | 5,792 | 4,651 | 4,454 | 115 | 172 | 15,185 |
| Total | 14,550 | 10,760 | 16,967 | 394 | 646 | 43,318 |

Source: Allen Consulting Group, 2007 Survey of Clubs in NSW.

Figure 5.12 shows that most employees are between 25 and 45 years of age. Larger clubs also tended to employ more young people.

Figure 5.12: Age of employees in NSW in 2007 by club size



Source: Allen Consulting Group, 2007 Survey of Clubs in NSW.

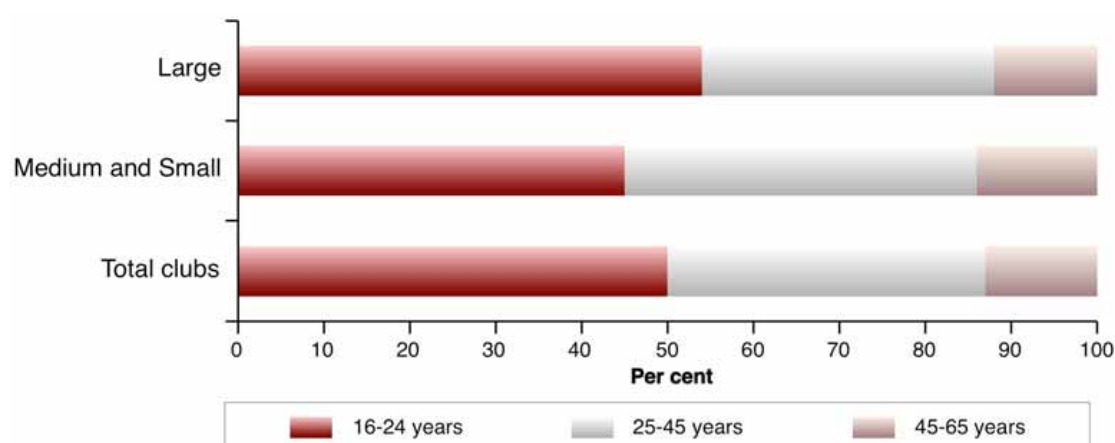
The survey also asked respondents to identify the number of men and women employed by the club. In aggregate, clubs in NSW employed similar proportions of men (47 per cent) and women (53 per cent). The two smallest club size categories employed slightly more men (around 56 per cent) than women (44 per cent) compared to other clubs.

(c) Employment in ACT clubs

Clubs in the ACT employed 2,177 people in 2007. Of all employees, 62 per cent were casual workers and an additional 29 per cent of workers were employed full-time. Large clubs provided 60 per cent of the total club employment in the ACT.

Clubs in the ACT employed a large number of younger ACT residents to provide club services. Of all club employees, 50 per cent were between 16 and 24 years of age and 37 per cent of employees were aged between 25 and 45 years. Large clubs employed a greater proportion of younger people (54 per cent between 16 and 24 years of age), while medium and small clubs employed a slightly smaller proportion of younger people (45 per cent between 16 and 24 years of age). In addition, clubs generally employed even numbers of men and women across all clubs in the ACT. Large, and medium and small clubs had similar distributions of staff by gender.

Figure 5.13: Age of employees by ACT club size



Club employees were also engaged in a number of different occupational groups. Of all clubs in the ACT in 2007, a large number of bar managers and attendants (31.1 per cent) and licensed gaming staff (19.3 per cent) were employed. Occupational groups by club size showed similar distributions of staff.

However, between 2002 and 2007 there were some large changes in the number of employees by occupational group. For example, the number of chefs in clubs in the ACT increased by over 270 per cent and the number of maintenance and cleaning staff and apprentices increased by around 105 per cent over the time period. One reason for this large change may be that clubs in the ACT have moved from contracting these services to taking these roles on as employees.

(d) Employment in Queensland and South Australian clubs

The Socio-Economic Impact Study of clubs in Queensland reports 36,450 people are directly employed in Queensland clubs. It is estimated that SA clubs employ 3,200 people directly and 2,200 people indirectly.²⁰⁴

²⁰⁴ Estimate, ClubsSA

(e) Clubs as employers of choice

Clubs consider themselves to be employers of choice and they demonstrate some of the most progressive and successful human resource strategies in the hospitality and entertainment industry.

Model club employer – case study

Dee Why RSL, the 2007 ClubsNSW Awards for Excellence winner in the large club category:

- Employed 507 full, part-time and casual staff;
- Had 125 active traineeships in place and six apprenticeships;
- Ran 150 in house training sessions and 112 varied off site seminars;
- Provided funding for 50 employees to attend university and TAFE courses;
- Had 100 per cent of staff attend some form of training with an average expenditure of \$3000 per person and an average of 130 hours per employee;
- Had an annual voluntary turnover of 4 per cent (compared to a benchmark across all industries of 17 per cent).²⁰⁵

Clubs are employers of choice – case study

The Vikings Group is a major employer in the ACT private sector, currently engaging 300 fulltime, part time and casual staff, and providing career opportunities in a variety of disciplines ranging from traditional hospitality roles through to accounting, HR, marketing, horticulture, and building services.

In 2008 the Vikings Group was placed in the top three finalists for Australian Employer of the Year at the peak national awards for vocational education and training, which recognise innovation and excellence in the training sector.

The Club was also crowned one of the nation's best trainers, winning the Australian Service Industry Award. Past recipients of the award have included major corporations such as McDonalds Australia.

This national recognition complements the Vikings Group being named the 2008 ACT Employer of the Year, receiving a Judges' Award of Recognition at the ACT Chief Minister's Inclusion Awards (for people with disabilities) and winning a number of categories in the 2008 ClubsACT Awards for Excellence in 2008, including Human Resource Management, Promotion of Sport and the ACT Club of the Year.²⁰⁶

²⁰⁵ ClubsNSW, Submission to Independent Pricing and Regulatory Tribunal *Review of the Registered Clubs Industry in NSW*, July 2007

²⁰⁶ ClubsACT, Unpublished Case Study, "The Vikings Group", March 2009

Diverse employment opportunities

A club like Revesby Workers²⁰⁷ also demonstrates the breadth of employment options in a club. Figure 5.14 highlights all the current positions at the club and is clearly extensive.

Figure 5.14: Current positions and total employment at Revesby Workers Club

| AREA | POSITIONS |
|---------------------------------------|---|
| Administration | Chief Financial Officer, Accountant, Accounts Payable, Accounts Clerk, Membership co-ordinator, Payroll Officer, Systems Administrator, Rosters Manager, Door Attendants, Guest Relations Officers, Safe Attendant and Car Park Attendants. |
| Executive | Chief Executive Officer and Personal Assistant. |
| Beverage | Beverage Manager, Beverage Attendant, Data Entry Clerk – Beverages, Beverage Cost Control, Floor Attendant, Bottle Shop Attendant, Beverage Higher Duties |
| Catering | Executive Chef, Restaurants Manager, Senior Sous Chef, Chef De Partie, Commis Chef, Demi Chef, Kitchen Hand / stewards, Apprentices, Catering Supervisors, Catering Attendants, storeperson. |
| Gaming | Gaming Manager, Gaming Attendants, Gaming Analyst, Gaming Administration Assistant, Cashier, TAB Operator, Customer Service Officers, Keno Operator, Gaming Technicians and Gaming Higher Duties. |
| Functions | Functions Co-ordinator, Functions Assistant and Function Attendants. |
| Operations | Operations Manager, Senior Duty Managers, Duty Managers and Supervisors. |
| Health Mates (Gym) | Gym Manager, Exercise Programmer, Fitness Centre Administration, Gym Floor Attendant, Dietician, Masseur, Member Co-ordinator, Gym Floor Supervisor and Pilates/Yoga Teachers. |
| Human Resources | HR Manager, Staff Development Officer and Administration Assistant. |
| Maintenance | Maintenance Supervisor, Maintenance Tradesperson, Painter and Gardener. |
| Cellar/Stores | Cellarman |
| Marketing | Marketing and Entertainment Manager, Marketing Assistant, Creative Co-ordinator and Multimedia Video Editor. |
| Mooney Mooney Club (separate premise) | Club Manager, Supervisor, Catering Attendants, Bar Attendants, Head Chef, Sous Chef and Apprentices. |
| Total employees | 291 (*as at 10 July 2007) |

Source: Revesby Workers Club, accessed July 2007.

²⁰⁷ ClubsNSW, Submission to Independent Pricing and Regulatory Tribunal *Review of the Registered Clubs Industry in NSW*, July 2007

(f) Difficulty finding quality staff

While clubs provide significant employment opportunities, like many employers they are experiencing difficulty finding and keeping suitable staff. Ucomm's survey of club managers and directors found the majority of clubs in NSW are experiencing difficulty in finding quality staff across the range of skilled positions available. Two out of three survey respondents have difficulty finding or retaining quality staff. The positions that are most difficult to fill, according to club managers, are outlined in Figure 5.15 below.

Figure 5.15: Positions that are most difficult to fill

| POSITION | % |
|----------------------------|-----|
| Bar staff | 54% |
| Duty/supervisor management | 38% |
| Chefs/cooking | 29% |
| Food staff | 27% |
| Managerial | 12% |
| Gaming management | 8% |
| Marketing management | 7% |
| HR management | 4% |

Source: ClubsConsulting, Directors and Managers Survey, 2006, p. 148.

(g) Clubs suffering from skill shortages

The challenge to find quality staff needs to be seen in the context of skills shortages being experienced on a national scale. In 1999 the Australian Government launched the National Industry Skills Initiative (NISI) and later its successor the National Skills Shortages Strategy (NSSS). One of the industries the Government identified as having a significant skills shortage was the food trade (chefs and cooks).²⁰⁸ In NSW specifically, the data also points towards State-wide shortages in the food trades. These shortages clearly create challenges for the club industry in recruiting and retaining employees, as food service is a core component of their business activity.

More generally, the ABS has also identified a significant skills shortage in 'service' industries (of which clubs are a part) and are currently developing surveys to identify the degree of the skills shortage.²⁰⁹ The latest data (June 2007) from the national Skilled Vacancies Index, which is used to measure skills shortages, indicated that the food, hospitality and tourism industry was in the top four occupational groups with job vacancies.²¹⁰

Feedback from regional clubs suggests it is difficult to address these shortages due to the inability to access training locally. Clubs are forced to send staff to metropolitan centres for

²⁰⁸ Commonwealth Department of Education, Science and Training, National Skills Shortages Strategy – About, accessed at <http://www.skillsinitiative.gov.au/about.htm>, July 2007

²⁰⁹ Australian Bureau of Statistics, *8601.0 - Service Industries Statistics Newsletter*, March 2007

²¹⁰ Commonwealth Department of Education, Science and Training, *Vacancy Report*, June 2007, accessed at www.workplace.gov.au, July 2007

even the most basic customer service training and this has significant impacts in costs and lost productivity.

(h) Club Movement as a career for graduates

The employment opportunities provided by clubs are generally not well advertised or understood by the broader labour market. While clubs play a useful role in sustaining tertiary students, assisting their passage through study and teaching valuable workplace skills, compared with other professions it fails to attract tertiary graduates and does not generally target this group. Particular roles to which graduates could be suited include financial management, business development, marketing, event management, communications and human resources.

(i) Labour 55 years of age and upwards

The club industry operates in a way that requires flexible deployment of staff on a casual basis. This is unlikely to change in the foreseeable future. Whereas clubs have traditionally looked to the student labour market for casual staff, changing demographics (an ageing workforce) favour an approach that targets older workers.

Notwithstanding the need to improve levels of permanent staffing, an opportunity exists to attract over-55 casual labour. The economic circumstances of many over-55 people – those in semi-retirement, early retirement or retrenchment – are such that full-time employment is not their preferred option. Yet they are often highly skilled in areas relevant to club operation. Segments of the club industry are predisposed to greater use of older workers, aligning their workforce with a significant proportion of their patrons.

(j) Opportunities for people with disabilities

There is a notable tradition in the amongst clubs of employing people with disabilities. This is particularly prevalent among RSL and ex-services clubs. As an example, ClubsNSW and the RSL and Services Clubs Association was recently presented with a certificate of appreciation from Jobsupport (which promotes and facilitates employment for people with an intellectual disability) for clubs' ongoing commitment to employing people who have intellectual disabilities.

(k) Contractors

The Allen Consulting Group found that clubs in NSW pay around \$265 million to contractors each year. ACT clubs paid \$25.8 million to contractors in 2007, with large clubs making the majority of payments to contractors (78 per cent).

Contractors are most commonly engaged for catering, maintenance, green keeping, trades and security. There was a marked increase in contractor payments between 1999 and 2003 suggesting a structural shift toward outsourcing services, in part an attempt to save costs and create efficiencies.

(l) Wages and salaries – national ABS data

The Australian Bureau of Statistics reports that hospitality clubs incurred \$6,763.9 million in expenses during 2004/05. Of that, labour costs represented the largest single expense item (\$2,121.6 million or 31.4 per cent of total expenses) which represented an average cost per employee of \$33,300.

The ABS reported in 2004/05 that the main expense item for organisations with gaming was labour costs (\$2,022.6 million). The main contributors to total expenses incurred by clubs without gaming in 2004/05 were also labour costs (\$98.9 million). According to The Allen Consulting Group, clubs pay a significant amount in wages to employees and to contractors to provide additional services (for example, cleaning, catering and security services).

New South Wales

Figure 5.16 shows the estimated wage bill and payments made to contractors by club size in 2007. The Allen Consulting Group found NSW clubs paid \$1.27 billion to employees in wages and entitlements. In addition, clubs paid \$235 million to contractors.

The largest category of clubs contributed most to the employee wages bill (36 per cent), followed by clubs that earn between \$1 million and \$5 million in club revenue (27 per cent). The smallest clubs contributed 9 per cent of total employee wages and entitlements. Similarly, the largest clubs made the most payments to contractors (35 per cent), followed by clubs that earn between \$1 million and \$5 million in club revenue (32 per cent).

Figure 5.16: Wage bills and contract payments by club size

| Club size (by gaming revenue, \$) | Wages (\$ million) | Payments to contractors (\$'000) |
|--------------------------------------|-----------------------|-------------------------------------|
| 0 – 200K | 108.2 | 16.5 |
| >200K – 1M | 164.3 | 30.8 |
| >1M – 5M | 343.7 | 74.4 |
| >5M – 10M | 192.2 | 32.4 |
| >10M | 460.8 | 81.6 |
| Total clubs | 1 269.2 | 235.6 |

Source: Allen Consulting Group, *2007 Survey of Clubs in NSW*.

Wages increased by 7 per cent between 2003 and 2007. This is smaller than the growth seen in average annual earnings, which increased by 18 per cent over this period; however, this should be seen in the context of a fall in employee numbers of 16 per cent. As stated earlier, the significant increase in gaming machine tax paid by the largest clubs restricted wages growth between 2003 and 2007. Clubs affected by the tax increases, in order to meet tax obligations, sought to control employee numbers and total wages.

Payments to contractors have decreased by 11 per cent between 2003 and 2007, in contrast to a growth in the CPI of approximately 11 per cent over the same time period.

In addition, around 78 per cent of all NSW clubs had a paid Chief Executive Officer, Secretary Manager or General Manager. Those clubs that did not have a paid executive were more likely to be the smallest clubs than any other club size category.

Australian Capital Territory

The Allen Consulting Group found clubs in the ACT paid \$60.3 million to employees in wages and entitlements in 2006/07.

Wages have remained relatively stable over the last five years, with only a small decrease (1 per cent) in real wages. However, in that same time period, the number of employees has

increased by 15 per cent. One reason for this shift in wage patterns may be that over time, part-time and casual employees, who generally work fewer hours and for whom less employment entitlements are required, are replacing full-time employees.

South Australia

It is estimated that South Australian clubs pay \$60 million per year in wages.

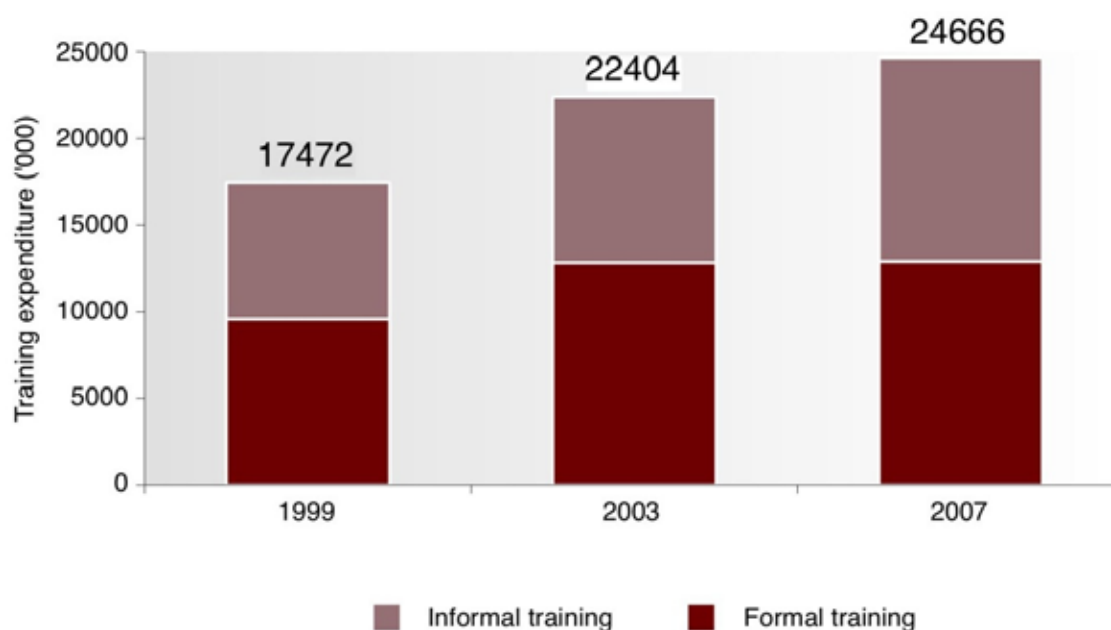
(m) Training

As employers, clubs provide training to employees, and to a lesser extent, volunteers. Training may be formal (including organised courses, seminars or classes) or informal on-the-job training. The most common formal training courses are the responsible service of alcohol and responsible conduct of gaming.

New South Wales

Figure 5.17 shows the level of training expenditure over time. Expenditure on training by NSW clubs totalled \$24.7 million in 2007, an increase by 10 per cent since 2003, according to The Allen Consulting Group's findings. Of all training provided in 2007, 52 per cent was provided through formal training, with the remaining 48 per cent provided in informal (on the job) training.

Figure 5.17: Training expenditure over time



Source: Allen Consulting Group, 2007 Survey of Clubs in NSW.

Figure 5.18 shows the extent of formal and informal training expenditure by NSW club size. The largest clubs provided around 46 per cent of all formal and informal training, followed by clubs that earn between \$1 million and \$5 million in gaming machine revenue (23 per cent). The smallest clubs provided 5 per cent of all formal and informal training.

Figure 5.18: Formal and informal training expenditure by club size (\$ million)

| Club size | Formal training | Informal training | Total |
|--------------------|-----------------|-------------------|-------------|
| 0 – 200K | 0.7 | 0.5 | 1.3 |
| >200K – 1M | 1.2 | 1.5 | 2.7 |
| >1M – 5M | 3.1 | 2.5 | 5.6 |
| >5M – 10M | 1.9 | 1.8 | 3.8 |
| >10M | 6.0 | 5.5 | 11.4 |
| Total clubs | 12.9 | 11.8 | 24.7 |

Source: Allen Consulting Group, 2007 Survey of Clubs in NSW.

Australian Capital Territory

Clubs in the ACT spent \$2.5 million in 2007 in training for employees, and to a lesser extent, volunteers. Training may be formal (including organised courses, seminars or classes) or informal on the job training. The most common formal training courses are the responsible service of alcohol and responsible service of gaming.

Of all training provided, 56 per cent is through formal training, with the remaining provided in informal, on-the-job training. Large clubs provide around 64 per cent of all formal and informal training.

(n) Tertiary training opportunities

In 1993 Southern Cross University established the Centre for Professional Development in Club & Gaming Management to offer tertiary programs in business management theory and practice geared to the club marketplace. To date, the program has had over 450 graduates, many of whom occupy senior management positions in the industry.

(o) Hospitality industry training

Clubs are significant training providers for the hospitality industry, especially casual and part-time labour. As such, clubs add important flexibility to the labour market providing valuable work and training opportunities, particularly for young people.

Many of the staff trained and employed by clubs move around the broader hospitality sector both locally and nationally. This improves the overall skill base available to the hospitality industry and leads to significant savings in training costs for smaller employers.

Clubs have adopted innovative education and traineeship programs for young people in particular. For example, the ClubStart program, an initiative of ClubsACT, is addressing sector skills shortages and improving access to employment for school leavers. The Program also promotes responsible service of gambling and alcohol in the ACT and provides valuable life skills for participants. It trains secondary students in the responsible service of alcohol and the responsible conduct of gambling, focusing on harm minimisation strategies not just from a service perspective but from the perspective of moderating their own behaviour. To help reduce the cost to students of undertaking the ClubStart program, clubs sponsor its delivery at a college in their area. At the completion of the program, students who are seeking employment either during or post their secondary education have the option of undertaking an employment interview with the human resources manager of the sponsor club.

Since its May 2007 launch, about 750 students have been trained and over 90 students have gained employment as a direct result of completing the program. This excellent result positions ClubStart as the number one hospitality training provider in the VET (Vocational Education and Training) sector at ACT colleges.

(p) The Maxpotential program

Clubs also engage in training for the broader community. An example of a strategic initiative that demonstrates how clubs facilitate training that enhances workforce skills and participation is the Maxpotential program. Maxpotential, a joint initiative of ClubsNSW and the Future Achievement Australia Foundation, encourages clubs to engage in community capacity building and personal leadership development through coaching. Clubs such as the Deniliquin RSL, Panthers, Mudgee Soldiers, Goulburn Soldiers and others have engaged in the training and development of the community using volunteers from within the club (including employees), contractors and community members.

Initiated and led by the local club, Maxpotential has fostered collaboration between the Department of Education, the Catholic Education Office, Independent Schools, Local Government, Universities (University of Western Sydney), TAFE's, business leaders and community organisations.

Maxpotential involves training adults who volunteer to fulfil coaching roles for the youth of their community. These volunteers have two days of intensive training followed by four intensive personal coaching sessions spread across 22 weeks. These coaches then go on to provide 22 weeks of personal leadership development, including coaching, to young leaders from high schools and TAFE to help them maximise their potential during their final years of school and beyond. The program also encourages the students to focus on the local community and ways they can work to improve it through a community service project.²¹¹

Clubs' assistance to young leaders demonstrates their commitment to developing future community leaders, including a new generation of talented young people with the potential to become successful club managers or directors and chairpersons of boards. From this perspective, the investment of community funding into a community engagement activity has a positive 'flow-on' impact on the club's long-term success.

(q) In-kind training support

Another example of how clubs engage in training for the broader community was highlighted in the Ucomm focus groups. In some areas club management are offering their skills and knowledge to less-resourced and voluntary run community organisations. This type of training is another example of the in-kind support clubs provide in their local communities.

...we have a lot of community organisations who are struggling. So the clubs are talking to me at the moment about giving a two hour session so that I can put together either a day or two hours every Wednesday over six weeks and they will give me a finance person, an HR person, an OH&S person and they will run training sessions for community groups and I think that's a terrific idea and they're very receptive to that kind of giving of resources.²¹²

²¹¹ ClubsNSW, Submission to Independent Pricing and Regulatory Tribunal *Review of the Registered Clubs Industry in NSW*, July 2007

²¹² Ucomm, *Community Organisations Focus Group Report*, commissioned by ClubsNSW, July 2007, p. 10

5.5 TAXATION

Clubs pay a range of Commonwealth and State and Territory Government taxes and charges. In 2004/05 poker/gaming machine and other gambling taxes and levies totalled \$1.104 billion. Currently clubs pay the following taxes and charges:

- **Gaming machine tax**
A comprehensive analysis of gaming machine tax is provided in chapter 7.
- **Council rates and charges**
- **Goods and services tax (GST)**
The GST commenced on 1 July 2000. Under the GST, registered businesses charge GST when selling goods and/or services to another business or to consumers. GST is paid at a rate of 9.09 per cent on all 'gross gaming revenue', that is, revenue before any expenses or taxes are deducted. The introduction of GST on gaming machine revenue was affected by a principle of taxation revenue neutrality. (In NSW, this consideration resulted in the need for a rebate on the first \$200,000 of gaming machine revenue. Prior to the introduction of GST, the marginal tax rate was 0 per cent for earning gaming machine revenue up to \$100,000 and 1 per cent for earning gaming machine revenue between \$100,000 and \$200,000);
- **Payroll tax**
Payroll tax is levied on employers by the State and is incurred once the value of the payroll exceeds pre-determined amount. Employers are liable for payroll tax when their total Australian wages exceed a certain level called the 'exemption threshold'.
- **Pay-as-you-earn (PAYE) tax**
PAYE tax is remittances made by clubs to the Commonwealth on behalf of employees. These tax remittances are tax contributions of employees, not the club as an employer. Nevertheless, the level of PAYE contributions provides an indication of the level of employment and wages paid by clubs.
- **Fringe benefits tax (FBT)**
FBT is a Commonwealth tax levied on non-salary type benefits provided by employers to employees. FBT payments are tax contributions made by clubs on behalf of employees. The level of FBT contributions provides an indication of the level of employment and wages provided by NSW clubs.
- **Company income tax**
Company tax is a Commonwealth tax paid by all corporate entities. Since 2001/02, the company tax rate has been 30 per cent. In general, clubs are regarded as companies for income tax purposes and their income is subject to the prevailing company tax rate of 30 per cent. However, there are certain exceptions, which provide clubs with exemptions from payment of income tax
Division 50 of the *Income Tax Assessment Act 1997* and *Tax Ruling TR97/22 'Income tax: exempt sporting clubs'* allow for certain sporting clubs to be exempt from income taxation. Determination of this exemption depends on the club's purpose and activities and whether these club activities are carried out with the primary purposes of promoting a game or sport. This exemption is given on an annual basis and clubs must meet the criteria each year in order to receive the exemption. Clubs that meet the criteria are exempt from income tax, regardless of the source of income.

The second exception from the general rule relies on the principle of mutuality. This is a common law principle and not a legislative exemption from income tax. Therefore, any surplus of these subscriptions and contributions over club expenditures does not constitute taxable income. However, any income derived from non-members and from non-mutual activities is fully assessable. Correspondingly, costs associated with earning member and mutual incomes are deductible. Income from non-mutual activities includes investment income, property rents and ancillary business income.

(a) Gaming tax by jurisdiction

The figure below shows total gambling and betting taxes as a percentage of State and Territory taxes and total revenues for financial year 2007/08. It is clear that States and Territories are not 'reliant' upon gambling revenue.

Figure 5.19: Gambling taxes as percentage of State revenue

| 2007-2008 | Gaming as % of State tax | Gaming as % of total revenue |
|------------|--------------------------|------------------------------|
| NSW | 9.2% | 3.6% |
| Victoria | 13.2% | 4.5% |
| Queensland | 9.4% | 2.7% |
| SA | 12.5% | 3.3% |
| ACT | 5.6% | 1.7% |
| NT | 14.8% | 1.7% |
| Tasmania | 11.8% | 2.4% |
| WA | 4.9% | 1.5% |

Source: State and Territory budget papers 2007-08

(b) Average gaming machine rates

Based on the rate tables the following 'average rates' of tax apply to clubs. Average rate is the tax paid divided by the gaming revenue (gross revenue). For example, if a club earns \$500,000 gaming revenue and pays \$150,000 tax then the average tax is \$150,000 divided by \$500,000 – that is, 30 per cent.

Figure 5.20: Clubs average rates (total tax including GST and community levy)

| Annual Gaming Revenue | NSW | VIC | QLD | SA | ACT | NT |
|-----------------------|-------|-------|-------|-------|-------|-------|
| 20,000 | 0.0% | 33.3% | 9.1% | 9.1% | 15.0% | 22.0% |
| 50,000 | 0.0% | 33.3% | 9.1% | 9.1% | 15.0% | 22.0% |
| 100,000 | 0.0% | 33.3% | 9.1% | 14.3% | 15.0% | 26.0% |
| 200,000 | 0.5% | 33.3% | 16.7% | 22.2% | 16.5% | 29.0% |
| 300,000 | 3.4% | 33.3% | 20.1% | 24.8% | 21.0% | 30.0% |
| 500,000 | 5.7% | 33.3% | 22.9% | 28.5% | 25.4% | 30.8% |
| 750,000 | 6.8% | 33.3% | 24.2% | 31.5% | 28.4% | 33.2% |
| 1,000,000 | 7.4% | 33.3% | 25.2% | 33.2% | 30.3% | 35.4% |
| 2,000,000 | 22.7% | 33.3% | 27.9% | 38.2% | 33.2% | 39.7% |
| 3,000,000 | 25.2% | 33.3% | 29.6% | 42.6% | 34.1% | 43.8% |
| 4,000,000 | 26.4% | 33.3% | 30.6% | 47.0% | 34.6% | 45.9% |
| 5,000,000 | 27.1% | 33.3% | 31.5% | 50.4% | 34.9% | 47.1% |
| 7,500,000 | 29.8% | 33.3% | 32.7% | 55.0% | 35.3% | 48.7% |
| 10,000,000 | 31.1% | 33.3% | 33.2% | 57.2% | 35.5% | 49.5% |
| 15,000,000 | 33.4% | 33.3% | 33.8% | 59.5% | 35.7% | 50.4% |
| 20,000,000 | 34.6% | 33.3% | 35.6% | 60.7% | 35.8% | 50.8% |
| 30,000,000 | 36.4% | 33.3% | 38.7% | 61.8% | 35.9% | 51.2% |
| 50,000,000 | 37.8% | 33.3% | 41.2% | 62.7% | 35.9% | 51.5% |

(The orange cells indicate the approximate annual gaming machine revenue of the largest clubs in the jurisdiction.)

5.6 CLUB EXPENDITURE

According to the ABS the total expenses of hospitality clubs with gambling facilities were \$6,497.1 million in 2004/05. The total expenses of hospitality clubs without gambling facilities were \$266.9 million.

(a) New South Wales

The estimated expenditure of clubs in NSW was \$4.2 billion in 2007. In 2003, the reported total expenses paid were around \$4.0 billion, indicating that clubs' overall expenses increased by nearly 5 per cent in the four years to 2007.

As shown in Figure 5.21, 'other' expenses comprise nearly one-third of all expenses for clubs in NSW.²¹³ This is followed by gaming machine expenses (17.7 per cent), State Government gaming machine taxes (15.2 per cent) and bar expenses (14.3 per cent). Apart from 'other' expenses, the largest increase in club expenses has been in gaming machine taxes, which has increased by 5.3 per cent since 2003.

²¹³ 'Other' sources of expenditure include the short and long term rental accommodation, aged care facilities, childcare facilities, promotional activities and donations and cash grants.

Figure 5.21: Sources of expenses for NSW clubs

| | % of total expenditure | | Change since 2003 (percentage point change) |
|-----------------------------|------------------------|-------|--|
| | 2003 | 2007 | |
| Membership | 1.8% | 2.4% | 0.6% |
| Food | 7.8% | 8.0% | 0.2% |
| Bar | 15.3% | 14.3% | -1.0% |
| Facility & venue rental | 0.9% | 1.1% | 0.2% |
| Gaming machine taxes | 9.9% | 15.2% | 5.3% |
| Gaming machine | 28.7% | 17.7% | -11.0% |
| Other gaming ^(a) | 3.1% | 3.3% | 0.2% |
| Sports | 3.6% | 3.7% | 0.1% |
| Ancillary business | 2.8% | 2.4% | -0.4% |
| Other ^(b) | 26.2% | 32.0% | 5.8% |
| Total | 100% | 100% | |

Note: May not add precisely to 100 per cent due to rounding.

(a) Keno, TAB, Raffles, etc

(b) Other includes donations, cash grants, abnormal & extraordinary and other expenses.

Figure 5.22 summarises the sources of expenses as a share of total expenses for each club size category. One-fifth of the expenses for the largest sized clubs were paid to State Government gaming machine taxes, followed by the 'other' category. For the smallest sized clubs, 'other expenses' comprised a significant share of all expenses, followed by bar, sports and membership expenses.

Figure 5.22: Sources of expense (percentage) by NSW club size, 2007

| Sources of expenses | 0 – 200K | >200K – 1M | >1M – 5M | >5M – 10M | >10M | Total clubs |
|-----------------------------|----------|------------|----------|-----------|--------|-------------|
| Membership | 16.1% | 3.8% | 1.6% | 2.0% | 1.1% | 2.4% |
| Food | 7.1% | 5.9% | 7.2% | 9.4% | 8.3% | 8.0% |
| Bar | 20.4% | 29.1% | 19.8% | 13.2% | 8.1% | 14.3% |
| Facility/venue rental | 3.6% | 2.5% | 1.2% | 0.4% | 0.6% | 1.1% |
| Gaming tax | 0.0% | 3.1% | 12.4% | 15.0% | 20.8% | 15.2% |
| Gaming machine | 2.1% | 12.9% | 18.8% | 20.6% | 18.9% | 17.7% |
| Other gaming ^(a) | 0.6% | 4.5% | 4.9% | 3.4% | 2.4% | 3.3% |
| Sports | 17.4% | 11.1% | 3.3% | 2.4% | 1.4% | 3.7% |
| Ancillary business | 1.4% | 1.8% | 3.4% | 2.1% | 2.3% | 2.4% |
| Other ^(b) | 31.3% | 25.2% | 27.4% | 31.5% | 36.0% | 32.0% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Note: May not add precisely to 100 per cent due to rounding.

(a) Keno, TAB, Raffles, etc

(b) Other includes donations, cash grants, abnormal & extraordinary and other expenses.

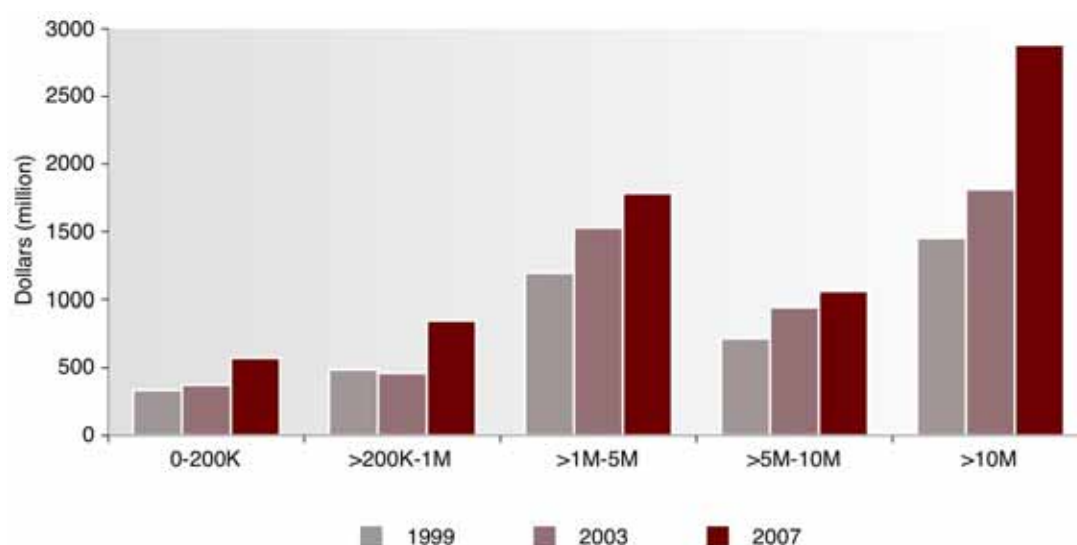
Source: Allen Consulting Group, 2007 Survey of Clubs in NSW.

Capital expenditure

Capital expenditure is another crucial element of clubs' economic and social contribution. It may include expenditure related to extending or maintaining club facilities, the purchase of capital items such as gaming machines or motor vehicles, or the purchase of additional club facilities.

The improved financial position of clubs in NSW has seen a reinvestment back into club facilities and other assets. The total value of club assets in NSW was estimated by The Allen Consulting Group to be around \$6.2 billion in 2007. This represents a nominal increase of 21 per cent in the value of total assets since 2003. As shown in Figure 5.23, the total value of assets increased for all club categories by size between 2003 and 2007.

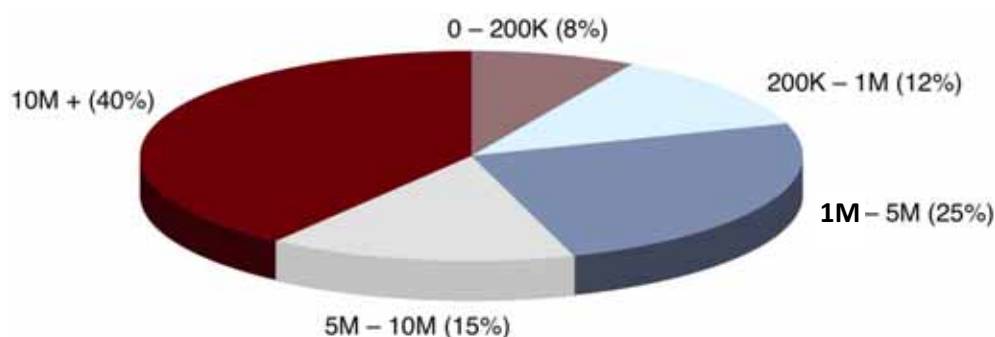
Figure 5.23: Total value of assets over time by NSW club size



Source: Allen Consulting Group, 2007 Survey of Clubs in NSW.

Figure 5.24 shows that the largest clubs held over 40 per cent of total assets while the smallest clubs held 8 per cent of total assets.

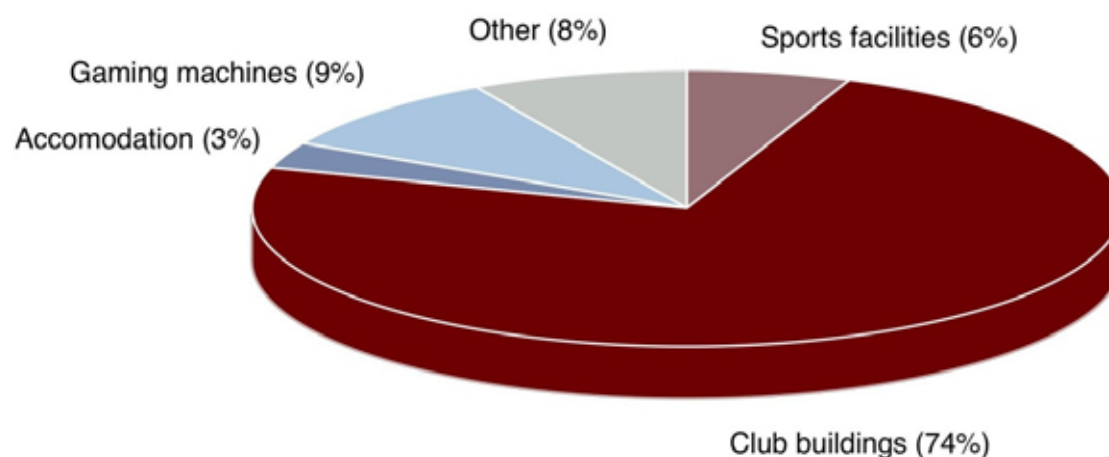
Figure 5.24: Proportion of total assets held by clubs, by NSW club size



Source: Allen Consulting Group, 2007 Survey of Clubs in NSW.

Most NSW club assets are held in club buildings and facilities (74 per cent) followed by gaming machines (9 per cent). The 'other' category is also a significant component of club assets and includes items such as furniture, plants, equipment, motor vehicles, shares and other investment and machinery.

Figure 5.25: Club assets by NSW club type



Source: Allen Consulting Group, 2007 Survey of Clubs in NSW.

Figure 5.26 summarises the amount of assets held by clubs for each club size category.

Figure 5.26: NSW club assets by type of asset (\$ million)

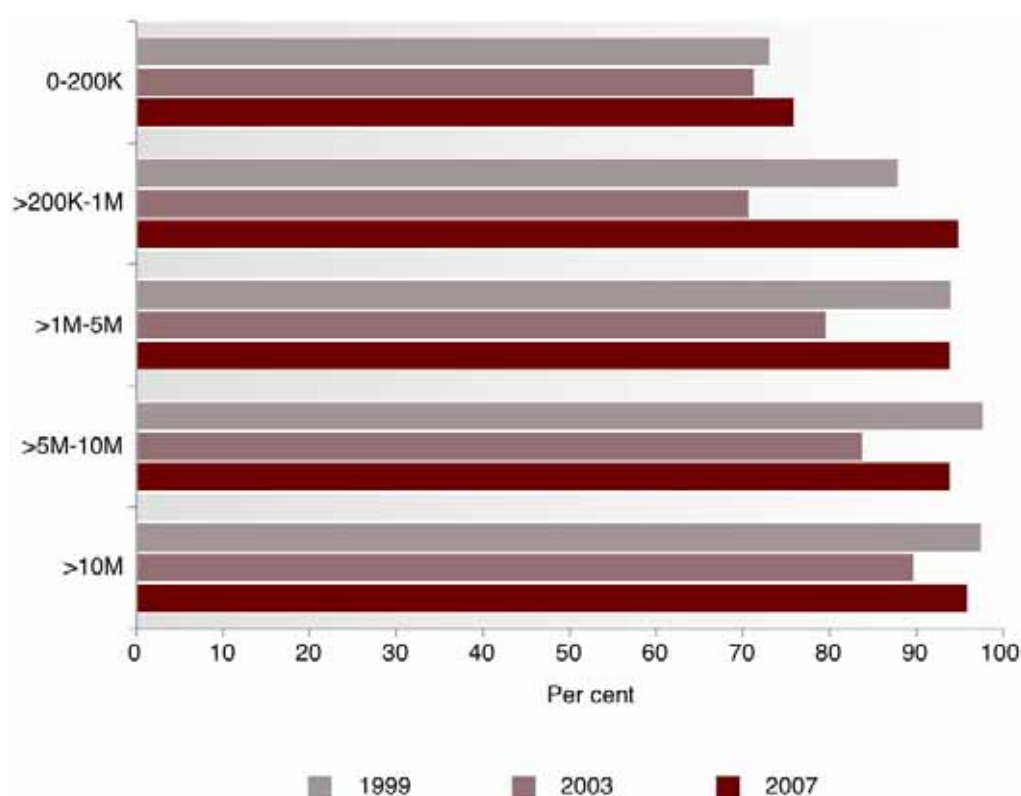
| Club size | Sport facilities | Club building/facilities | Accommodation | Gaming machines | Other | Total |
|--------------|------------------|--------------------------|---------------|-----------------|-------|---------|
| 0 – 200K | 124.2 | 328.1 | 0.2 | 10.6 | 48.6 | 511.8 |
| >200K – 1M | 74.1 | 465.4 | 5.6 | 66.5 | 63.3 | 674.8 |
| >1M – 5M | 86.2 | 1 236.6 | 64.8 | 171.8 | 80.1 | 1 639.5 |
| >5M – 10M | 28.8 | 656.2 | 16.1 | 82.6 | 74.0 | 857.6 |
| >10M | 82.1 | 1 842.1 | 128.2 | 204.5 | 260.3 | 2 517.1 |
| Total | 395.4 | 4 528.4 | 214.9 | 536.0 | 526.3 | 6 200.9 |

Note: Other included items such as furniture, plants, equipment, motor vehicles, shares and other investments, machinery and other items.

Source: Allen Consulting Group, 2007 Survey of Clubs in NSW.

The vast majority of clubs (over 90 per cent) reported some capital expenditure in 2007. However, the smallest clubs had a lower level of capital expenditure (around 80 per cent). All club size categories experienced an increase in the proportion of clubs reporting capital expenditure between 2003 and 2007. This is reflected in figure 5.27.

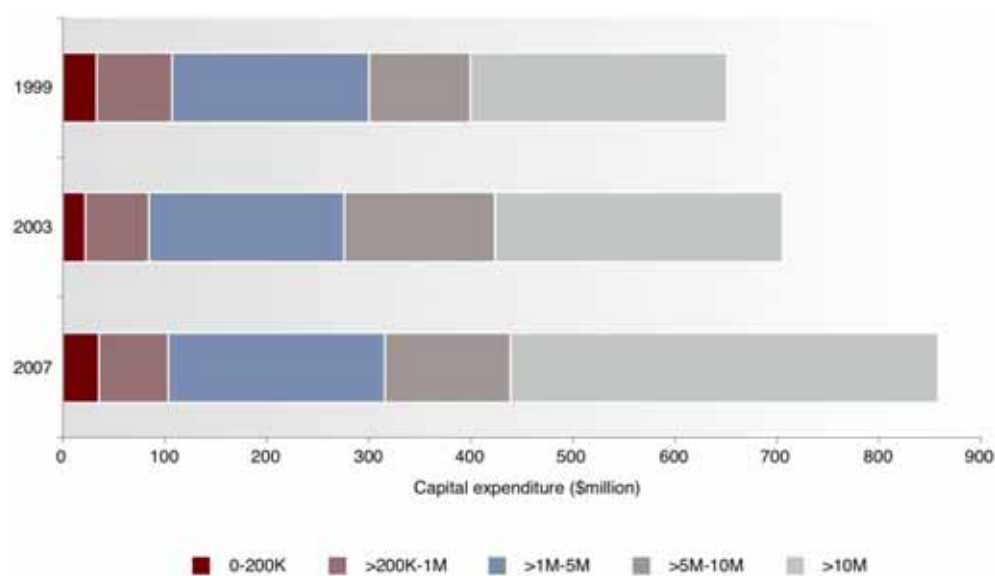
Figure 5.27: Proportion of clubs reporting capital expenditure over time by NSW club size



Source: Allen Consulting Group, 2007 Survey of Clubs in NSW.

Investment intentions have materialised in greater capital expenditure over time. Figure 5.28 shows that NSW clubs invested \$858.2 million in capital expenditure in 2007. Capital expenditure has increased by 22 per cent from 2003. The largest clubs (49 per cent) and the smallest clubs (60 per cent) experienced the greatest increase in capital expenditure.

Figure 5.28: Capital expenditure of NSW clubs over time



Source: Allen Consulting Group, 2007 Survey of Clubs in NSW.

Clubs in NSW spent \$705 million in 2003 extending, renovating or maintaining club facilities and purchasing capital items and additional businesses or facilities. This represents growth of two per cent per annum since 1999. Clubs with gaming machine revenue of \$1 million or more contributed 88 per cent of the total spend.

Future investment by clubs

In 2007, NSW clubs plan to invest \$3.3 billion over the next three years with over 85 per cent of this being invested in club facilities.

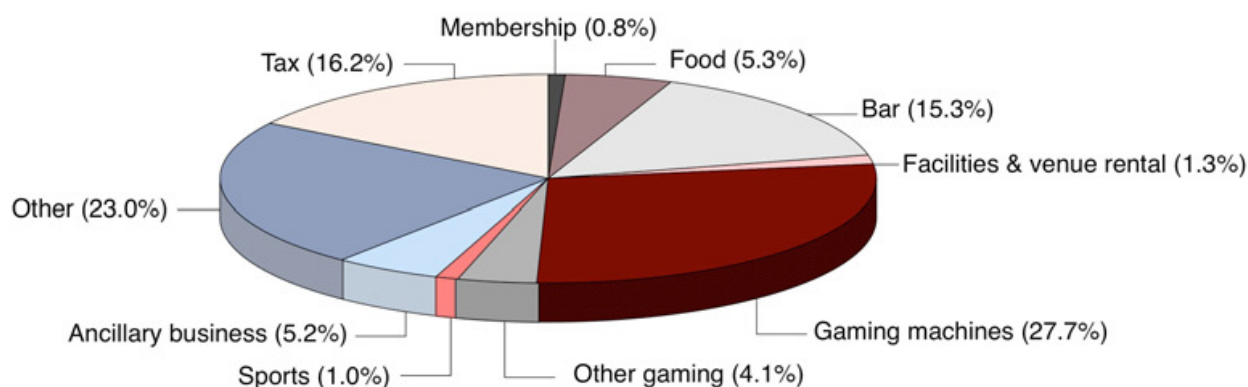
NSW clubs plan to invest \$2.8 billion in club facilities over the next three years. Seventy-four per cent of all clubs are likely to invest in club facilities. This investment is likely to be in new buildings and extensions (48 per cent), followed by refurbishments (14 per cent) and gaming machines (14 per cent).

NSW clubs plan to invest \$447 million over the next three years in sporting facilities. Around 35 per cent of all NSW clubs intend to invest in sporting facilities over the next three years. This investment is planned for fields and grounds (36 per cent), followed by other sporting facilities (30 per cent) and sporting infrastructure (28 per cent). Policy certainty is essential if clubs are to deliver on these plans.

(b) Australian Capital Territory

The Allen Consulting Group found that the estimated total expenditure for clubs in the ACT in 2007 was \$207.8 million. In 2002, the reported total expenses paid was \$240.4 million (CPI adjusted), indicating that clubs' overall expenses has declined by 14 per cent in the five years to 2007. As shown in Figure 3.3, expenses associated with gaming machines dominated the expenses (33 per cent). Other expenses (23 per cent), taxation expenses (16 per cent) and bar expenses (15 per cent) were other large components of club expenditure.

Figure 5.29: ACT club expenses by type of expense



Source: Allen Consulting Group, Survey of Clubs in the ACT 2007.

The Allen Consulting Group found in 2007 that clubs in the ACT invested \$40 million in capital expenditure in 2007, with the major investment in new buildings and extensions (34 per cent), gaming machines (34 per cent) and refurbishments (22 per cent). Clubs estimate they will spend another \$189 million over the next three years on facilities and sporting organisations.

Total assets held by clubs in the ACT are estimated to be worth \$211.3 million, representing a decrease of 22 per cent in the value of total assets since 2002 (when assets were valued

at \$271 million). One reason for this decrease is that, in recent years, some clubs in the ACT have been selling capital assets that have not been productive.

Of total assets currently held by clubs in the ACT, 70 per cent were club buildings and facilities, 7 per cent were accommodation assets and 9 per cent were gaming machines assets. In 2007, small and medium clubs were responsible for 54 per cent of the total debt held by clubs in the ACT and 80 percent of the total interest payments. On average, clubs reported a debt to asset ratio of 29 per cent, with large clubs reporting a lower debt to asset ratio than small and medium clubs. ACT gaming machine taxes represent, by far, the largest percentage of the expenses paid in 2007 (54 per cent).

Figure 5.30: ACT club assets by type of asset (\$ million)

| Club size | Sport facilities | Club building/facilities | Accommodation | Gaming machines | Other | Total |
|------------------|------------------|--------------------------|---------------|-----------------|---------------|----------------|
| Large | \$1.0 | \$106.0 | \$15.0 | \$18.1 | \$22.2 | \$162.3 |
| Medium and small | \$6.9 | \$41.0 | \$0.0 | \$1.0 | \$0.1 | \$49.0 |
| Total | \$7.9 | \$147.0 | \$15.0 | \$19.1 | \$22.3 | \$211.3 |

Note: 'Other' included items such as furniture, plants, equipment, motor vehicles, shares and other investments, machinery and other items. Source: Allen Consulting Group, *2007 Survey of Clubs in NSW*.

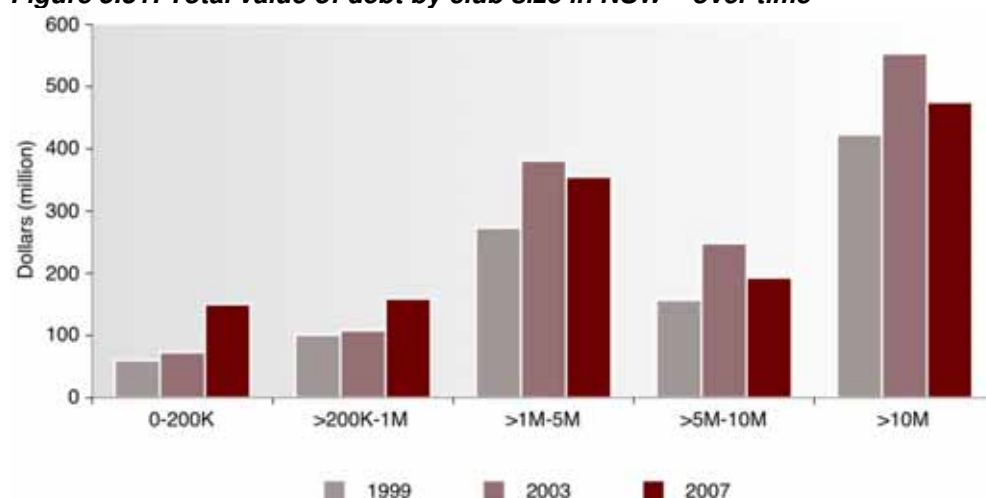
5.7 DEBT

Clubs accumulate debt to invest in new facilities for their members or to cover shortfalls in cash flow. The level of debt held by clubs is closely related to capital expenditure. Clubs' ability to service debt depends on continued revenue growth, especially from gaming. We are seeing financial institutions, in response to the Global Financial Crisis, declining finance for many clubs and seeking to pressure clubs into refinancing existing facilities.

(a) New South Wales

Figure 5.31 summarises the total level of debt held by NSW clubs by club size. In 2007, the total value of debt held by clubs in NSW was estimated to be \$1.33 billion. This represented a two per cent reduction from the level estimated in 2003 (\$1.36 billion).

Figure 5.31: Total value of debt by club size in NSW – over time



Source: Allen Consulting Group, *2007 Survey of Clubs in NSW*.

Smaller-sized clubs suffered a sharp increase in total debt which contrasts with the decrease in debt held by medium and large-sized clubs. The survey shows an interesting pattern in the financial performance of smaller clubs (those earning less than \$1 million in gaming machine revenue) – between 2003 and 2007, there has been an increase in total revenue, assets and profitability coupled with an increase in debt held by these clubs.

Clubs earning more than \$5 million but less than \$10 million in gaming machine revenue reported a 22 per cent reduction in their total value of debt – the largest of any club type. The survey shows that for the larger clubs (those earning more than \$5 million in gaming machine revenue) there has been an increase in total revenue and assets coupled with a fall in debt and profitability.

Debt was held in a variety of financial instruments (see Figure 5.32). The data shows that as the size of the club increased, their use of commercial bill facilities also increased, while their use of overdrafts and 'other finance' decreased. Smaller- and medium-sized clubs also tended to rely on operating leases and chattel mortgages more than larger-sized clubs.

Figure 5.32: Total debt split by debt instruments by NSW club size, 2007

| Debt instrument | \$0 – 200K | >\$200K – 1M | >\$1M – 5M | >\$5M – 10M | >\$10M | Total clubs |
|----------------------------|------------|--------------|------------|-------------|--------|-------------|
| Bank debt | | | | | | |
| Term loans | 23% | 29% | 37% | 25% | 13% | 28% |
| Commercial bill facilities | 5% | 8% | 17% | 40% | 53% | 20% |
| Overdrafts | 12% | 7% | 4% | 2% | 3% | 5% |
| Equipment finance | | | | | | |
| Operating lease | 8% | 8% | 9% | 6% | 3% | 7% |
| Finance lease | 5% | 9% | 7% | 3% | 7% | 7% |
| Commercial hire purchase | 9% | 7% | 7% | 9% | 8% | 8% |
| Chattel mortgage | 1% | 1% | 2% | 0% | 0% | 1% |
| Other finance* | 38% | 32% | 17% | 16% | 13% | 23% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% |

Note: Other finance includes Trade Creditors and short term provisions.

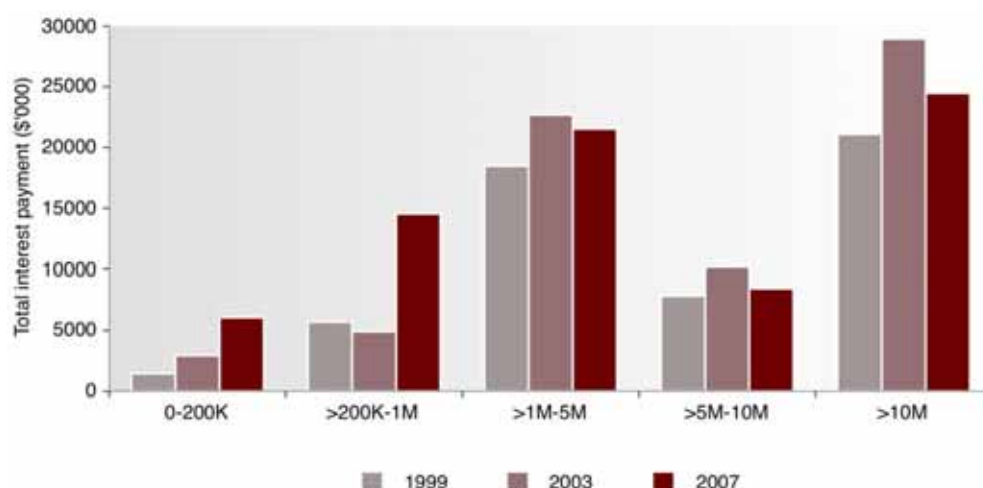
Source: Allen Consulting Group, 2007 Survey of Clubs in NSW.

Interest payments

Despite the decrease in total debt held by clubs, total interest payments increased to \$75 million in 2007 representing an 8 per cent increase since 2003.

Figure 5.33 summarises total interest payments in NSW by club size. There is a close association between the level of debt and the level of interest payments. Reflecting the increased level of debt held by small clubs, the level of interest payments for these clubs has increased since 2003. Similarly, larger clubs experienced a reduction in total debt and in interest payments.

Figure 5.33: Total interest payments over time by NSW club size



Source: Allen Consulting Group, 2007 Survey of Clubs in NSW.

Performance ratio

One way of establishing the overall financial position of a club is to measure the debt to asset ratio. Figure 5.34 shows the proportion of debt to assets by club size category. On average, the survey suggested that club performance has improved with NSW clubs' debt to asset ratio falling by 7 percentage points to 9 per cent. Interestingly, the smallest clubs moved against this trend with their debt to asset ratio increasing by nearly 6 percentage points over this period. This is explained by the faster growth in debt relative to the growth in total assets for the smallest sized clubs.

For the larger clubs, the debt to asset ratio fell by 13 percentage points since 2003. The increased proportion of clubs that were profitable in 2007 (as defined in Figure 5.34) may explain the reduction in the performance ratio of these clubs. Note this was prior to the smoking band and global financial crisis.

Figure 5.34: Club performance ratios by club size

| Club size | % Debt/asset | | Change since 2003 (percentage point change) |
|--------------------|--------------|--------------|--|
| | 2003 | 2007 | |
| 0 – 200K | 20.2% | 26.1% | 5.9% |
| >200K – 1M | 21.8% | 18.7% | -3.1% |
| >1M – 5M | 24.5% | 19.9% | -4.6% |
| >5M – 10M | 24.2% | 18.2% | -5.9% |
| >10M | 29.6% | 16.5% | -13.1% |
| Total clubs | 25.7% | 18.6% | -7.0% |

Source: Allen Consulting Group, 2007 Survey of Clubs in NSW.

(b) Australian Capital Territory

The Allen Consulting Group found that in 2007 clubs in the ACT held a total of \$72.6 million in debt through a variety of debt instruments. The total level of debt held by medium and small clubs represented just over half (54 per cent) of the total debt held by all clubs in the ACT.

Interest payments

As a result of financing debt, the Allen Consulting Group has estimated that clubs in the ACT paid a total of \$7.7 million in interest payments in 2007. The higher levels of debt for medium and small clubs translated into considerably higher levels of interest payments. Medium and small clubs made more than 80 per cent of the total interest payments. This variance between the levels of interest paid may reflect the differences in the types of debt instrument used and the higher level of perceived risk in providing finance to medium and small clubs.

Performance ratio

On average, ACT clubs that responded to the Allen Consulting Group 2007 survey reported a debt to asset ratio of 29 per cent. Large clubs had a lower debt to asset ratio than small and medium clubs. This result mirrors the high level of profitability currently being experienced by large ACT clubs, and hence their capacity to finance new facilities for members without acquiring debt. Additionally, the low levels of debt held by large clubs may reflect their higher capacity than the medium and small sized clubs to minimise debt.

5.8 CLUBS PRODUCE SIGNIFICANT FLOW-ON ECONOMIC BENEFITS

Clubs generate flow-on *employment* and activity in a number of industries, including:

- Gaming machine manufacturing, maintenance and repairs industry;
- Food and beverage supply industry;
- Sport and recreation industry;
- Tourism industry (for example, accommodation, restaurants and taxi and bus transportation);
- Entertainment industry (for example, live shows, cinemas and recorded music);
- Building and construction industry (for example, upgrading and expanding buildings and facilities);
- IT and communications industry (for example, telephone, computer, radio and television services);
- Child and aged care industry;
- Retail industry (for example supermarkets, travel agents, hairdressers); and
- Security industry.

In examining the economic contribution of clubs, it is necessary to not only take into account their direct economic contributions, but also the club sector's flow-on economic contributions. Input-output analysis provides a basic estimate of the flow-on economic contributions of clubs through club investment and employment.

The following sections examine the nature of club linkages with other linkages and their flow-on economic contribution.

(a) Input-output analysis, New South Wales

Using output and employment multipliers derived using the Australian Bureau of Statistics national input-output tables for 2001/02²¹⁴ it is estimated that, in terms of:

- *output* — every \$1 million of goods and services invested by clubs induces \$1.04 million of flow-on output to the national economy. Using capital expenditure as a proxy for club investment, it is estimated that due to the operation of clubs alone there is an additional \$888.44 million in direct and flow-on output to the national economy (the flow-on component is equal to \$30 million); and
- *employment* — for every person employed by clubs, it is estimated that an additional 1.06 employees are directly and indirectly employed across the NSW economy, which is equal to 45 931 employees. The flow-on component is equal to 2600 employees outside the club sector.

In the absence of equivalent surveys of the Club Movement nationally it is possible, though not scientific in approach, to extrapolate these figures. ClubsAustralia would welcome the Productivity Commission's input in calculating the economic flow-on benefits of clubs to Australia.

(b) Input-output analysis, Australian Capital Territory

Using output and employment multipliers derived for the ACT in 2001/02 (EconSearch 2003), it is estimated that, in terms of:

- *output* — every \$1 million of goods and services provided by clubs in the ACT induces \$1.36 million of flow-on output to the ACT economy. Using capital expenditure as a proxy for club investment, it is estimated that there is \$54.44 million in direct and flow-on output to the national economy (the flow-on component is equal to \$14.44 million); and
- *employment* — for every person employed by clubs in the ACT, it is estimated that an additional 1.27 employees are directly and indirectly employed across the ACT economy, which is equal to 2754 employees (the flow-on component is equal to 577 employees outside the club sector).

5.9 LINKAGES TO TOURISM

Clubs actively participate in economic development initiatives around tourism and are crucial to tourism development and promotion in their local areas, especially regionally. This is particularly the case for sport-related tourism.

Contribution to tourism – case studies

Tweed Heads

Twin Towns Services Club is a key facilitator of tourism in the Tweed region, attracting over 700,000 visitors per annum, mostly from Queensland, to its facilities at Twin Towns, Club Banora and Twin Towns Resort. Since 2000, Twin Towns has expanded its club and resort facilities, which has made the club increasingly attractive to both locals and tourists. These developments include:

²¹⁴ Information from Table 2 of the ABS' 2001/02 *Input-output tables* was used for the 'sport, gambling and recreational services' sector. The output and employment multipliers are based on national input-output tables, not those specific to NSW.

- Opening the Club's Millennium Tower
- Opening 'Breezes Live', a venue for bands and other entertainment facilities,
- Refurbishment of many existing facilities, including the Buffet Grill and sports bar
- The Resort has moved to an online booking system
- Purchase of site administration centre and decentralised accounting and administration functions
- Opening of the Grandview function room
- Opening of Visions conference centre
- Purchase of Twin Towns Juniors
- Construction of the \$94m Harbour Tower

The club has increased both the number and quality of attractions it offers. Its 1,050-seat auditorium now holds 14 major events per month, a major expansion from the six held in 2000. Events are varied. For example, in the month of July 2007, music acts ranged from the famous Jimmy Barnes to the locally produced Tweed Theatre Company. These events are in addition to the 150 hours per week of free live entertainment and music provided at the club which caters to both the tourist and local markets. Free entertainment includes movie screenings every Monday in the Twin Towns Showroom. This program of entertainment is particularly beneficial for the area's many younger people.

The majority of growth experienced by the club and tourism in the area is a result of the increase in conferencing and daytime entertainment events. Twin Towns provides first-rate conference facilities and its provision of convention facilities is significant for the region. The club provided these facilities when no one else was willing or able to invest in them. The facilities are well located for conferences due to its proximity to the airport (three kilometres). Twin Towns offers 15 meeting rooms over its three main properties. Its conference facilities were recently used for the Australian Tourism Export Council symposium. Without conference facilities of this scale, the region may not have been able to host the more than 600 delegates who attended.

The club's future plans include the development of a \$12 million new conference centre, as part of a \$25 million redevelopment, which will accommodate up to 1000 delegates.

Apart from conference facilities, Twin Towns has two 18 storey resort towers: Ocean Tower and Harbour Tower, with a total occupancy capacity of 800 people. Facilities include indoor and outdoor pools, spa, gymnasium, private balconies, valet parking and a range of services. The Harbour Tower was a joint \$90 million development of 198 rooms. This has enabled Twin Towns to host more tourists in the region because it focuses on providing holiday accommodation. This is in contrast to Ocean Tower, which has more owner-occupiers. It is of note that ten specially designed immobility units have been included in the Harbour Tower. Many club members have purchased, and live in, units in Ocean Tower because of its close proximity to the club.

However, in December 2007, Twin Towns outsourced management of the club's hotel facilities and sold the management rights over the apartment complexes. These are, therefore, no longer members' facilities. The club felt it needed to distance itself from these facilities because of a long-standing expectation amongst members that they be cheap. Since December 2007, prices in the hotel have risen by 40 per cent.

These changes were made directly because of falling revenues that occurred subsequent to legislative changes affecting poker machine taxes and smoking regulations.²¹⁵

²¹⁵ UMR Research Pty Ltd, "NSW Clubs in their Local Communities – A Case Study", commissioned by ClubsNSW, 27 February 2009

Dubbo

Dubbo RSL draws many visitors from regional areas, because of the facilities and entertainment it offers. The RSL therefore has a substantial impact on communities beyond its immediate catchment area. An example of Dubbo RSL providing a draw card for rural visitors is Dubbo RSL's Health and Aquatic Centre, the largest centre of its kind west of Penrith. The centre attracts weekly visitors from as far as Lightning Ridge, 350 kilometres away. The broad scope and quality of entertainment acts that Dubbo RSL secures also attracts many regional tourists. In 2006 the reported economic benefit for the Dubbo community from such entertainment acts was approximately \$7 million.

Dubbo RSL's conference centre facilities and 34-room motel also facilitates economic development and promotes tourism in the city. During 2008, Dubbo RSL hosted approximately 1,100 corporate functions, conferences and meetings (up from 600 in 2006), many of which were regional events attracting participants from out of town. Such events provide a significant flow-on injection into Dubbo's local economy, increasing demand for local accommodation and goods and services.²¹⁶

Lightning Ridge

The area of Lightning Ridge is growing increasingly reliant upon a steady influx of tourists who enjoy the opal field experience. The Lightning Ridge Bowling Club makes a direct and much needed contribution to this tourist market through its sponsoring, staging and managing of the bi-annual Opal Jewellery Design Awards Festival. The festival draws international judges, visitors and many Australian celebrities who model new designs. The economic benefit brought to the town and its local businesses twice a year by the festival is invaluable. In addition to the festival, the club holds the long running Gem Expo and Ball which attracts people from other regional areas.

The club also provides financial and in-kind assistance to the local Tourism Office. For example, the club provided a coffee machine for visitors to the centre valued at \$5,600 and provided \$8,500 for signage works. As in-kind support, the club provides a meeting space and offers both administrative and management assistance. The general manager envisages that in the future the Club will provide support for staff costs for the Tourism Office, because Walgett Shire Council, which is in administration, may cease future funding support.

Each year Lightning Ridge hosts the 'Great Goat Race', which attracts thousands of tourists to the region each April. In 2008 the race organisers could not afford to pay the public liability insurance for the event, so the Club negotiated an insurance arrangement covering the event under the club's public liability insurance, allowing the race to go ahead and continue to take place in the future.²¹⁷

(a) Live entertainment, including music

According to the ABS, in 2004/05, hospitality clubs provided 114,082 paid live performances. According to APRA (Australasian Performing Right Association), most clubs are licensed for live music. NSW clubs alone provide nearly one-third of the Australian live music spend by hospitality venues.

²¹⁶ UMR Research Pty Ltd, "NSW Clubs in their Local Communities – A Case Study", commissioned by ClubsNSW, 27 February 2009

²¹⁷ UMR Research Pty Ltd, "NSW Clubs in their Local Communities – A Case Study", commissioned by ClubsNSW, 27 February 2009

Figure 5.35: Number of venues licensed for and amount spent on live music by jurisdiction

| APRA venues licensed for live music | ACT | NT | NSW | QLD | SA | TAS | VIC | WA | Nation | Live music % |
|-------------------------------------|-----|----|-------|-------|-----|-----|-----|-----|--------|--------------|
| Hotels/bars/nightclubs | 19 | 26 | 540 | 549 | 212 | 56 | 457 | 234 | 2,094 | 23% |
| Clubs | 26 | 19 | 752 | 326 | 80 | 15 | 170 | 58 | 1,446 | 58% |
| Restaurants/cafes | 3 | 5 | 72 | 177 | 46 | 6 | 101 | 35 | 445 | 1% |
| TOTAL | 48 | 50 | 1,364 | 1,052 | 338 | 77 | 728 | 327 | 3,985 | 8.22% |

| Estimated \$ spend on live music | ACT | NT | NSW | QLD | SA | TAS | VIC | WA | National |
|----------------------------------|-----------|-----------|------------|------------|-----------|-----------|------------|------------|-------------|
| Hotels/bars/nightclubs | 769,708 | 2,017,029 | 23,164,363 | 19,194,706 | 7,127,004 | 1,879,785 | 19,833,955 | 12,545,356 | 86,541,854 |
| Clubs | 1,376,339 | 567,034 | 51,630,356 | 14,940,661 | 769,301 | 59,536 | 4,677,217 | 1,087,648 | 75,108,090 |
| Restaurants/cafes | 86,635 | 64,305 | 1,037,655 | 1,772,520 | 223,457 | 200,615 | 1,551,766 | 851,511 | 5,788,464 |
| TOTAL | 2,232,682 | 2,648,368 | 75,832,373 | 35,907,887 | 8,119,762 | 2,139,936 | 26,062,937 | 14,484,515 | 167,438,407 |

Within the entertainment industry, many successful careers have been launched from the club circuit. Whereas many hotels and performance venues have cut back significantly on live acts, clubs continue to provide significant opportunities for local entertainers and bands to advance their talents.

Clubs also support emerging acts through programs such as the Talent Development Project in Western Sydney, which has nurtured artists such as Paulini and Human Nature, as well as thousands of talented secondary school students.

Many clubs seek to provide a broad range of live entertainment options. For example, Dubbo RSL seeks to meet the interests of its broad membership profile with a diverse array of acts. Recent acts include Merrick and Rosso, the Howie Brothers, the Carlotta Revue, Grinspoon and a Red Hot Chilli Peppers Tribute band – with the diversity of the acts reflecting the diversity of the audiences Dubbo RSL seeks to attract. The quality of acts that Dubbo RSL secures also attracts regional tourists, ensuring an economic benefit for the Dubbo local community.

Dubbo RSL also supports the development of local music, ensuring Thursday, Friday and Saturday night a local band performs and showcases community talents. Local talent is developed by Dubbo RSL through its 'Music Club', which is made up of a diverse membership, and is charged with teaching members both performance skills and how to play instruments. Many of the local bands that perform at Dubbo RSL were born from 'Music Club' activities.²¹⁸

²¹⁸ UMR Research Pty Ltd, "NSW Clubs in their Local Communities – A Case Study", commissioned by ClubsNSW, 27 February 2009, pp.37-38

5.10 AGED CARE

Clubs are not only important meeting places and social outlet for the elderly but they are increasingly supporting the needs of this growing demographic by moving into aged care services.

Case study: The Richmond Club, NSW

The Richmond Club in outer Sydney is a prime example of the involvement of clubs in aged care and senior's living, particularly in a regional area where the private sector has been unwilling to provide this necessary service. The club sees this as a service to its ageing members who want to retire and remain living in the area.

The Club, in conjunction with its affiliate Hawkesbury Living, is the largest aged-care provider in the Hawkesbury. Hawkesbury Living is the aged care service encompassing Norman Court Retirement Village and Richmond Community and RSL Nursing Home. These facilities include both high care and independent living units, and the Hawkesbury's first specialist dementia ward.

The Club merged with the local nursing home in 2005 and since then has committed in excess of \$800,000 to improve the facilities and ambience of the nursing home. The Club has supported Hawkesbury Living's nursing home facility through the purchase of new electric beds and other equipment and materials. It spent approximately \$100,000, including \$10,000 on linen. The facility expanded in February 2009 to 88-beds.

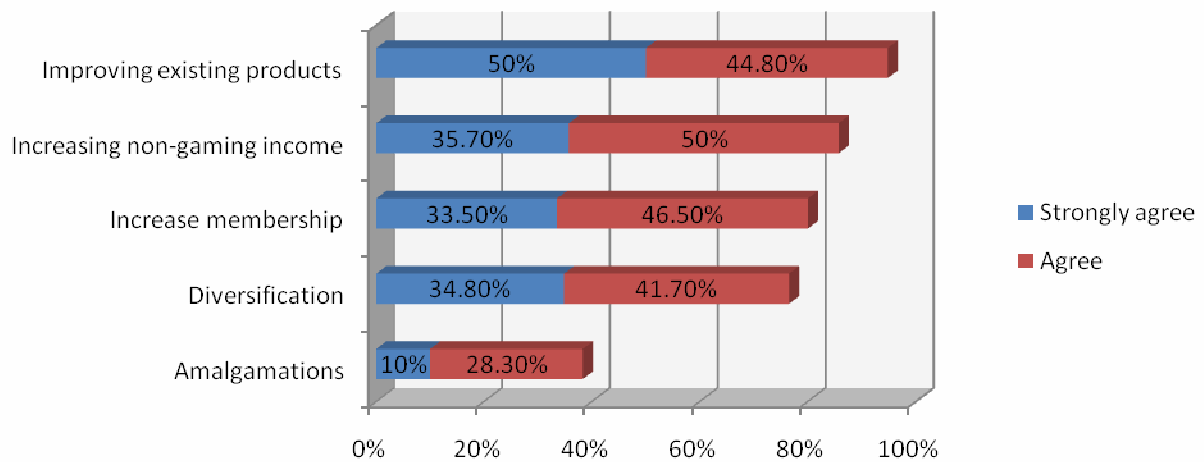
The need for these aged-care facilities is reflected in the fact that the beds have an occupancy rate of 99.8 per cent. Having these facilities in the Hawkesbury region means that the aged can remain within their community and near their families, which is of benefit to their physical and emotional wellbeing.

The nursing home is currently in the first stage of a master plan for the future to further provide for aged-care within the community. This will involve an extensive aged care development within and around the existing aged care facility. Five extra bed licences have been obtained for this. Hawkesbury Living is applying for a further 12 bed licences and assessing options to provide disability services, social housing and additional independent living units for the community.

5.11 DIVERSIFICATION

Clubs are driving economic activity through the process of income diversification. Although gaming is considered part of clubs' core business and forms a large proportion of revenue, clubs are diversifying their operations for a number of reasons, among them competition from other gaming and gambling operators, increased gaming machine taxes, and member/community demand. Clubs recognise that a range of business strategies must be pursued in the interests of financial viability, and that diversification may feature prominently among these. Ucomm asked clubs in NSW to consider strategies that might address the financial challenges that exist. Figure 5.39 outlines clubs' response to this question.

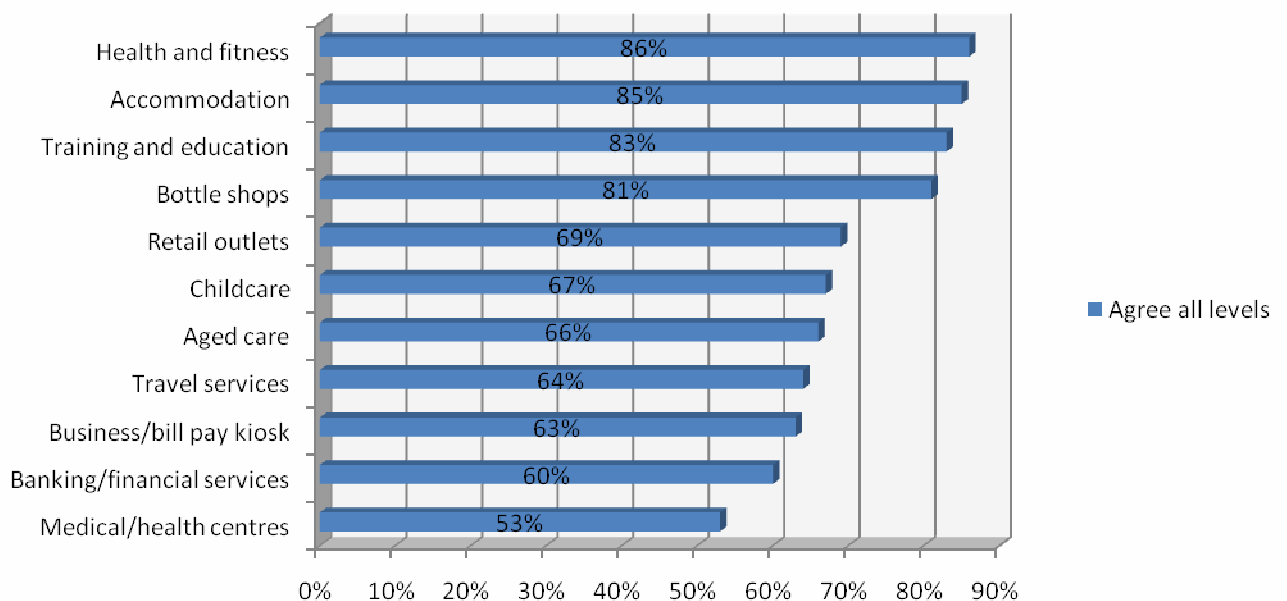
Figure 5.36: Response strategies – next five to ten years, all clubs



Improving the return on existing products and services is the most highly ranked strategy and some of the issues relating to this are discussed later. However, diversification and increasing non-gaming income figure prominently.

A wide range of responses of possible business diversification were submitted and are outlined in Figure 5.37.

Figure 5.37: Business diversification; legitimacy of business options, all clubs



There is also acceptance among the broader community that diversification is a legitimate business strategy for clubs. ClubsConsulting found that club-goers rank health and fitness facilities, childcare and aged care highly among potential new lines of business and service facility options for clubs.

ClubsAustralia agrees with IPART's finding that diversification will not reduce the reliance on gaming machine revenue as a cornerstone of their long-term financial viability²¹⁹. There are significant financial risks for clubs, particularly those taking on large projects and relying heavily on expensive outside project management assistance to bring them to fruition.

As IPART has pointed out, it will take considerable time to reduce clubs' reliance on gaming. It will also involve considerably more support and assurance from government in dealing with:

- Ongoing uncertainties and ambiguities in regard to regulation governing the industry;
- The current state of flux in planning;
- Ongoing ambiguities in regard to smoking legislation in some jurisdictions;
- The period of time to physically deliver the construction of new facilities that capture the diversification income streams, assuming planning approvals are achieved; and
- Once constructed those additional income streams need between one and three years to establish projected profitability.

Club diversification can assist the government in pursuing its own policy goals, for example in the provision of aged-care facilities and attempts by governments to address the shortage of aged-care places, a problem that will escalate as the population ages. Importantly, the form diversification takes should not be restricted by government at any level.

Figure 5.38: New lines of business – preference

| BUSINESS TYPE | PREFERENCE RESPONSE |
|------------------------|---------------------|
| Health and fitness | 67% |
| Childcare facilities | 37% |
| Aged care facilities | 30% |
| Travel agencies | 21% |
| Loan/investment advice | 14% |

Source: ClubsConsulting, Club Goers Survey, 2006, p. 49.

Reduced gaming dependency

Diversification is seeing club reliance on gaming reduce over time. In NSW, the 2007 SEIS Report indicated that clubs' dependence on gaming revenue as an overall percentage of revenue has decreased since 2003 from 68.4 per cent to 63.2 per cent. This significant decrease in the dependence on gaming revenue indicates that diversification is occurring and that clubs are increasingly focusing more heavily on hospitality and membership as sources of revenue. The figure below compares clubs' sources of revenue from 2003 to 2007.

²¹⁹ IPART, Review of the Registered Clubs Industry in NSW, June 2008, p6

Figure 5.39: Sources Of Revenue – Comparison 2003 To 2007

| | PERCENTAGE OF TOTAL REVENUE | | CHANGE SINCE 2003 (% POINT CHANGE) |
|---------------------------|-----------------------------|-------------|---------------------------------------|
| | 2003 | 2007 | |
| Membership | 1.4% | 3.2% | 1.8% |
| Food | 7.0% | 7.0% | No change |
| Bar | 14.8% | 16.6% | 1.8% |
| Facilities & venue rental | 0.8% | 1.1% | 0.3% |
| Gaming machines | 68.4% | 63.2% | -5.2% |
| Other gaming | 1.9% | 2.2% | 0.3% |
| Sports | 1.3% | 2.0% | 0.7% |
| Ancillary business | 1.4% | 1.8% | 0.4% |
| Other ^(a) | 3.1% | 2.9% | -0.2% |
| Total | 100.0% | 100% | |

Note: May not add precisely to 100 per cent due to rounding.

(a) Other includes donations, cash grants, abnormal & extraordinary and other revenue.

Source: Allen Consulting Group, 2007 Survey of Clubs in NSW

Identifying alternative income streams

Clubs need to identify alternate activities that are compatible with the services already provided and relevant to the needs of members and the wider community. Such facilities may include accommodation, new community facilities and other commercial activities that can be focussed on the needs of members. Examples already in existence include residential and retail tenancy, accommodation hotels, aged-care facilities, tourist activities (guided tours, outback adventures and other travel services), fitness centres and carwashes and in one case, a service station.

Clubs considering diversification as an opportunity to enhance future viability are most likely exploiting an under-utilised or under-developed asset to provide a commercial return that would be impossible if the asset were to be acquired on an open market basis and then developed. These opportunities typically involve the club generating a one-off capital gain through the development of such property, which is applied to reducing debt or improving the building from which the club operates.

Case study: diversification at Dee Why RSL Club

This case study illustrates that where there is an undersupply of a proven community need and a proper feasibility study supporting diversification, such projects can be extremely successful for the club and the surrounding community.

Dee Why RSL has for some time followed a strategy of revenue diversification to reduce its reliance on gaming income. The club opened a carwash in 1995 which is extremely profitable and at the same time leased premises to a child-care centre operator. In 2002 the club opened a 24-lane 10-pin bowling centre. This is leased to AMF, the market leaders in 10-pin bowling and is a successful arrangement generating a surplus of \$514,000 in the year

ending June 2006. The club strengthened its relation with the bowling centre's new owners (Macquarie Leisure) during the year and this continues to perform well.

Recently the club signed a Development Rights Agreement with FKP for the development of a retirement village adjacent to the club premises. The DA has been prepared and submitted to council. This project will provide a significant capital injection plus long-term deferred management fee income. Construction of a second car wash catching northbound traffic and featuring water recycling was undertaken in 2006.²²⁰

Diversification to meet community needs

Any diversification of club activity should be sensitive to the needs of members and the broader community. Diversification should be actively encouraged by government policy. Importantly, the form diversification takes should not be dictated or engineered by government at any level. In most cases diversification, where it is happening now, is widely accepted by the community.

Indeed, club diversification can assist the government in pursuing its own policy goals. An example relates to the provision of aged-care facilities and attempts by the NSW Government to address the shortage of aged-care places, an issue that will escalate as the population ages.

Case study: diversification building hubs of social and economic activity, Revesby Workers Club

The experiences of Revesby Workers Club in pursuing a diversification strategy with the aim of becoming a community hub illustrate both the potential and challenges of such a strategy.

The Club set itself a series of long term objectives to change the nature of the business to maintain its long-term profitability. It determined to do this by using its land assets to better service a wider range of demographic and socio-economic groups. In this way the gaming revenue reliance would be significantly diminished.

It set itself an ambitious target of reducing its reliance on gaming from a current 68 per cent of EBITDA to 30 per cent upon completion of a program that includes growing an existing Health Club business fourfold, bringing to the community an Aquatics Centre with Learn To Swim and hydrotherapy facilities, and a high quality 90 place child care facility providing special facilities for 0-2 year olds and disabled children. These lifestyle uses that otherwise would not be available to the community will represent 29 percent of the Club's forecast income.

The Club recognised this would require considerable investment in optimising the use of existing Club property assets to diversify and grow its income and value. This investment to fulfil the diversification objectives will require years to fulfil, using appropriate resources and prudent management.

The Club achieved an appropriate commercial zoning for its property to allow a mixed use development in September 2006 after four years in planning consideration. The development management process with full professional resourcing has taken a further two years. The Master Plan calls for a construction completion of all elements of the development by mid 2011. This means that, rezoning aside, the Club will have taken a total of six years to achieve the proposed diversification as a result of various constraints imposed

²²⁰ ClubsNSW, Submission to Independent Pricing and Regulatory Tribunal *Review of the Registered Clubs Industry in NSW*, July 2007

by government policy and the practicalities of development.

The Club received two Development Consents in March 2008 for increasing the size of its existing Health Club and the Long Day Care Child Care Facility after eight months in planning consideration. A fully detailed Master Plan Development Application was lodged with Bankstown City Council in February 2008 and is currently under review. The Club does not expect a Consent or Rejection before the end of 2008 to enable development to proceed.

The figure below details the master plan for diversification at Revesby Workers Club which will create a mixed use development of 38,935m².

Club diversification and government policies

The Club's diversification strategy is delivering additional and relevant products and services, which its research has identified as being required by the community. In a number of key areas these services are not being funded by private enterprise or levels of government.

Diversification through development involves a major investment and comes with considerable risk to a Club. Revesby Workers Club has found that these risks are being exacerbated by conflicting government policies that are delaying the process, despite the fact the Club's diversification strategy has the potential to assist various levels of government in pursuing their own policy goals.²²¹

Figure 5.40: Master plan – mixed use development of Revesby Workers Club site

| ITEM | EXISTING | MASTER PLAN |
|-------------------------|-----------------------|-----------------------|
| HOSPITALITY VENUE: | | |
| Premises | 16,105 m ² | 15,910 m ² |
| COMMERCIAL PRECINCTS: | 0 | 1,660 m ² |
| Aquatic Centre | | 1,425 m ² |
| Child Care Facilities | 0 | 9,735 m ² |
| Community Retail Centre | 820 m ² | 4,440 m ² |
| Fitness Centre | 0 | 5,765 m ² |
| Hotel | | |
| TOTAL | 16,925 m ² | 38,935 m ² |
| Car Parking | 492 spaces | 1,300 spaces |

Source: Revesby Workers Club, April 2008.

Competition with other businesses

Concerns have been expressed that some activities of clubs may be crowding out other possible providers. One sensitive area has been the provision of accommodation. The Productivity Commission (then Industry Commission) specifically examined the question of accommodation in 1996. In its submission, ClubsAustralia (then the Registered and Licensed Clubs Association of Australia) demonstrated that the provision of accommodation was in response to the needs of members, the needs of the club's immediate community and gaps in the market were not being filled by private suppliers. The Commission found:

²²¹ ClubsNSW, Submission to Independent Pricing and Regulatory Tribunal *Review of the Registered Clubs Industry in NSW*, July 2007

*the development of accommodation by registered clubs, especially in areas not favoured by private developers, increases the diversity of accommodation available to tourists. Further, the provision of accommodation by registered clubs is a means of reducing the impact of potential accommodation shortages.*²²²

Some have also expressed concerns over club involvement in smaller retail operations. For example, the Productivity Commission in its 1999 report raised the example of a club that operated a butcher shop.²²³ The circumstances of its operation are instructive in showing how clubs, particularly in small communities, respond to community needs while seeking to run their operations efficiently.

The butcher shop was facing closure and club members, particularly those living nearby, sought their club's support to keep it open. The club invested to upgrade the shop and sourced its supply from the shop, then 100 per cent owned. It had essentially switched its meat supply from outsourcing to in-house supply. The majority of the shop's business was now with the club and the shop's remaining business was with club members and local residents. There is no evidence to show that any other butcher in the region was materially affected by the club's decision to keep the shop open. The advantage to the club was that it had greater control over the cost and quality of its material input. Its non-club sales assisted in the shop achieving scale economies.

ClubsAustralia argues it is difficult to apply broad determinations about what should or should not be approved as legitimate club activities. The composition of club activities is determined by member and community need. As demonstrated elsewhere in this submission, clubs' activities are led by the demands of their members and local community.

Further, ClubsAustralia rejects claims that clubs' mutual status provides them with an unfair advantage over other businesses. Such assertions represent a misunderstanding of clubs' tax treatment, as tax is paid on any income not derived from members. A more detailed discussion of this issue can be found in Chapter 7.

5.12 ALIGNMENT WITH COMMUNITY NEEDS

Clubs are also becoming increasingly sophisticated in the way they identify the needs of their community, consult with stakeholders, and plan and execute decisions about facilities and infrastructure. For example:

- Dubbo RSL has met an identified community need through the provision of a town centre car park, at the cost of \$3 million. The car park provides free entry for the entire Dubbo community, and is used by many people who commute into town for work.
- Mingara Recreation Club, on the NSW Central Coast, has also responded to the increasing suicide rate in its area through assisting with the establishment of the Central Coast Suicide Prevention Network. Mingara's Sports and Community Manager was actually a founding member of the network. The network works with a variety of other community representatives to address the suicide issue on the Central Coast. Thanks to Mingara's support, Wesley Mission now runs a new, similar program in Port Macquarie.²²⁴

²²² Productivity Commission of Australia, *Tourism Accommodation and Training*, AusInfo, Canberra, April 1996, p.176

²²³ Productivity Commission of Australia, *Australia's Gambling Industries 1999*, AusInfo, Canberra, 1999, p.176

²²⁴ In February 2006, Mingara amalgamated with the former West Port Macquarie Bowling Club.

The economic opportunities clubs provide for local businesses was also highlighted in focus groups conducted by Ucomm in NSW:

*We have three different bakers. Their orders from us alone would probably be worth 50 per cent of their business.*²²⁵

*If you took our club out of our community 3000 businesses would lose however much money that we actually spend with them. Just in a little place like [regional town], we'd probably be worth \$80,000 to \$100,000 to each of the butchers. If you take that out of there, well, it's full whack out of their income and that's before you go to the rest, as he said, 3000 suppliers. It would probably be the same for a lot of us and if we sat down and worked how many there is.*²²⁶

Clubs in some way fulfil roles and needs that are unmet by Government. A typical comment in focus groups conducted by Ucomm in July this year was:

*Government... does not know we exist out there. We know that our local hospital needs support for the bus which takes people from the retirement home around. We know what they want, because they're asking us, they're telling us. If they were to ask the government, because they are such a little organisation, they would miss out completely and that's my greatest concern in country areas in particular that they would be the ones that miss out. And we could provide that for them.*²²⁷

The following UMR case study illustrates how, particularly in regional areas, clubs play a central role in almost every facet of community life.

Case study: clubs and their communities – Lightning Ridge Bowling Club

Lightning Ridge, in far western NSW, is a unique community involving those driven by the lure of opal-based riches and those who are committed to the uniqueness of living in a cohesive, rural community with all its concomitant values. Whilst the opal industry is not as lucrative as it was some 20 years ago, UMR is advised that about \$80 million per annum is still churned out of the district. Given the somewhat transient nature of the Lightning Ridge population, it remains difficult to accurately measure the town's population. The club's General Manager believes it varies between 5,000 and 10,000, depending on the season. Many of the residents remain outside the 'system', so to speak, living in the cash and barter community. The area remains typified by high numbers of those receiving social security benefits. The community is ageing, but still has significant numbers of younger people (in the 3-21 years group). The LRDBC remains 'the focal point for every major community-driven initiative in the town'.

New and expanded programs

In 2000, the club's revenue was falling and it was facing having to curtail its community programs, donations and support. However, due to astute management and massive amounts of unpaid labour, this situation did not arise, with the club now providing more from less revenue. Bar revenue has dropped by a third and the club has now reduced its poker machines from 100 to 91. However, the Board and Executive staff have continued to expand their social programs.

The new pre-school

Since 2000, the Club has helped upgrade and repair a public preschool centre for children in the 0-5 years age group. This program has a particular focus on helping young children 'get

²²⁵ Ucomm, *Managers Focus Group Report*, commissioned by ClubsNSW, July 2007, p. 32

²²⁶ Ucomm, *Managers Focus Group Report*, commissioned by ClubsNSW, July 2007, p. 8

²²⁷ Ucomm, *Directors Focus Group Report*, commissioned by ClubsNSW, July 2007, p.8

ready' for their primary school orientation. It has an approximate 60/40 split between indigenous and non-indigenous children. The club provided two-thirds of the \$40,000 capital funds required. It donates \$10,000 per annum in a cash grant, and a further \$10,000 to subsidise the school's annual fundraising event. The club provides a bus free of charge to transfer the children to and from preschool to further their early learning. No one misses out because of any economic disadvantage.

Youth issues

The Lightning Ridge Bowling Club has expanded its long-term commitment to youth services through sports and various social functions. The club's 14 and 39 seat buses, with fuel and maintenance costs provided by the club, are available, at no charge, to five junior soccer and six junior rugby league teams. The local 'Blue Light Disco' operates in the club's upstairs auditorium. This is an ongoing project, with growing patronage. The local central school continues to use the club for public exams and various theatrical performances.

Older citizens

The club has a long-term involvement with 'older citizens'. Since 2000 it has supported the Secretary/Manager in total maintenance of the twelve aged units as well as one cottage which also houses older citizens. The Club has helped with fund-raising for the units for the aged committee, which has purchased land for a further six units to be built in the next 12 months. This funding involves \$350,000 raised for the building and furnishing of the new unit block and approximately \$80,000 to purchase the small cottage for an elderly woman. The club still continues to support the Funeral Advisory Service, a voluntary organisation chaired by the Secretary Manager. The service carries out 25-30 fully-services funerals per year at a highly subsidised cost of \$500 for club members. The program is now under review due to audit requirements, but will still operate without the subsidy.

Women's Health Project

The Yawarra Mea Mei Group provides a discrete health discussion clinic for a growing number of women in the community. The club provides meeting space, staff support and a referral service when necessary. This group operates in association with the Neighbourhood Centre, Domestic Violence and also handles emergency relief for those in need. Exercise classes for older women, tai chi, yoga and ballroom dancing are all new additions to the programs for older residents.

The club cooperates fully with the NSW Health Clinic (Hospital) in Lightning Ridge, allowing shared usage of the Club's morgue facilities and other building facilities and also helps with ongoing maintenance to their refrigeration. The club actively supports the United Hospital Auxiliary with funding from its CDSE contribution and in the past donated \$6,000 towards the purchase of a much needed humidicrib.

The TCC project provides support for the many residents in the area who do not have English as a first language. The club supplies fuel and vehicle maintenance for the interpreter and visitor program, at a cost of approximately \$5500 per annum. This program has expanded significantly over the past three to five years, as more prospecting has developed at the nearby Grawin Opal Fields. The Club provides an additional \$5500 to the local SES from its CDSE contribution.

The Club essentially provides the only meeting facility in town. This in itself is an invaluable asset for the community. Over 70 groups use the meeting facilities and premises of the club, from State Government departments to the local piano teacher.²²⁸

²²⁸ UMR Research Pty Ltd, "NSW Clubs in their Local Communities – A Case Study", commissioned by ClubsNSW, 27 February 2009

In addition to employment, clubs act as catalysts for local economic activity, providing opportunities for and developing programs that support local businesses. This is specifically the case in regional areas and is illustrated by the following case study.

5.13 IMPACT OF CLUBS IN RURAL AND REGIONAL DEVELOPMENT

Clubs play a particularly important role in regional and rural areas, where they are often the focus point for an entire town and surrounds. Forty five per cent of clubs are located in regional areas and the remainder (55 per cent) in metropolitan centres.

Comments made in focus groups conducted by Ucomm clearly identified the importance of clubs in regional towns:

There are hundreds and hundreds of clubs in regional New South Wales who have become the focus of a town of 100, 200, [who] will never be required under the law to make any formal contribution to CDSE, but they do huge amounts of work for their local community...anyone who lives in that little town knows that they can go to their local bowling club because that's where the mothers' group meet and the bingo players go and the knitting circle...40 per cent of the clubs in New South Wales are in regional areas...Deniliquin, Dubbo, Mudgee, all those areas where you're talking to people out there...All around up the coast and in the bush they are the centre of their community.²²⁹

If you're in the country, quite often the club in the country is the heart of the town...everyone is a member of the club and everyone uses that club. It's a real hub for that town. Social and business network. It's used for everything.²³⁰

Clubs also play an important role in regional economic stability through their support for local business as major purchasers within a town. For example, the Mildura Working Man's Club purchases goods and services from 150 local businesses. The club pays approximately \$400,000 per quarter to suppliers, a majority of which are within the local community.

Likewise, Dubbo RSL participates in Dubbo City Development Corporation (DCDC), a community-based organisation whose purpose is to promote and expand Dubbo as a business destination. In the past, the RSL has provided financial support to the corporation. The RSL's involvement in this group ensures the RSL is up to speed with initiatives designed to promote Dubbo city, allowing the Club to identify areas where it can contribute to the city's economic development. Dubbo RSL also promotes the town's economic development with a program providing a discount for in-club purchases to members who purchase products from local businesses.²³¹

Clubs also work hard to ensure they support their State or Territory's economy. In the ACT, 79 per cent of all goods and services sourced by Clubs were provided by suppliers within the Territory.²³²

²²⁹ Ucomm, *Directors Focus Group Report*, commissioned by ClubsNSW, July 2007, p. 34

²³⁰ UMR Research Pty Ltd, "NSW Clubs in their Local Communities – A Case Study", commissioned by ClubsNSW, 27 February 2009, p. 12

²³¹ UMR Research Pty Ltd, "NSW Clubs in their Local Communities – A Case Study", commissioned by ClubsNSW, 27 February 2009

²³² The Allen Consulting Group, *Socio-Economic Impact Study of Clubs in the Australian Capital Territory*, March 2008

5.14 PARTNERSHIPS WITH LOCAL GOVERNMENT

Clubs are increasingly partnering with other sectors of the community, including Local Government, to meet common needs. This can take the form of joint venture projects that match the particular needs and characteristics of the local population and reflect the diverse nature of communities. Clubs also seek advice from council, local community groups and State community service departments when making funding decisions to ensure their donations are directed in the best way possible.

ClubsAustralia believes this trend has accelerated as governments at all levels come under increasing pressure to deliver improved community facilities that underpin the Australian way of life. It is a natural and mutually beneficial act for clubs and governments to turn to one another to deliver the services that will improve their local area.

A 2000 KPMG report for ClubsNSW²³³ found a clear trend towards a joint venture approach by clubs in the provision of sports and recreation facilities in their communities. In the associated survey of 175 Councils, 33 per cent were aware of arrangements struck with clubs to develop sporting facilities within their respective communities. The extent of community partnerships in country areas was marginally higher than the Sydney metropolitan area. Joint ventures included:

- Councils and clubs providing ‘dollar-for-dollar funding’ towards community projects;
- Councils providing the land for sporting fields which the clubs maintain; and
- Complex joint ventures including not only the council and club, but other bodies such as sporting groups, environmental and tourism groups and State and Commonwealth government agencies.

In these community partnerships, clubs donate land or cash or assist in fundraising to develop local sporting facilities. They usually operate and maintain the facilities at their own costs for the benefit of the community, while the facilities are usually government-owned.

Case studies: Joint venture approach in the provision of sporting facilities

- Mingara Recreation Club, on the NSW Central Coast, is credited with the development of the Mingara Leisure Centre (Olympic standard indoor pool, international standard athletics track and national standard playing field) in partnership with local, State and Federal Government and sporting organisations.
- Lightning Ridge Bowling Club in western NSW played a pivotal role in the development of an Olympic standard pool and water theme park in Lightning Ridge. It did so in partnership with local residents and three tiers of government.
- The Dubbo RSL Health Centre in the NSW Central West has an overall philosophy of encouraging general wellbeing in the Dubbo community. Its facilities cater for the entire community, with programs such as special needs classes run for disabled children, rehabilitation classes for heart-attack victims, programs targeted at obese children and programs run for diabetes sufferers. The facilities of the Health Club include a 25-metre indoor heated pool, gymnasium, squash courts and sauna. In Dubbo, there is nothing to compare directly with this Health Centre. It reveals Dubbo RSL’s commitment to ‘fill the gap’ in the city’s community services and infrastructure, by investing in a project which is much needed, yet not economically viable for other investors, including local

²³³ KPMG Consulting, *NSW Clubs in their Local Communities Report*, commissioned by ClubsNSW, August 2000

government. In past years the RSL also bequeathed Jubilee Oval and sporting fields to Dubbo City Council for general community use.²³⁴

The KPMG work in NSW confirmed this symbiotic nature of the relationship between clubs and local government. The study showed that the concept of 'community partnership' which became apparent in the detailed case studies is a common theme, particularly in the country areas. Moreover, these community partnerships have often occurred at the instigation of the clubs themselves, following recognition of a community need or an opportunity that could be realised. Some key findings of the survey are as follows:

- 84 per cent of councils consider that clubs play an important role in providing sports and recreation facilities and services in their local areas.
- The majority of support is in the general encouragement of sports participation followed by the provision and management of sporting facilities, particularly for amateur sports.
- A high proportion of councils – 44 per cent – indicated that clubs play a role in tourism, arts or cultural activities. Again, more regional councils recognised this role: 51 per cent compared with 30 per cent for the metropolitan area. Activities included:
 - The organisation and support of local festivals;
 - Promotion of regional tourism;
 - Free use of club facilities for arts and cultural groups; and
 - Clubs acting as tourist information centres.²³⁵

ClubsAustralia believes that the relationship between clubs and local government has strengthened and grown in sophistication in the time since 2000.

Case studies: working with local councils²³⁶

- Since 2002, Mingara has expanded its relationship with Local Government (especially Wyong Shire Council and more recently Port Macquarie-Hastings Council) to help provide a number of sporting and social programs in the respective regions. In its latest 'Social Plan', Wyong Shire Council seems to be relying more and more on the registered clubs' CDSE program to resource a number of social programs.

Over the past five years councils in the area have begun charging commercial rates for the rental and use of community meeting spaces and halls. Given this, the meeting space facilities provided by Mingara on a subsidised basis are therefore facing increasing demand by various welfare groups, sporting clubs and local service clubs. The use of facilities is valued by the club at some \$35,000 per annum.

- Dubbo RSL is currently developing a Community Resource Centre that will provide adequate infrastructure for local community groups and services such as meals on wheels and disability support to operate from and possibly expand their capacities. (The development will cost the Dubbo RSL \$2.5 million over ten years.) The establishment of such a Community Resource Centre has been identified as a number-one priority in Dubbo City Council's 2007/08 Social Plan 'wish list'. The club's role in working with the council and providing for the local community is clear in Dubbo.

²³⁴ UMR Research Pty Ltd, "NSW Clubs in their Local Communities – A Case Study", commissioned by ClubsNSW, 27 February 2009

²³⁵ KPMG Consulting, *NSW Clubs in their Local Communities Report*, commissioned by ClubsNSW, August 2000

²³⁶ UMR Research Pty Ltd, "NSW Clubs in their Local Communities – A Case Study", commissioned by ClubsNSW, 27 February 2009

- Dooleys Club works closely with Auburn Council in western Sydney in the master planning of the Lidcombe business district to ensure Dooleys meets the changing needs of the community and fits in with the council's plans over the next five to 20 years. Dooleys is actively involved in the regeneration of Auburn City. The club is completed a \$20 million upgrade of its Lidcombe premises in August 2008, expanding services for the local community to use such as:
 - Expanded food and beverage outlets catering for 400 people;
 - Outdoor terraces and courtyards;
 - New lounge area with the capacity to host family entertainment;
 - New underground, security accredited parking facilities;
 - Dedicated kids area catering to children aged 2-12;
 - New sports facilities;
 - New computer/Internet area for members; and
 - Significant investment in facilities management.

Dooleys has also invested an additional \$3.5 million in the local community by redeveloping Waterview Dooleys at Silverwater, with membership growing 300 per cent since the re-opening of the Club in 2004. Services which Dooleys provides that have a social impact on the Auburn and Lidcombe community include:

- Subsidised meals. The club provides 10,368 steaks, 20,184 fish and chips and 1608 free kids meals per annum, at a cost to the Club of \$120,000 per annum.
- Free use of the club's function rooms and associated facilities to community groups.
- Provision of equipment and facilities for Dooleys intra-clubs including table tennis, indoor bowls, tai chi, art classes, photography classes and shuffleboard
- With the introduction of NSW's no-smoking laws, Dooleys offers 'quit smoking' packages and substitute products such as lollies, chewing gum and coffee.
- Employment of 165 people from the local community, supported by a talent management plan that underwrites tertiary education for trainees and senior management.

5.15 CLUBS AND NEW/PLANNED COMMUNITIES

Clubs play a central role in improving the urban environment of our cities and towns and ensuring recreational and cultural opportunities.

Clubs have long been at the centre of the provision of recreational and sporting facilities, without which the community would simply be unable to access the infrastructure that underpins our unique way of life. For example, club funding is vital to the NSW Government's strategy – set out in the NSW State Plan – that aims to improve health and social outcomes by increasing involvement in volunteering, group sporting and recreational activity by 10 per cent by 2016.

Clubs are uniquely placed to deliver facilities that match the needs of local communities, in an efficient and effective manner. Similarly, there are existing residential areas where the level of recreational facility is deficient that could benefit from club involvement.

In recognition of this fact, IPART recommended that new clubs be given ten free gaming machine entitlements²³⁷ and that new clubs be supported to establish through facilitating access to suitable land in new development areas²³⁸.

²³⁷ Op. cit. IPART final review, June 2008, recommendation 64

²³⁸ Op. cit. IPART final review, June 2008, p200

PC: What are the regional impacts (for example, in low income areas, outside major metropolitan areas, or in remote or Indigenous communities)?

5.16 CLUBS AND ENVIRONMENTAL SUSTAINABILITY

Clubs are embracing the concept of environmental sustainability and are active participants in programs aimed at reducing waste, energy and water consumption. In this way they are able to play a leading role in their communities and boost employment and innovation in these growing fields.

For example, in NSW, Clubs are part of the 'Cool Clubs' joint initiative with Big Switch Projects and the NSW Department of Environment and Climate Change. Cool Clubs aims to help clubs lower their environmental impact by reducing their waste, energy and water consumption and to reinforce the leadership role clubs play in their local communities by setting a good environmental example for the community to follow. The introduction of environmentally sustainable practices also provides a financial benefit.

Environmentally sustainable practices – case studies

Dooleys Club Lidcombe, NSW

To illustrate the impact of this program, Dooleys Club's recommended environmental actions resulted in savings of \$18,000 per annum in energy costs, as well as circumventing 213 tonnes of CO₂ emissions per annum. Dooley's improved environmental practices include:

Energy-saving measures

- Air conditioning units which include economy cycle and Air Change Units, which reclaim conditioned air back through the unit, utilising less power and reducing greenhouse gas emissions by 278 tonnes per year.
- Separate banks of up to 14 poker machines to be controlled by individual switches. It has been able to switch off its poker machines out of hours, reducing greenhouse gas emissions by 115 tonnes and saving more than \$7,000 in electricity consumption.
- Increased power factor correction, decreasing demand on the electricity network.
- Lighting changes – non-dimmable incandescent bulbs have been replaced with 11 watt compact fluorescents.

Water-saving measures

- Waterless urinals in existing toilets and all other extensions, saving 95 per cent of prior water usage.
- Waterless woks, saving an average of 5,000 litres of water per day per wok.
- Flow restrictors on basin taps.

Waste minimisation and effective recycling

- Organic waste recycling – Dooleys is the first NSW Club to implement the 'Pulpmaster' organic waste recycling system. This system converts organic food waste and cooking oils into a liquid pulp. This pulp is then used to create green electricity at Earthpower at Camellia. This process reduces landfill, creates fertiliser and generates sustainable electricity.
- Commingled recycling – this initiative has allowed Dooleys to increase its recycling streams to include aluminium, tin cans, LPB cups, bingo paper, coasters, PET/HDP

bottles, newspapers and glass all in one co-mingled recycling bin.

- The introduction of this recycling system will result in an estimated 70 per cent of the Dooleys' total waste being diverted from landfill. In addition to introducing the recycling program, Dooleys was able to save \$22,000 per year by renegotiating its waste disposal contracts.²³⁹

Mingara Recreation Club

Mingara is currently involved in a number of significant environmental protection projects in the Wyong Shire.

- The WyCare (Wyong Landcare Group) Project – Mingara helped WyCare set up its North Wyong education facility, providing computers, furniture and other equipment.
- The Entrance North Dune Care Project – Mingara provided funds for equipment such as water pumps and garden equipment to assist with dune stabilisation.

In 2009 Mingara intends to establish its own Landcare Group to assist WyCare and help improve the Central Coast's unique environment.²⁴⁰

Viking's Group, ACT

In 2007, Canberra's Vikings Club Group embarked on a Sustainable Water Use Program, with costs incurred for 2007 totalling \$219,500. This upgrade implemented the following improvements:

Vikings Capital Golf Club

- Raised dam overflow by 30mm, enabling capture and storage of an extra 2 megalitres of water.

Viking Park

- Designed and sought approval for a sewerage system to recirculate 7.5 megalitres of water for use on the playing fields.
- Constructed, tested and received approval for the operation of a bore which will provide a non-potable water supply of 30 megalitres for use on Viking Park.
- Returfed the main oval with low water use grass, saving 20 megalitres of potable water per year.

Vikings Lawn Bowls Greens

- New pumping arrangements from an on-site dam to provide water for bowling greens.
- Designed and sought approval for a new bore to support the non-potable water supply.

Vikings Erindale, Chisholm, Town Centre, and Lanyon

- Water use has been more than halved from 56 megalitres to 26 megalitres per year.²⁴¹

²³⁹ UMR Research Pty Ltd, "NSW Clubs in their Local Communities – A Case Study", commissioned by ClubsNSW, 27 February 2009

²⁴⁰ UMR Research Pty Ltd, "NSW Clubs in their Local Communities – A Case Study", commissioned by ClubsNSW, 27 February 2009

5.17 GAMING RESEARCH CONDUCTED SINCE 1999

PC: What Australian or overseas studies have been undertaken since 1999 on the impacts of gambling? What do they show? What methodologies and assumptions were applied in these studies? How robust are the studies' estimates of impacts? To what extent has the resolution of problems faced by former problem gamblers mitigated the social impacts?

Gambling is generally acknowledged as having both benefits and costs. The Productivity Commission attempted to balance these in its 1999 Report, arriving at a range that extended from a net cost of \$1.2 billion to a net benefit of \$4.3 billion.²⁴²

It should be noted that when valuing the benefits of gambling, the Productivity Commission did not include the social contribution made by clubs, recently valued by IPART at \$811 million in NSW and conservatively estimated at \$1.2 billion nationally.

Estimating the true costs is difficult and it appears will continue to be fraught with problems leading to accusations of bias which are levelled at both pro and anti-gambling proponents that have entered the debate since the Productivity Commission first released its findings. Despite numerous studies governments are still trying to arrive at credible estimates of costs versus benefits.²⁴³

ClubsAustralia's submission elsewhere addresses issues associated with research on the impacts of gambling.

²⁴¹ ClubsACT, Unpublished Case Study, "The Vikings Group", March 2009

²⁴² Productivity Commission of Australia, *Australia's Gambling Industries 1999*, AusInfo, Canberra, 1999, "Key Findings", p.3

²⁴³ "The 'true impact' of gambling – New study bankrolled, old research deemed inconsistent", *The Chronicle Herald Nova Scotia*, 6 February 2008

Chapter 6: Social contribution of clubs

TERM OF REFERENCE:

The contribution of gambling revenue on community development activity and employment

PC: What are the impacts of gambling on social capital, and what might this imply for the regulation and taxation of the gambling industries?

Clubs, in their entirety and by virtue of their very existence, provide social benefit. In an era of increasing social isolation, the internet, home theatre and 'gated' communities, the Club Movement stands out as one of the few institutions that encourages, facilitates and nurtures community connectedness.

There are many tangible elements to club operations and social contribution that are relatively easy to identify and value using traditional economic and accounting frameworks. However, the true nature of the social contribution made by clubs and its value is misunderstood – even by clubs and their members. In large part this is due to the fact that the concepts of social and community contribution are relatively new and have not been the subject of empirical research and analysis in the public policy context.

6.1 IPART'S ANALYSIS OF THE SOCIAL CONTRIBUTION OF CLUBS

In 2008, the NSW Independent Pricing and Regulatory Tribunal (IPART) examined the contributions the registered clubs industry makes to social infrastructure and services, and to employment and economic opportunities in NSW. In recognition of the fact that other industries provide similar services and generate similar economic opportunities to the clubs industry, and the fact that registered clubs impose some costs on the community, IPART considered the broader question of whether the clubs industry makes a net positive social contribution that justifies it receiving government support.

IPART also examined the available evidence on the social costs that the clubs industry imposes on the community. It found that the rates of problem gambling and per capita expenditure on gambling in NSW are slightly higher but still comparable with the rates in other States where clubs operate significantly fewer gaming machines. It also found that clubs do not affect the total amount of gambling in NSW, but may influence the form of gambling and where it occurs.

Importantly, on balance, IPART concluded that the registered clubs industry's net social contribution is positive and on this basis considered it appropriate for the Government to provide support to the industry, to help ensure the industry's financial viability so that clubs can continue to contribute to positive social outcomes in the State.²⁴⁴

²⁴⁴ Independent Pricing and Regulatory Tribunal of NSW, *Review of the Registered Clubs Industry in NSW*, Final Report, June 2008, p.41

6.2 CLASSIFYING NATURE AND BENEFICIARIES OF CLUB'S SOCIAL CONTRIBUTIONS

IPART determined that the social contributions clubs make can be divided into three categories:

1. In-house contributions for the club's primary purpose

These contributions are for the exclusive benefit of club members and their guests, and relate to achieving the club's primary purpose. Examples include a bowling club's provision of bowling greens, and a golf club's provision of a golf course. While members may be charged to use these facilities, the charge is usually less than the commercial rate.

2. In-house contributions for general member benefit

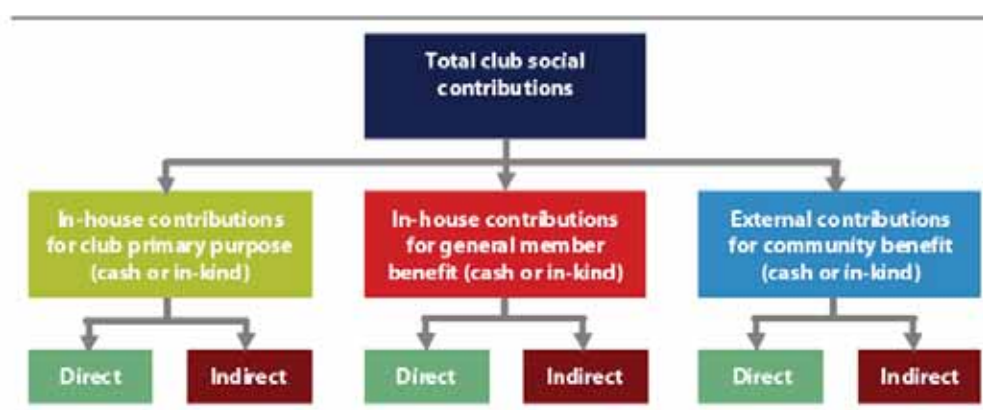
These contributions are also for the exclusive benefit of club members and their guests, but they do not relate to the club's primary purpose. Examples include restaurants, bars, gaming machines, pool tables, professional entertainment, function rooms, opportunities for social interaction, and a sense of belonging. Again, members may have to pay to use these services and facilities, but generally pay less than a commercial rate.

3. External contributions for community benefit

These contributions benefit the wider local community within which the club is located. They can include support for community groups, such as sporting teams, schools, charities and welfare groups.²⁴⁵

IPART has illustrated these categories, as shown in Figure 6.1.

Figure 6.1: Categorisation of registered clubs' social contributions



The contributions in each category can be either a direct contribution or an indirect contribution.

²⁴⁵ Ibid, pp.42-43

Direct contributions are the result of direct action by a club. For example, the provision of a cash grant is an example of direct external contribution for community benefit. The provision of discounted meals is a direct in-house contribution for general member benefit.

Indirect contributions are a by-product of the existence of the club, its facilities and its actions. Indirect contributions are generally intangible benefits. For example, the improved fitness levels that members of a golf club might achieve as a result of playing golf at the club are an example of an indirect in-house contribution for the club's primary purpose. The sense of belonging club members might feel is an indirect in-house contribution for general member benefit. The greater social cohesion a community might experience as a result of having a club where people can meet and socialise is an indirect external contribution for community benefit. Some of these benefits (such as fitness benefits) are essentially private in that they accrue to the individual and not the broader community.

Additionally, the contributions in each category can be either cash or in-kind contributions. For example, clubs might provide cash grants to members or subcommittees to fund sporting activities or sub-clubs. They might also provide cash grants to local schools or sports teams. Alternatively, they can provide in-kind support, such as access to club-owned sports, meeting and function facilities, at no charge or a subsidised rate. Other examples of in-kind support include the provision of:

- capital equipment (and maintenance) for sporting and other club-related activities
- club employees to staff activities and functions
- transport
- food and beverages (where these are not associated with the promotion of trade).

IPART went on to develop a methodology for identifying and recording the value of the registered clubs industry's social contributions, specifically its provision of social infrastructure and services. Using this methodology (included at Appendix G), IPART valued clubs' direct social contributions in 2007 at \$811 million.²⁴⁶

This estimate included the value of cash donations, in-kind provision of sporting and community facilities, and volunteer labour. It did not include the indirect contributions made by clubs (such as the sense of community well-being generated by their existence). Under IPART's methodology, indirect contributions are identified and recorded qualitatively rather than quantitatively. This makes the dollar valuation conservative.

Extrapolating the \$811 million NSW valuation nationally, using total club revenue as an approximate scaling device, ClubsAustralia estimates a direct social contribution of \$1.2 billion annually.

This does not incorporate the indirect social contributions made by clubs that are difficult to quantify, but are real. The nature of indirect, or intangible, social contributions made by clubs are explored later in the submission.

²⁴⁶ Ibid, p.68

6.3 WHAT IS SOCIAL CAPITAL?

In assessing the impacts of gambling on social capital, it is important to consider the nature of social capital itself, and the many and varied ways in which club gambling allows clubs to help build and maintain their communities.

Led by researchers such as American Robert Putnam, social planners and commentators are increasingly pointing to signs of eroding 'social capital'. Simply defined, social capital represents the institutional and non-institutional arrangements and relationships that connect people as communities. The core idea of social capital theory is that social networks have value.²⁴⁷

Australian researchers such as Mark Lyons support Putnam's work. Commenting on the productive role of people's engagement in organisations such as choral societies and bowling clubs, Lyons writes:

*They help to reproduce the norms of trust and reciprocity on which an effective market economy and a well functioning democracy relies.*²⁴⁸

Putnam's central thesis is that during the past few decades, society has seen a dramatic and disconcerting collapse in social capital as evidenced by reduced levels of church attendance, volunteering and other forms of charitable/community participation (such as Rotary, Lions and Meals on Wheels). Consistent with such trends, the Australian Bureau of Statistics' Time Use Survey found that from 1992 to 1997 there was a marked decline in Australians' involvement in formal and informal sport.²⁴⁹ The participation rate of men fell from 12 to 9 per cent and of women from 5 to 4 per cent, while participation rates for those aged 15–24 dropped by over a quarter from 18 to 13 per cent.

While research into social capital is still in a relatively early phase (although there has been some recent work by the Productivity Commission²⁵⁰ which recommended that Governments should at least consider the scope for modifying policies that are found to damage social capital, and ways of harnessing existing social capital to deliver programs more effectively) the findings so far have consistently identified club membership and volunteerism as among the most important contributors to community connectedness and the formation of social capital.

6.4 CLUBS CONTRIBUTION TO SOCIAL CAPITAL

6.4.1 Gaming revenue and 'compulsory' community support

The first way of assessing clubs' contribution is to look at government-directed schemes. In several jurisdictions clubs are required or strongly encouraged by law to allocate a certain percentage of gaming machine revenue to community development or charitable causes.

Government-mandated/sponsored schemes linked to gaming revenue are an obvious, tangible and quantifiable example of clubs' contributions to social capital.

²⁴⁷ Putnam, Robert, "Bowling Alone: America's Declining Social Capital", *Journal of Democracy*, Volume 6, Issue 1, January 1995, p. 19

²⁴⁸ Lyons, Mark, "Non-profit organisations, social capital and social policy in Australia" in Ian Winter, *Social Capital and Public Policy in Australia*, 2000, pp. 168-9

²⁴⁹ Australian Bureau of Statistics, 4153.0, *How Australians Use Their Time*, 1997

²⁵⁰ Productivity Commission of Australia, *Social Capital: Reviewing the Concept and its Policy Implications*, Commission Research Paper, AusInfo, Canberra, 2003

However, these schemes are, in the view of ClubsAustralia, a relatively small part of the overall social contribution clubs make. It does enable the industry and community to value, to an extent, the physical, cash and in kind contributions made by clubs – usually the larger ones. However, it overlooks other significant contributions.

For example in NSW, CDSE (see below) only applies to clubs with annual gaming revenue over \$1 million, and does not account for these larger clubs' broader contribution (both unreported support and less tangible contributions), or any of the contributions of the other 1,000 or so clubs in the State.

The challenge associated with valuing the entire social contribution of clubs is discussed later in the response. At this point, however, it is possible to identify the more tangible aspects of clubs' social contribution.

(a) New South Wales

In NSW, clubs with gaming machine revenue of \$1 million or more per year are required to allocate 1.5 per cent of that revenue to community groups and charities in their local area, through the Community Development and Support Expenditure (CDSE) scheme. At least 0.75 per cent must be allocated to 'Category 1' projects, which meet strict criteria set by the Office of Liquor and Gaming, while the remainder may be allocated to either Category 1 or Category 2, which includes amateur sporting activities.

If clubs do not allocate the 1.5 per cent according to the CDSE Guidelines they are required to pay the balance in additional gaming tax.

The funding is generally allocated through local committees, developed on the basis of local government area, where Council, a representative of the local community sector, and a representative from the Department of Community Services provide advice on appropriate local priorities for funding, and the extent to which funding applicants meet these priorities.

In 2007/08, NSW clubs allocated \$58.7 million through the scheme. This was \$22.7 million in excess of the required amount.

The following list outlines just some of the projects funded through the scheme:

- Tweed Heads Bowls Club contributed \$6,000 funding to the Tweed Heads Police Service to help educate the general public on alcohol abuse, domestic violence, and theft. The funding will allow the Community Crime Prevention Officer to lease a car to travel around the Tweed area, educating the community on these issues.
- Liverpool Catholic Club contributed \$15,000 to Macarthur Community College for the development of a program to help unemployed people in Liverpool. The funding will go towards the Get-a-Job program for unemployed people in the community who want to update their skills and return to the workforce.
- Ashfield Catholic and Community Club contributed \$12,000 to local community projects in 2004 which included Inner West Neighbourhood Aid, Berne Education Centre, and SHARE at Summer Hill.
- Nine clubs from the Gosford area have contributed \$78,393 to 16 local projects including the Umina Beach PCYC, Beachside Family Centre and Camp Quality.

- Thirty-three clubs in Newcastle presented more than \$670,000 to 100 community organisations and charities such as Newcastle Alzheimer's Network, Glencare Special Needs Association and Maycare Community Centre.
- Smithfield RSL Club contributed \$10,000 towards specialised electric high-low adjustable beds at Braeside Hospital in Fairfield.
- The Maitland Local Committee consisting of Maitland City Bowling Club, East Maitland Bowling Club, Maitland District Leagues Club and Telarah Bowling Club contributed \$100,000 to local charities in 2005.
- Singleton Returned Servicemen's Club contributed \$53,000 to local community groups including St Patrick's Parish Playground, Singleton Scouts, Singleton Youth Centre, Singleton Heights Public School and Mercy Nursing Home.
- Over the years, clubs in the Penrith LGA have funded projects as diverse as women's health centres, a music therapy organisation, a seniors computing club, theatre companies, a chronic pain support association, youth and disability services.
- In 2004, nine Bankstown clubs contributed \$237,521 to local charities including Bankstown Community Resource Group, Coolaburoo Neighbourhood Centre, Bankstown Youth Development Services and Bankstown Aboriginal Corporation.
- Canterbury-Hurlstone Park RSL Club contributed \$25,648 to Canterbury Council's Youth Service to employ a full-time youth development officer for 12 months.
- East Cessnock Bowling Club has contributed \$5,000 to Cessnock PCYC for its youth programs, including Anger Management Programs for youth who are refereed by local Police for aggressive behaviour.
- Local clubs in Dubbo contributed \$2,500 to the Dubbo Neighbourhood Centre for the development of a resource database of services available to the local business sector and \$5,500 towards the purchase of motorised beds for disabled residents.
- In 2007, Mounties contributed \$21,000 to the Spastic Centre allowing for the creation of a 'Mobility Equipment Loan' program, which gives young children a chance to stand and walk, some for the first time. In the past Mounties has contributed \$32,000 to Drug ARM, which will train more than 30 volunteers to help people with drug and alcohol problems as well as homeless youth.
- Wests Leagues Club contributed \$20,000 to Project Parkinson's, a non-profit group committed to improving the quality of life for people affected by the disease.
- Parkes RSL has for many years supported Meals on Wheels, providing up to 60 meals daily to the frail, aged and disabled. This valuable community service not only maintains the health of the recipients and prevents unnecessary institutionalisation but ensures daily communication is made with a vulnerable group in the community. The club claims this service as Category 1 in kind expenditure under the CDSE scheme, constituting over 80 per cent of its total CDSE expenditure. Effectively, the club provides approximately \$37,000 in, in kind support annually so the service can continue to operate.

(b) Victoria

Clubs in Victoria returned to the community more than \$33 million in gifts, sponsorships, voluntary services and subsidised activities in the financial year ending 2007. Victorian clubs are required to submit annual audited Community Benefit Statements to the Victorian Commission for Gambling Regulation, detailing their social support, sponsorships and other community donations made for the previous financial year.

The club must justify contributions of at least 8.33 per cent of net gaming revenue as community benefits, or will they be subjected to the same (higher) gaming tax rate paid by hotels.

The Victorian Commission for Gambling Regulation says it received Certified Community Benefit Statements from clubs made up as follows:

- Gifts of funds \$4,258,182
- Sponsorships \$2,283,579
- Gifts of goods to the community \$973,106
- Voluntary services provided to the community \$15,762,440
- Volunteer expenses \$511,373
- Activities subsidised \$9,519,645.

A survey of Victorian clubs conducted by ClubsVIC²⁵¹ indicates that:

- 50 per cent support Rotary
- 45 per cent support Lions
- 28 per cent support kindergartens
- 20 per cent support drought relief
- 19 per cent support bushfire relief
- 17 per cent support Apex
- 16 per cent support community events
- 16 per cent support flood relief
- 15 per cent support visits to clubs by nursing homes
- 11 per cent support community building projects
- 7 per cent support Meals on Wheels
- 77 per cent support other charities and activities not listed.

(c) Australian Capital Territory

Clubs in the ACT are required to contribute 7 per cent of gaming revenues to the local community. In 2007/08 they provided a total of \$14.6 million in cash and in-kind support to over 1,000 groups, up 14 per cent from the previous year when they gave \$12.8 million.

This was more than double the \$7 million required under the legislation, bringing the total contribution to eligible community recipients over the last decade to over \$130 million. It should also be noted that hotels and taverns in the ACT only provided roughly the same as their statutory requirement.²⁵² Likewise:

²⁵¹ ClubsVIC, *Hear Our Voices: Celebrating Clubs As Communities Serving Communities*, March 2008. Copy available upon request

²⁵² ACT Gambling and Racing Commission, "Community Contributions made by Gaming Machine Licensees, 1 July 2007 to 30 June 2008," October 2008, pp. 20. 21, accessed 20 March 2009 at: <http://www.gamblingandracing.act.gov.au/Documents/Community%20Contributions%20Report%202007-08.pdf>

- The Ainslie Football and Social Club Group has always contributed well above the statutory requirement. In 2008 the club contributed \$2,596,510 to the community – more than three and a half times the statutory requirement of \$722,597,²⁵³ and in 2007 these amounts were \$1,388,505 versus \$792,932,²⁵⁴ representing an increase of over \$1.2 million in just one year.²⁵⁵
- The Canberra Southern Cross Club has committed to provide at least 20 per cent of its net profit as community assistance additional to that required by legislation. Last year the club's community contribution was almost \$1.4 million, compared to a legislative requirement of \$874,000.^{256 257}

Clubs in the ACT estimate they will spend another \$189 million over the next three years on club facilities and sporting organisations. The majority of cash contributions from clubs in the ACT are for sport and recreation activities. Large clubs provide more support for non-profit and charitable and social welfare activities and less support for sport and recreation than medium and small clubs.²⁵⁸

In the past five years clubs have also agreed to pool contributions from a group of clubs, to provide significant financial support to a number of very worthy local organisations which service the Canberra community. Current examples of this include:

- the Community Partnership with The Spastic Centre of the ACT – which was renewed in October 2007 – and now involves 15 clubs – which has succeeded in having the services located in the ACT at Spence – at a cost of \$120,000 per year for the next three years;
- a partnership with Camp Quality at a cost of \$50,000 a year for two years – this initiative involves 14 clubs; and
- a number of fundraising and charity events throughout the year – including the ClubsACT Charity Golf Classic, which raises funds for a nominated charity – recent recipients have included Galilee, Ted Noffs Foundation, Koomarri, AFFIRM (mental health research), the ACT Branch of the National Breast Cancer Foundation and, most recently, 'Movember'.

The ACT Government also collects \$36 million in gaming taxes from clubs, and this money is then used to support community infrastructure, including roads, hospitals and schools.

As the ACT Minister for Sport said in November 2007:

'It is important to know that the [ACT] club industry takes its responsibility very seriously. Through the provision of social facilities and community contributions, its contribution to the community is a valuable and critical part of our community infrastructure. Without the revenue from gaming machines it would not be possible

²⁵³ ACT Gambling and Racing Commission, "Community Contributions made by Gaming Machine Licensees, 1 July 2007 to 30 June 2008," October 2008, pp. 20, 21, accessed 20 March 2009 at: <http://www.gamblingandracing.act.gov.au/Documents/Community%20Contributions%20Report%202007-08.pdf>

²⁵⁴ ACT Gambling and Racing Commission, "Community Contributions made by Gaming Machine Licensees, 1 July 2006 to 30 June 2007," October 2007, pp.19, 20, accessed 20 March 2009 at: <http://www.gamblingandracing.act.gov.au/Documents/CCMinisterial%20Report%202006-07.pdf>

²⁵⁵ ClubsACT, Unpublished Case Study, "Ainslie Football and Social Club", March 2009 – see Appendix D

²⁵⁶ ACT Gambling and Racing Commission, "Community Contributions made by Gaming Machine Licensees, 1 July 2006 to 30 June 2007," October 2007, pp.19, 20, accessed 20 March 2009 at: <http://www.gamblingandracing.act.gov.au/Documents/CCMinisterial%20Report%202006-07.pdf>

²⁵⁷ ClubsACT, Unpublished Case Study, "Canberra Southern Cross Club", March 2009 – see Appendix E

²⁵⁸ The Allen Consulting Group, *Socio-Economic Impact Study of Clubs in the Australian Capital Territory*, March 2008

*for all of these community facilities to be made available. I conclude by saying that the club industry provides a valuable role and a critical role in our society by providing essential community facilities that would otherwise not exist.*²⁵⁹

(d) Tasmania

Four per cent of hotel and club gaming machine revenues in Tasmania are put into a community service levy.²⁶⁰

6.4.2 Non-compulsory support

The vast bulk of clubs' social contributions are made outside mandated programs and reflect the long-term commitment clubs have to their communities. For example, the comments from representatives of community service organisations below highlight how local clubs in NSW contribute in their communities both through CDSE and in other valuable ways:

*We run intellectually disabled services from Armidale in the north, to Gunnedah to Wollongong in the south and in every area we operate the club is the main area of focus point for having meetings, holding conventions, getting together. Getting our guys involved in a social fabric. Every one of those clubs welcomes our people in – meetings, dinners, other activities, which we couldn't do without the clubs – over and above that, each one of those clubs contributes through CDSE. So, although we've got some government funding that doesn't go to providing the nice things in life, in each of the houses, for instance, that comes from the local club. We've had staff come over from the local club to help with the houses, renovating, plus the CDSE grant. So there's a whole range of activity from funding support, to staff involvement. We couldn't do it without them.*²⁶¹

*There is also a lot of in-kind support. They very often lend their meeting rooms out to committees as well as lots of little tiny things – borrowing their mower, assisting them with using the local minibus to go to an event. It varies – there are lots of little ways that the local club can help out.*²⁶²

The social value of the role clubs played as a meeting point during recent disaster relief efforts in the Newcastle and Helensburgh regions of NSW in 2007 was also captured by a comment during the Community Focus Group conducted by Ucomm:

*I think the other interesting thing is that when I was reading a paper the other day about the flooding in Maitland, where did they evacuate to? They evacuated to the club ... So for us, when the fires were going through Helensburgh back in 2001, where did they evacuate to? Six hundred people lived in our club for a week. Pets were in the next door neighbours' houses and kids swam in the neighbours' pools. How you translate out of that into Government dollars, we are part of the SES plan for our shire, as I'm sure a hell of a lot of other clubs are.*²⁶³

Given that clubs are not required to systematically measure their social contribution outside of any mandated funding that applies (and some States and/or clubs do not qualify for such

²⁵⁹ The Hon Andrew Barr MP, Minister for Sport, speaking in Parliament of the Australian Capital Territory, *Legislative Assembly Hansard*, November 2007

²⁶⁰ Centre for Independent Economics, *Gambling with policy: The economic contribution of gaming machines to the Australian economy*, January 2009

²⁶¹ Ucomm, *Community Organisations Focus Group Report*, commissioned by ClubsNSW, July 2007, p.78

²⁶² Ucomm, *Community Organisations Focus Group Report*, commissioned by ClubsNSW, July 2007, p. 15

²⁶³ Ucomm, *Managers Focus Group Report*, commissioned by ClubsNSW, July 2007, p. 11

requirements – in NSW, no formal measurement is undertaken at all for the 1,000 clubs with annual gaming revenue below \$1 million), there is a need to improve our understanding of the nature of these community contributions. In this way, clubs will be able to improve the effectiveness of the cash and in-kind support they provide.

It is an unfortunate aspect of public policy-making that activities that cannot be measured and are not reported upon can be ignored when the costs and benefits of policy shifts are being assessed.

(a) The nature of clubs' non-mandatory support

The following list, indicates the many and varied areas in which clubs provide cash and in-kind support to the community:

Health and welfare

- Funding for hospitals;
- Funding for early childhood, palliative, women's and Aboriginal and Torres Strait Islander health services;
- Funding for community nursing;
- Community transport particularly for older residents;
- Funding, catering and use of vehicles for services such as Meals on Wheels;
- Affordable meals;
- Involvement in aged care hostels or retirement homes;
- Seniors events and hospital visitation;
- Recreational facilities such as bowling greens;
- Funding and housing of internal and external day care centres;
- Funeral services;
- Child and family services;
- Mental health services;
- Support of health promotion initiatives;
- Drug and alcohol services;
- Dental services;
- Home and community care services; and
- Disability services (including equipment such as wheelchairs).

Education

- Sponsorships and scholarships;
- Funding of specific educational purposes such as the construction of wheelchair ramps and school crossing attendants;
- Training opportunities;
- Use of facilities, catering and administrative support for training programs such as TAFE;
- Career development seminars for the young, disadvantaged or unemployed.

Employment

Funding allocated to:

- Employment placement services;
- Group training;
- Employment advocacy;
- Community enterprises; and
- Local job creation schemes.

Sport – Junior

- Funding or sponsorship of activities for in-house and external sporting clubs, teams and individuals;
- Construction and maintenance of sporting fields and facilities;
- Grants to junior sporting associations and other sports clubs/groups, schools and other organisations for the supply or provision to players, referees and officials of uniforms, trophies, insurance, medical kits, administration, referees' payments, travelling and accommodation expenses;
- Junior coaching clinics;
- Educational and sporting scholarships;
- Meeting rooms and offices for junior sports administration;
- Gymnasiums and equipment including maintenance of these facilities; and
- Grounds and ground improvements including but not limited to council fees, lighting, change rooms, ground rentals and maintenance.

Sport – Senior (not including any expenditure on professional sport)

- Funding or sponsorship of activities for in-house and external sporting clubs, teams and individuals; and
- Development and maintenance of sporting fields and facilities (including golf courses and bowling greens).

Voluntary non-profit organisations

Funding and support of:

- Counselling services;
- Child care;
- Aged, disability or youth services; and
- Volunteer services such as surf life-saving and rural fire services.

Registered charities and State agencies

- Funding for various children's charities such as Starlight Foundation and Variety Club of Australia;
- Funding for charitable and community organisations, welfare groups, churches;
- Organising and/or hosting of charitable fund raising events;
- Subsidising or providing free the use of venues and facilities, including providing the services of club staff; and
- Funding for State agencies such as the SES, hospitals, fire and ambulance services.

Local community infrastructure

- Construction and maintenance of local community infrastructure (including sporting facilities);
- Providing venues and facilities for use by local residents (for weddings, functions, training events and so on) and by visitors (conference facilities), and in some instances, by State agencies;
- Providing venues and facilities at a subsidised rate or free of charge to local community groups, charitable groups and sporting groups;
- Use of Club staff for grounds and facility maintenance, in some cases, relieving councils of on-going day-to-day management and or maintenance responsibilities;

- Direct contributions to the work of Local Government by providing facilities, financial contributions, planning involvement, catering and/or staff for local Government initiatives;
- Enhancement of services and facilities provided by Local Government;
- Provision and maintenance of gardens and urban landscape upgrading;
- Sponsorship of local festivals and community events; and
- Environmental initiatives.

Emergency relief

- Providing emergency accommodation and shelters during natural disasters, most recently during flooding in the Hunter Valley;
- Providing resources to support community recovery in times of crisis by way of material aid to victims and support workers;
- Financial support for families who have lost their homes to fire or as a result of other disaster, or for other individuals in need of assistance.
- Australian clubs collectively donated \$3.3 million to the Red Cross Victorian Bushfire Appeal; \$3.2 million to South East Asian Tsunami relief efforts; and \$700,000 to victims of Cyclone Larry in Northern Queensland.

The role clubs play in emergency relief and the contributions they make to volunteer rescue is clear from the focus group quote below:

*From a rescue point of view, clubs gives us equipment: fire equipment, rescue equipment ... From a small kit to large items of equipment, we're talking thousands of dollars worth of the 'jaws of life'. The other thing they do is provide a venue for training and meetings and the clubs locally. You might say you would get another venue somehow but there's a whole range of other resources there. They also allow fundraising within the club environment ... the club is an evacuation point as well. They've got catering, comfortable dry warm environment, bathrooms, plenty of them. So they've got catering facilities to feed evacuees or we can cater from the club, give it to vehicles or choppers and get it out to operatives or other evacuees.*²⁶⁴

The list above is not exhaustive. However, it illustrates the way clubs direct their physical support. The list provides clubs with guidance on the activities that are most easily identified and quantified. It does not ask clubs to analyse, for instance, the valuable contributions made by volunteers, nor the intangible benefits of socialisation at the club.

However, it is unlikely that clubs, individually, and without a significant commitment of resources, would be able to accurately quantify the value of this type of social contribution.

(b) New South Wales

Using an expenditure approach, the 2007 Socio-Economic Impact Study indicates that the total dollar contribution by clubs in NSW to community causes is around \$1.1 billion per year.

This includes the Club Movement's contribution through cash and in-kind support, volunteer opportunities and investment in sporting and non-sporting facilities. This estimate is likely to be a 'lower bound' as it does not take into account other services that are provided at subsidised rates (such as discounted meals relative to that offered by pubs and restaurants).

²⁶⁴ Ucomm, *Community Organisations Focus Group Report*, commissioned by ClubsNSW, July 2007, p.7

This approach also does not take into account other indirect benefits from club community services, such as enhancing social capital and ‘healthy communities’ by encouraging people to participate in sport and volunteer activities. For example, the expenditure estimate does not take into account the benefit to the community associated with registered clubs providing meeting places for the elderly — both a social outlet and as a place for support.

(c) Australian Capital Territory

As noted above, ACT clubs are required by law to donate 7 per cent of their net gaming revenue to eligible recipients. However, over the past 11 years the average annual contribution has been about 13.5 per cent of net revenues – nearly double the required amount, totalling approximately \$140 million.

This still understates the level and breadth of support that clubs provide to the Canberra community, with undeclared contributions often including the use of meeting rooms for a diverse range of social groups, the provision of office space, and the supply of equipment to groups including charities, schools, aged care, art and craft groups, and regional and ethnic community services groups.

(d) Victoria

In addition to providing support for external organisations and activities, clubs provide facilities and surroundings that enable members (and non-members) to socialise and feel ‘connected’. Many Victorian clubs also offer financial and wellbeing support to members in times of need:

- 47 per cent support members who are, or have recently become disabled
- 47 per cent support members who are recently bereaved
- 44 per cent support members who are seriously ill
- 35 per cent support promising school students who need financial help
- 32 per cent support club members who have fallen on hard financial times.²⁶⁵

ClubsVIC Executive Director Margaret Kearney’s evidence to a parliamentary committee illustrates how clubs have been established by local communities specifically as fund-raising instruments, as does the following case study of Buckley’s Entertainment Centre in Geelong:

There is the model like Horsham [Sports & Community Club] that was purpose-built for the community. We have a few of these now. In Horsham the local businessmen decided “If we are going to have gaming here, we should have the ability to have as many people as possible partake in the benefits of the gaming”.

They set up a purpose-built hospitality facility with gaming. The job is to raise money – literally that is its job. It raises money and at the end of every year it declares its dividend, if you like – the surplus. In the whole Horsham area community organisations tender for some of that money. There is a foundation of local business people and community people and mums and dads who decide who will get it each year. They distribute their entire surplus. The club is a purpose-built facility for raising money for the community.²⁶⁶

²⁶⁵ Percentages calculated on data obtained from 88 ClubsVIC member clubs

²⁶⁶ Kearney, Margaret (ClubsVic Executive Director), Evidence to the Victorian Parliament’s Legislative Council Select Committee on Gaming Licensing, 11 December 2007

Case study: Buckley's Entertainment Centre

Buckley's Entertainment Centre in Geelong was purpose-built as a fundraising facility, established by around 27 other clubs. The venue was established for the purpose of promoting football, and raising funds for the participating clubs' operations.

Buckley's is well known for the support and sponsorship the club provides throughout the Geelong and Bellarine regions. For some years, Buckley's has been a major sponsor of Relay for Life, a community-based 24-hour walkathon, raising funds for cancer research. This giving back also includes social opportunities for older citizens, support for local kindergartens and schools, and as the children grow up, providing hospitality jobs to help them with their education.

The club is run as a community benefit, unlike a hotel. It exists to serve the community, unlike pubs that provide sponsorships but focus on the profit to be gained from making the deal.

Buckley's sponsors the three local football leagues – Geelong Football League, Bellarine Football League and Geelong and District Football League – and distributes money each year to the local football clubs in the Geelong and Bellarine area. Twelve clubs own the facilities but 38 benefit from their connection with Buckley's. Football clubs use Buckley's as a fundraising hub for their activities. But Buckley's is not just a footy club – it's also one of the biggest sponsors of cricket in Geelong, and the board is widening its focus.

Aside from supporting sport, the club regularly hosts groups of hundreds of nursing home residents and bingo players.

Board members and other volunteers are keen to help, particularly when they see that it is not run like an 'old boys' club'. They are not looking for recognition but they do enjoy a sense of achievement as the club and its activities expand. The more amenities Buckley's offers, the more new members it attracts.

With over 16,000 members who help create the club's home away from home atmosphere, the focus is on providing a variety of entertainment and activities. Members enjoy promotions that provide cars, boats and white goods. But the bottom line is the club's family and community values and its safe environment for families, elderly citizen groups and schools needing to stage activities and events.

In 2007, Buckley's put more than \$140,000 into local football and over \$20,000 into local community needs through sponsorship.²⁶⁷

(e) South Australia

ClubsSA estimates the value of club donations, community contributions (cash and in-kind) and sponsorships at \$17 million per annum.²⁶⁸

(f) Queensland

A recent study of Queensland clubs indicates that clubs in that State provide community contributions valued at \$245 million annually, which is over and above the facilities they provide and maintain in their local communities.²⁶⁹

²⁶⁷ ClubsVIC, *Hear Our Voices: Celebrating Clubs As Communities Serving Communities*, March 2008

²⁶⁸ Unpublished data provided by Clubs SA

²⁶⁹ ClubsQueensland, *Social and Economic Impact Study of Community Clubs in Queensland – 2009 Report*

6.5 SPORTING INFRASTRUCTURE AND SUPPORT

One of the major areas in which clubs contribute to both social infrastructure and the broader economy is through their support of sport – be it junior, amateur or professional.

The provision of affordable and accessible facilities is at the core of club operation, and the financial and organisational structure supports this. Although members pay for the use of these types of sporting facilities, the charges are mostly below the full cost of provision. The difference, however, is made up from income earned from other parts of clubs' operations. In aggregate terms across clubs, the total charge for providing these facilities does not cover the costs of provision.

Although cash outflows on non-professional sport are greater than the related inflows, clubs accept that the provision of sporting services and facilities to the community provides a valuable social contribution to the health and well-being of the community and is fundamental to their core purpose.

(a) Community benefits

Non-professional sport plays a vital role in the community by providing a means for individuals to become more physically active, and to establish social networks within their community. The benefits of participation in sport are diverse and include those relating directly to the participant, as well as to the broader community, including:

- Physical and psychological benefits for individuals by improving their health status through exercise and increased social interaction;
- Community benefits from reduced healthcare costs due to the improved health status of participants; and
- Enhancement of community identity and promotion of community integration along socio-economic and ethnic lines.

(b) Deterrence of antisocial behaviour

Participation in non-professional sport can also have a deterrent effect on antisocial behaviour. Young people involved in organised team sports have substantially higher levels of self-esteem than their peers that don't participate, with a higher likelihood of behaving better in and outside of school. The range of benefits that sport and other physical activities can have in preventing or reducing crime and other antisocial behaviours among young people are widely documented.²⁷⁰ This reduction in antisocial behaviour brings many benefits to the community, such as reduced vandalism and associated costs and lower truancy rates.

For example, The Hellenic Club in the ACT provides funding and in-kind support for Barnardos Australia's Kids + Sport Program, a locally designed program that focuses on using sport mentoring as a way to build relationships between disadvantaged children, young people, their families and the community and provide them with not only a wonderful physical and social outlet but also strong leadership and direction in their lives.

(c) Benefits for indirect participants

²⁷⁰ Morris, L, J Sallybanks and K Willis, "Sport, Physical Activity and Antisocial Behaviour in Youth", *Research and Public Policy Series*, Issue 49, Australian Institute of Criminology, Canberra, 2003

Even being a sports spectator is increasingly being acknowledged as a major contributor to social capital. As Robert Putnam observes:

*This increase in sports spectatorship is not a dead loss from the point of view of social capital. Sitting with friends in the bleachers for a Friday night high school football game might be just as productive of community as sitting across a poker table. Moreover, at least for the fans of winning teams, the sense of shared enthusiasm of a common passion can generate a certain sense of community. As long-suffering Red Sox fans know, even shared adversity can build community.*²⁷¹

(d) Social contributions from support for professional sport

Based upon Putnam's research of indirect participation, Government should look favourably at the role clubs play in funding professional sport. In 2007 club expenditure on professional sport was more than \$28 million per annum in NSW alone.²⁷² Quite simply, without the clubs' investments, communities would be deprived of the enjoyment and camaraderie they derive from many professional sports, especially from Rugby League and Australian Rules Football.

Evidence of the impact of these contributions was offered during the Ucomm Managers Focus Groups:

*A guy told me in Campbelltown on one occasion that there are two things that give Campbelltown its own identity. One of them is the local radio station and the other one is the Wests Tigers. We support Wests Tigers. We've got a financial obligation to them, funds their games out at Campbelltown and that's not even seen as a community contribution. You ask anybody in Campbelltown the importance of football or the importance of having local NRL games, they'll say it's substantial and yet it's not recognised.*²⁷³

Likewise, in 1997 Ainslie Football and Social Club constructed a world-class sports ground at a cost of \$3.5 million, primarily for Australian Football; however, the Brazilian Soccer team used the oval as a training facility during the 2000 Sydney Olympics. The Club has also provided scholarships and financial support for a number of developing elite athletes including, Olympic representative, two-time Commonwealth Games hammer throw champion and 2001 World Athletics Championships team captain Stuart Rendell, and Matildas Captain Sasha Wainwright. Their support has added to Australia's status as a sporting leader worldwide.²⁷⁴

(e) Role of tax incentives in promoting investment in sport

Government does (and should) play a proactive role in supporting and encouraging this investment in sport. The positive response of clubs to Commonwealth tax incentives illustrates the significant role governments can play in encouraging sport through clubs and the willingness of clubs to play their part.

²⁷¹ Putnam, Robert, "Bowling Alone: America's Declining Social Capital", *Journal of Democracy*, Volume 6, Issue 1, January 1995, p.113

²⁷² The Allen Consulting Group, *Socio-Economic Impact Study of Clubs in New South Wales (2007)*, February 2008, p. 48

²⁷³ Ucomm, *Managers Focus Group Report*, commissioned by ClubsNSW, July 2007, p. 8

²⁷⁴ ClubsACT, Unpublished Case Study, "Ainslie Football and Social Club", March 2009

The *Income Tax Assessment Act 1997* exempts a club from income tax if its primary purpose is the encouragement of sport.²⁷⁵

As a result of a 1952 Report by the Commonwealth Committee on Taxation, sub-paragraph 23(g)(iii) was inserted into the *Income Tax Assessment Act 1936*. This sub-paragraph provided for the exemption from tax of the income of an association or club which was established for the encouragement or promotion of an athletic game or athletic sport in which human beings were the sole participants.

With the 'simplification' of tax laws in 1997 the exempting provision took its current shape as Item 9.1(c) of section 50-45 of the *Income Tax Assessment Act 1997*. The word 'promotion' was removed and now the requirement is that the organisation be a club, society or association established for the *encouragement* of a game or sport and carried on for the profit or gain of its individual members in Australia (pursuant to section 50-70).

The legislative history indicates that the exemption has been broadened over six decades, along with the community's interests in sport.

The current law demands that clubs satisfy the following three tests:

- The club cannot be carried on for the purpose of profit or gain to its individual members;
- The club must be carried on for the encouragement of a game or sport. That encouragement must be the club's main purpose; and
- The club must have a physical presence in Australia and pursue its objectives principally in Australia or is located outside Australia and is exempt from income tax in its country of residence.

The incentive provided through the federal tax arrangement has overwhelmingly achieved its goal of building and maintaining sporting infrastructure and encouraging community participation.

In the opinion of ClubsAustralia, this has contributed significantly to the success Australia has enjoyed worldwide in sporting competitions and should be maintained.

(f) NSW clubs' support for sport

According to The Allen Consulting Group, 94 per cent of clubs in NSW provide sporting facilities, including 1,547 bowling greens, 81 gymnasiums, and 366 golf courses. Many squash courts, swimming pools, tennis courts, billiard tables, carpet bowls, darts and table tennis tables are provided by clubs. The breadth of the sporting facilities provided and maintained by the club industry is outlined in the figure below.

²⁷⁵ The sporting club exemption had its genesis in the wartime Entertainment Tax Act of 1942. That Act was amended in 1949 to provide a concessional rate of entertainment tax where the entertainment consisted solely of a game or sport where humans were the sole participants and the entertainment was promoted by a society, institution or committee not established or carried on for a profit.

Figure 6.2: Type and number of sporting facilities provided by clubs, by club size, by gaming machine revenue

| CLUB SIZE (by gaming machine revenue \$) | 0 – 200K | >200K – 1M | >1M – 5M | >5M – 10M | >10M | TOTAL CLUBS |
|--|-------------|---------------|-------------|--------------|------------|----------------|
| Bowling greens | 346 | 525 | 476 | 113 | 87 | 1547 |
| Gyms | 9 | 0 | 10 | 19 | 42 | 81 |
| Fields | 47 | 11 | 48 | 10 | 46 | 163 |
| Golf courses | 175 | 128 | 40 | 17 | 5 | 366 |
| Swimming pools | 0 | 11 | 5 | 19 | 31 | 66 |
| Tennis courts | 137 | 110 | 144 | 66 | 71 | 528 |
| Squash courts | 28 | 68 | 48 | 17 | 20 | 182 |
| Billiard tables | 185 | 185 | 334 | 152 | 278 | 1134 |
| Carpet bowls | 147 | 166 | 382 | 126 | 163 | 985 |
| Boat/ski facilities | 47 | 15 | 104 | 5 | 8 | 180 |
| Darts | 5 | 49 | 185 | 56 | 83 | 377 |
| Other | 62 | 132 | 316 | 64 | 58 | 632 |
| Total | 1189 | 1402 | 2093 | 663 | 893 | 6240 |

Source: The Allen Consulting Group, Socio-Economic Impact Study of Clubs in NSW (2007), p. 45.

The following quote from the Ucomm Managers' Focus Group demonstrates the important role just one registered club plays in providing, maintaining and investing in sporting facilities for the NSW community:

Now our club sits on 31 acres and it's our responsibility to look after our 31 acres, but on that 31 acre site you've six soccer fields, a rugby league field, five tennis courts, three squash courts, eight netball courts. We've got every high school in the area utilising those facilities on a daily basis at no charge. We're running at least 14 teams from the age of 12 right through. We're the leaders in women's soccer. We've produced 21 Australian Socceroo players that have come through the Club ... We have to maintain that ground, which costs us \$2.5 million dollars a year.²⁷⁶

Case study: Support for sport

In 2003 Mingara Recreation Club, situated on the NSW Central Coast, assumed direct management of its world-class athletics centre. This expanded Mingara's ability to meet its community's needs, including the needs of those with aspirations but lacking in resources such as disabled athletes. Since it opened in 2000, the athletics centre has been the venue for regional primary and secondary school athletics carnivals. Usage has increased from approximately 35 to 65 carnival days annually. Without this facility and contribution, the bulk of the schools involved would not be able to offer their students the experience of a well-run carnival. These 65 carnival days per year result in many thousands of young people and their families enjoying the benefits of a well-managed and community-based facility.

In addition to various programs, the club's facilities themselves are of great benefit to schools. Over the past three years, some 250,000 school students have used Mingara's facilities, ranging from carnivals at the aquatic and athletics facilities to speech nights, formals and various cultural events in the club's function facilities.

²⁷⁶ Ucomm, *Managers Focus Group Report*, commissioned by ClubsNSW, July 2007, p. 11

Outside the normal domain of high school sporting carnivals, Mingara donated \$10,000 to the local surf life saving organisation to arrange a surf carnival in which 15 Central Coast high schools took part. Importantly the challenge was not aimed at elite participants but successfully aimed at the 'casual' surf swimmer. The club saw the carnival as an opportunity to encourage the young participants to join a local surf life saving club and show how sport can be used to encourage participation in the community.

Mingara has developed a strong relationship with NSW Institute of Sport (NSWIS) since 2003 under NSWIS's Emerging Athlete Program. From 2003 to 2006 this program has allowed 12 local NSWIS athletes to train at the pool, gym and athletics centre at no cost to them. The annual cost to Mingara is \$7,000. In 2006, another three-year sponsorship agreement was signed between Mingara and NSWIS allowing 20 athletes to train at Mingara facilities, again, at no cost to them. The annual cost to Mingara is almost \$10,000.

Mingara provides scholarships and financial support for a number of developing adolescent athletes which fits in well with its involvement in the NSWIS regional program. This assistance allows athletes the opportunity to strive for success, while minimising the financial burden on their families and makes the Central Coast Academy of Sport a stepping stone to the NSWIS program.

Mingara makes a \$3,500 annual contribution to the Tuggerah Lakes College Athletics program, which commenced in 2006. It covers the cost of coaches and facilities and involves 20 students from three college campuses.

Mingara has also supported professional sport through the Central Coast Mariners, who are integral members of Australia's national A-League Football (soccer) competition. The Mingara management team played an important role in assisting in the development of the Mariners, supplying management expertise and financial support. Additionally, Mingara provides training and conditioning facilities for the Mariners. Importantly Mingara continues to encourage Mariners' players to retain their community links, supporting and assisting young players on elite and non-elite levels.

Mingara also runs various sporting and social programs under the banner of 'Life without Barriers' for those dealing with physical and intellectual disabilities. The club is largely credited with the Central Coast's sports participation rate for disabled people being 40 per cent higher than the State average.

Mingara supports sport at all levels in its community, from financially supporting amateur and professional athletes and providing facilities for high school sporting carnivals to getting disabled people active.²⁷⁷

Regional areas show greater dependence on club support for sport

On a regional basis, 97 per cent of non-Sydney clubs provide their members with sporting facilities, as compared with 89 per cent of Sydney clubs. This difference highlights the importance of clubs in non-metropolitan regions in providing the community with sporting facilities.²⁷⁸

²⁷⁷ UMR Research Pty Ltd, "NSW Clubs in their Local Communities – A Case Study", commissioned by ClubsNSW, 27 February 2009

²⁷⁸ The Allen Consulting Group, *Socio-Economic Impact Study of Clubs in New South Wales (2004)*, April 2004, p. 49

There is significant provision of sporting facilities across all clubs, regardless of size. The type of facilities provided, however, is heavily influenced by the correlation between the type and size of clubs. The provision of bowling greens is most common among smaller clubs, which tend to be the smallest clubs in terms of gaming revenues. Leagues and football clubs tend to earn high gaming revenues and provide various types of sporting fields.

(g) ACT clubs' support for sport

ACT clubs provide a wide range of sporting venues and make significant contributions to major sporting teams and to a large number of sporting organisations. The vast majority of clubs in the Territory are sporting clubs, with a specific charter to encourage and support sport in the community.

As is the cases across Australia, clubs do not only provide cash and in-kind support to amateur sporting groups, but also the benefit of professional advice. For example, Ainslie Football and Social Club has provided management expertise to assist in the development and consolidation of a number of local sporting bodies, including the development of Softball Canberra to become one of Australia's strongest competitions, and the relocation of North Canberra Gungahlin Cricket Club.

In 2006/07 the ACT Club Movement's support for sport was valued at \$9.3 million. In addition, the ACT Academy of Sport is a major beneficiary of club support through the 1 per cent sports levy – which is now embedded in gaming tax.

The industry, through ClubsACT, has also been the major sponsor of ACTSPORT's Sportstar of the Year Awards for the past decade.

Sport is very much a bona fide community contribution and is treated as such by the ACT Government's Community Contribution Guidelines, which were confirmed by the *Gaming Machine Act 2004*. Sport and recreation are generally regarded as investments in social capital and act as preventative measures which over the medium and longer term reduce the need and demand for social welfare funding by governments and the community.

Sporting and community facilities like ovals, stadiums and bowling greens are primarily provided by clubs in the knowledge that the costs will not be recovered and, at best, there will be a low return on investment. Private investors, for example, would balk at investing in these types of infrastructure, but clubs do not because they have an obligation to their members and in turn the wider community.

Case study: Vikings Club, ACT

The ACT's Vikings Group of clubs is committed to the promotion of sport in the Tuggeranong Valley, boasting 55 affiliated sporting clubs and 602 affiliated teams with 5,912 junior athletes and 3,631 senior athletes. In addition to this, the club supports over 1,400 more athletes through major sporting grants to amateur sport. Major outcomes of recent sponsorship include:

- \$588,000 to Tuggeranong Valley Rugby Union Club , allowing over 511 players to participate
- \$100,000 to ACT Rugby Union
- \$126,100 to Affiliate Club Grant Scheme for junior and senior athletes to compete in local competitions
- \$40,000 to Primary Schools Rugby Union Program, supporting 500 local children

- \$35,000 to High School/College Rugby Union Program, supporting over 150 students
- \$78,400 to Affiliate Clubs (in-kind assistance to enable athlete participation in meets).

In addition to cash grants, Vikings also provides extensive sports infrastructure, including the \$6 million multisports facility Viking Park, Vikings Capital Golf Course, Vikings Health & Fitness Centre, bowling greens, tennis courts and ovals. Highlights from 2007 are:

- \$433,000 direct funding for Viking Park, used by local sporting teams for Rugby Union and baseball matches as well as hosting the Australian Schoolboys Rugby Championships and the Australia vs Samoa Rugby Union Schoolboys Test Match. The Brumbies also hosted training sessions at Viking Park and hosted a professional Japanese Rugby team for a two week training camp.
- \$433,500 direct funding for Vikings Capital Golf Club Course, Canberra's cheapest public to join and play, also offering free monthly coaching clinics for junior golfers.
- \$432,000 for three international standard championship-sized bowling greens.
- \$47,000 direct funding for oval maintenance of government-owned fields.²⁷⁹

6.6 AGEING POPULATION

Clubs play a vital role in the lives of older Australians, providing access to facilities and services, and a social network that maintains or even improves the quality of life for many in their later years. The extent of the challenge presented by the ageing of the population is reflected by the Australian Government's Intergenerational Report, which found that the proportion of people aged over 55 is steadily rising.

There are currently just over four million Australians aged 55-plus (or about 21 per cent of the population). This is projected to increase to more than double to around 9.2 million – or around 36 per cent of the total population – by 2042.²⁸⁰

And approximately 13 per cent of the population – some 2.8 million people – is aged 65 years or older. This is expected to rise to 18 per cent by 2021 and to 26 per cent (around 7 million people) in 2051.²⁸¹

With more leisure time available, this burgeoning demographic group can be expected to increasingly turn to their local club for activities. Clubs play an important role in the lives of older Australians. In NSW, for example, more than half of those aged 60 or older visit a club at least once a week.²⁸² For this group, a club environment is safer and offers a sense of 'community', with recreational opportunities geared to their stage of life.

Case study: The Richmond Club

²⁷⁹ ClubsACT, Unpublished Case Study, "The Vikings Group", March 2009, attached as Appendix C

²⁸⁰ Commonwealth of Australia, *Intergenerational Report*, Budget Paper 5, May 2002

²⁸¹ Commonwealth Minister for Ageing, Media release "Australian Government's Positive and Active Ageing Plan", 23 June 2008, accessed at <http://www.health.gov.au/Internet/ministers/publishing.nsf/Content/mr-yr08-je-je099.htm>

²⁸² The Allen Consulting Group, *Socio-Economic Impact Study of Clubs In New South Wales (2007)*, February 2008

The Richmond Club is cognisant of meeting the needs of the ageing members in its community. Therefore it has tailored many of the services and functions of club to meet these needs. Apart from operating an aged care facility, which is discussed in detail in Chapter 5, the club provides a crucial community service simply by providing a meeting place for seniors. For example, each day approximately 130 older members participate in bingo, an activity from which the club does not profit, but from which seniors enjoy the fun and company.

The club's gym (Active8) program is deliberately tailored to promote the participation and health of older members. The 'Living Longer, Living Stronger' program is a strength training program specifically for the over 50s. This program is endorsed by the Council on the Ageing. The gym has reached near full capacity, with over 1,000 members.

The club also runs a program that supports grandparents who have responsibility for minding their grandchildren. This program was developed in response to findings that a significant number of older residents in the local community were spending at least one day per week minding grandchildren. Parts of the club were made child-friendly and children's activities are run on certain days. Kids' meals are offered free.²⁸³

(a) Club-going is linked to positive health outcomes

The Adelaide Health Development and Social Capital Project found that:

*... social participation has a strong link with health and that becoming involved in the social life of the local community, therefore, does improve health and it appears to act as a buffer to poorer health as age increases and socio-economic status declines.*²⁸⁴

Their analysis also demonstrates that social participation declines with age or economic means, emphasising the crucial role of clubs where membership is biased towards older people and lower income workers. This has important implications for public policy-makers, particularly in relation to an ageing population and economically disadvantaged areas where levels of social capital may be low and/or declining. The Adelaide researchers conclude:

*... the challenge is to build the social capital of communities in a way that encourages the social participation of men and women as they get older, and of people in lower socio-economic groups.*²⁸⁵

This thesis is supported by recent research conducted by Simpson-Young²⁸⁶ on the use of registered clubs by the elderly and the associated health and social benefits. The research found that registered club use enables the elderly to manage the impact of late life transitions on well-being by facilitating social participation, reducing social isolation and enabling access to resources to improve the quality of daily living.

²⁸³ UMR Research Pty Ltd, "NSW Clubs in their Local Communities – A Case Study", commissioned by ClubsNSW, 27 February 2009

²⁸⁴ Baum, Fran, Catherine Parker, Carolyn Modra, Charlie Murray and Robert Bush, "Chapter 10: Families, social capital and health" in Ian Winter, *Social Capital and Public Policy in Australia*, 2000, p.257

²⁸⁵ Baum, Fran, Catherine Parker, Carolyn Modra, Charlie Murray and Robert Bush, "Chapter 10: Families, social capital and health" in Ian Winter, *Social Capital and Public Policy in Australia*, 2000, p.257

²⁸⁶ Simpson-Young, Virginia, "Club-going as a strategy for managing change and maintaining social connectedness in later life: an ethnographic account of the day-to-day life of the older club-goer", in C Shanley and T Roberts (Eds), *Proceedings of the 5th National Conference of Emerging Researchers in Aging: Research Informing Positive Outcomes in Older Persons*, University of Sydney, 21st November 2006

Put simply, elderly club-goers are able to forge and maintain relationships with others among their age group who share common experiences with, for example, bereavement and relocation. Club-goers, in particular elderly women, feel safe in the club environment and can access a nutritious meal and gain enjoyment out of club activities such as bingo, bridge or carpet bowls.

(b) Independence for the elderly

Simpson-Young discusses how the elderly gain 'symbolic independence' from club participation and how such participation structures their daily and weekly routines and provides a safe and financially accessible venue to frequent outside their home:

Club-going can continue when many other activities outside the home are no longer possible. In this context, being finally unable to attend the club would constitute a major blow to their view of themselves as an independent person. This may explain why some club-goers could not envisage their future without club involvement, as well as the observation that extensive efforts were made to overcome obstacles posed by ill-health to continue to attend the club.²⁸⁷

This is reflected in the example of Clayton Bowls Club, which was the 2007 Bowls Club of the Year winner at the ClubsVIC Achievement Awards. The Club helps improve the health and well-being of members by providing social and intellectual stimulation, adding an extra purpose to daily living and providing the retired with an interest outside the family. The club has many examples of how members are benefiting from club life and how the club itself benefits, including an 89-year-old member who attends every Monday to help maintain gardens and flower boxes. Spouses and families say that club life has provided retirees with opportunities to use their intellectual and physical skills. The Club can harvest these skills and a lifetime's experience for sub-committee work or for one-off tasks such as reviewing the constitution or by-laws.²⁸⁸

Similarly, the ACT's Ainslie Football and Social Club has for many years hosted, free of charge, the ACT Government Chief Minister's breakfast for the Council for the Ageing. The Club also provides annual Christmas luncheons for the elderly residents of the nearby Goodwin Homes, hosted by the directors and management, who provide the table service with food and beverage at no charge.²⁸⁹

A club manager made the following comments in a Ucomm Focus Group that also supports Simpson-Young's position:

I had a little old lady, when we were talking about the pokie tax, come in and say, "Please don't cut out that free bus because I come here three days a week. That's my three days I go out and I go shopping too in between times." So she takes her shopping home on our free bus, but that gets her out of her four walls ... So how do you measure the health and the well-being of your community? And council said to us as well if the club stops giving your meeting room, they can't build more venues. They can't build more. How do you then measure that in dollar value?²⁹⁰

²⁸⁷ Simpson-Young, Virginia, "Club-going as a strategy for managing change and maintaining social connectedness in later life: an ethnographic account of the day-to-day life of the older club-goer", in C Shanley and T Roberts (Eds), *Proceedings of the 5th National Conference of Emerging Researchers in Aging: Research Informing Positive Outcomes in Older Persons*, University of Sydney, 21st November 2006, p. 181

²⁸⁸ ClubsVIC, *Hear Our Voices: Celebrating Clubs As Communities Serving Communities*, March 2008

²⁸⁹ ClubsACT, Unpublished Case Study, "Ainslie Football and Social Club", March 2009

²⁹⁰ Ucomm, *Managers Focus Group Report*, commissioned by ClubsNSW, July 2007, p. 9

Case study: Subsidised meals, Maroubra Seals, NSW

According to a UMR case study, the Maroubra Seals Board and Management has seen its role as providing a leisure, support and quasi 'welfare' facility for those on pensions, low incomes and facing social challenges in the area.

In 2003, Maroubra Seals prepared and supplied an average 2,700 subsidised meals per week to its disadvantaged members and patrons. In 2009 this has risen to 3,300 meals a week, costing some \$286,000 per annum.

A significant portion of these meals are provided to various disability groups. In liaison with Randwick Council and agencies like 'Sunny Homes', Maroubra Seals has increased its commitment to providing subsidised meals and meeting facilities to various disability groups. Over the past three years, Maroubra Seals has served over 300 (\$4) subsidised meals per week to such recipients.

Other support programs funded by the Maroubra Seals are the School Breakfast Program at South Sydney High School (\$35,000 per year over the last four years) and the breakfast program at La Perouse Primary School (\$6,000 per year over the past four years). Maroubra Seals management noted that during January and February 2009, the number of subsidised meals has begun to steadily increase. Members will often bring along their families to take advantage of low-cost meals during increasingly difficult economic times.

Removing just this one service from the clubs program would place a big strain on State and local government welfare agencies.²⁹¹

(c) Reduced pressure on public healthcare services

In support of Simpson-Young's concept of 'symbolic independence,' there is strong anecdotal evidence that, for example, an elderly person living alone, but with access to a network of individuals of similar age and a common interest, is less likely to seek medical treatment for depression. It is this observation that leads Simpson-Young to conclude:

*Given the large number of older people who attend registered clubs, and clubs' contribution – identified in this research – to social connectedness and the management of day-to-day life, the time has come for researchers, policy-makers and practitioners working with older people to take registered clubs seriously. In being aware of the effectiveness of club-going in dealing with some of the transitions of later life, practitioners can consider the local club as a referral option for older clients at risk of social isolation.*²⁹²

This is reinforced by comments made during the Ucomm Managers Focus Groups:

We've then got the 70 plus – and we're talking about a third of our membership – that are coming to our club ... they say that it's their second home. Half of them were married there and they've had their children ... and their grandchildren christened there and the Holy Communion and everything that goes on in their life. The actual club industry itself has become the heart of the community and if they weren't sitting in our venues, not spending any money, because they don't from the age 70 ... they would be sitting in a doctor's surgery and wanting to talk to doctors for 45 minutes.

²⁹¹ UMR Research Pty Ltd, "NSW Clubs in their Local Communities – A Case Study", commissioned by ClubsNSW, 27 February 2009

²⁹² Ucomm, *Managers Focus Group Report*, commissioned by ClubsNSW, July 2007, p.9

... We actually help the infrastructure of the whole government with what we provide from that aspect. You can have a person sitting at a poker machine and people might turn around and say, well, we're only interested in that dollar ... but it's their club and it's their community and if she's telling my staff that she's going away for a week, she's doing that for a reason. She's doing that because she wants someone to know that if she's not here for a week there's a reason why she's not here and if... she hasn't been in our club for a week she expects one of my staff to notify us so that we can check to make sure she's still alive at home, and you can't put a price on that, and the government needs to have a clear understanding, and so even the economics of that, they have got no understanding of that.²⁹³

We offer free hearing tests, every week to non-English-speaking people and we have translators. If the government had to pay for that, how much would it cost them to have four different people that can speak – like most of my staff can speak five languages, most of my staff, so we're able to communicate with these people. Now if they went and got a hearing test in Macquarie Street, they would have to then go and find somebody that can speak their language to be able to communicate with them and we're providing that on a weekly basis.²⁹⁴

6.7 SUPPORT FOR PEOPLE WITH DISABILITIES

Due to their community-oriented nature, clubs also play an important role in supporting people with disabilities. They provide employment and training opportunities, offer facilities that are both physically and financially accessible, and provide a warm, inclusive environment in which to socialise. Because of their not-for-profit nature they are more prepared than other venues to host events for people with disabilities which may run at a loss due to increased running costs and/or the patrons' limited capacity to pay.

For example, The Richmond Club in the Hawkesbury region of Sydney hosts an annual Disability Expo to inform the community about the resources available to assist its members with disabilities. It also runs two gym classes per week specifically for members with disabilities.²⁹⁵

Likewise, the Hellenic Club's support for Koomarri – Canberra's leading service provider of support and employment services for people with moderate to severe disabilities and their families – includes a sponsorship providing \$200,000 from 1 July 2005 for five years, to help fund their construction of new premises. The Club has been actively involved in the redevelopment planning, and also provides volunteer assistance for functions such as Koomarri's annual Christmas Party. Finally, the Club also provides important mainstream employment opportunities to Koomarri's disabled clients, hiring the Koomarri garden keeping team to maintain the Club's landscaping.²⁹⁶

During a community focus group conducted by Ucomm, the following comments were made in regard to clubs' support for the disabled:

I would say on behalf of the people we look after and support, their level of socialising and general exposure to community activities would almost disappear in a social sense if not for the clubs. It is very difficult for our guys to integrate into the social

²⁹³ Ucomm, *Managers Focus Group Report*, commissioned by ClubsNSW, July 2007, p.10

²⁹⁴ Ucomm, *Managers Focus Group Report*, commissioned by ClubsNSW, July 2007, pp.10-11

²⁹⁵ UMR Research Pty Ltd, "NSW Clubs in their Local Communities – A Case Study", commissioned by ClubsNSW, 27 February 2009

²⁹⁶ ClubsACT, Unpublished Case Study, "The Hellenic Club", March 2009 – see Appendix F

sphere of the community unless they are supported by clubs, whereas the club environment is much more warm and open and friendly and receptive. They can let you in bowling clubs, they can do all the activities in the club and you can see them grow and develop and work out their own social skills through that exposure. So it is a tremendous aid in developing our people. And they thrive – it might be bingo night to someone else, but it's a great night out for our guys and they just love it.²⁹⁷

Case study: Benalla Bowls Club, Victoria

Chris Randell, 24, owes his successful bowling career to the Benalla Bowls Club. Chris says bowling is the “hardest game on earth for a bloke with a disability. Had it not been for my good friends at the club, I would never have realised my goal of playing competitively.” Chris has joint and nerve damage in both arms but that didn't stop him from practising his bowling technique every day.

Club members were impressed by Chris's enthusiasm. They decided to buy him a bowling arm, a device that makes it easier for people with decreased muscle strength to achieve a sense of balance when bowling. They gave him lessons and Chris accepted the challenge, training for up to two hours each day for eight years after school and on weekends. The bowling arm, the lessons and his diligent approach catapulted Chris's bowling career to a gold medal in the International Bowls for the Disabled Championships in Sydney.

“I can't think of a prouder moment in my life,” Chris says. “Not only had I represented Victoria for the first time in Adelaide at the Australian Championships in September, but I was then given the honour of representing my country.” Chris now coaches local school students aged between 13 and 18 who come to the Benalla Bowls Club every week. He knows that his achievements and the potential success of his students would not have been possible without the support of the Benalla Bowls Club and its members.²⁹⁸

6.8 SUPPORT FOR YOUNG PEOPLE

Although clubs are popularly perceived as venues for older people, they are strong supporters of children and young people.

Clubs work to provide a family-friendly dining and entertaining environment. While many pubs are unsuitable for a family meal, clubs are welcoming to parents and children alike, often providing extensive services such as crèches, games rooms and videos to help keep children entertained and provide a break for parents. For example, Twin Towns Resort has a 'Kidspace' for children visiting the Club. This provides fully supervised entertainment for the children. The space includes a theatrette, electronic games, sports area, 'sleeping cave' and snack bar. Kidspace is subsidised by the Club. This service provides a safe and secure environment for the children of members and their guests.

Clubs are also often the only venue in an area willing and able to host all-ages concerts and dance parties, meaning teenagers are able to see touring performers and socialise in a safe environment.

Through their charitable and community support, clubs also actively support initiatives to improve the lives of Australian youth. Most clubs provide funding and/or support for local

²⁹⁷ Ucomm, *Community Organisations Focus Group Report*, commissioned by ClubsNSW, July 2007, p. 26

²⁹⁸ ClubsVIC, *Hear Our Voices: Celebrating Clubs As Communities Serving Communities*, March 2008

schools, and for drop-in centres, sporting activities, drug, alcohol and nutrition education programs, and outreach services for young people who are homeless, have mental illnesses and/or other issues.

Other examples include:

- The Richmond Club joined with Hawkesbury police to create a project to benefit youth called 'Kokoda'. The project partners a local youth with a local police officer to complete the Kokoda Trail. More recently, this program has been developed into a mentoring tool for employees of the Club.
- The Richmond Club also supports Father Chris Riley's Youth off the Streets, having introduced a traineeship to allow young people to gain experience working in the hospitality industry. The Club also supports an intervention called Turning Point, a program for children who can no longer live with their parents.
- In 2007 Mingara Recreation Club established the Mingara Dymocks Literacy Foundation, a partnership with the major book retailer to purchase books to donate to schools, pre-schools and child-care centres across the Central Coast. In 2008 Mingara delivered over 2,500 books to eight community pre-schools and two special needs schools across the Central Coast. Mingara arranges for Mariners players and local MPs to read to local children, encouraging them to develop a love of books early in life.
- Mingara also offers a learn-to-swim school for young babies and a social opportunity for those mothers attending the program. Over 80 new mothers and their babies attend the club weekly on an informal basis, which provides the mothers with a safe, healthy social outlet and networking with other new parents.
- Maroubra Seals gives financial support (\$5,000 in 2008) to The Shack Youth Services, which provides support and entertainment for local youths.
- Maroubra Seals has funded a 'garage-gym' project to encourage younger 'beach kids' and young 'Bra Boys' to channel their energies into organised physical activities. Additionally, the Club hosted and funded a series of lunches for 49 young men, again with the aim of trying to instil in the boys an ethic of respect for themselves, their community and their future.
- Maroubra Seals donated \$15,000, and worked with local Police to send two young men from the above group to walk the Kokoda Trail. This is part of the Club's ongoing youth leadership campaign.²⁹⁹

Of course, via the support of junior sport, millions of younger Australians are able to enjoy healthy participation in sporting activities.

6.9 PROMOTING SOCIAL CONNECTIONS

The club industry has also had a role in promoting multiculturalism in NSW alone 3 per cent of clubs are ethnic or religious orientated. Across Australia clubs provide a community 'melting pot' where people of different cultural backgrounds can mingle. One club manager has commented:

I don't think the Government has ever picked up and had a really clear understanding of the social impact the clubs do actually have ... I mean the fact that it's a multicultural area and to be able to get people from different cultures to be able to mix together and create an environment where they can mix together without conflict assists the government in not having to expend money in trying to resolve conflicts out in the public arena.³⁰⁰

²⁹⁹ UMR Research Pty Ltd, "NSW Clubs in their Local Communities – A Case Study", commissioned by ClubsNSW, 27 February 2009

³⁰⁰ Ucomm, *Managers Focus Group Report*, commissioned by ClubsNSW, July 2007, p.10

Moreover, clubs actually provide facilities and services catering to that multicultural community's needs:

*We have a solicitor once a month that comes in, so all these non-English speaking people – he can speak nine languages ... and he sits there and goes through all their legal paperwork and everything and there's a queue, a huge queue.*³⁰¹

Case study: Casa D'Abruzzo, Victoria

Casa D'Abruzzo is a melting pot of experience and cultural influence which educates, inspires and guides younger generations of Australians with an Italian background. More than a third of the 390,000 Australians who migrated to Australia came from a small region a few kilometres east of Rome called Abruzzo.

Many were keen to maintain their culture and traditions and they formed a social club called Casa D'Abruzzo (House of Abruzzo). Casa D'Abruzzo caters to their needs, creating a relaxed environment for families to celebrate their heritage. It is a place where deep-seated traditions and passions are passed on to younger generations by community elders.

Members are driven by a strong sense of belonging and to do something that is worthwhile and positive, a sense of duty to keep traditions alive and a desire to attract first, second and third generation Abruzzi. Board members who worked together to renovate the facilities celebrate their connections with the wider community and the opportunities to enrich their own lives and those around them.

The board and other members see the club as a family, knowing that if it wasn't for Casa D'Abruzzo, elderly Abruzzi could be lonely people at home. Just like a family – especially an Italian family – women members gather to make traditional foods. Members work together through committees that are integral to club success, raising thousands of dollars for local charities, organising saint feast days, sporting events and competitions and holding other special dinners and events.³⁰²

Case study: The Hellenic Club, ACT

The Hellenic Club was founded by Canberra's Greek community in 1979. For the last three decades the Club has, through its community contributions, promoted Greek language, culture and heritage, sport, and the care of the elderly including:

- St Nicholas Home for the Aged – The Club helps pay running costs for the Home's operations, whose residents include those of Greek descent and a variety of cultural backgrounds. Last year, in addition to the annual support provided, the Club made a significant monetary contribution of \$75,000 towards the building of a car park.
- St Nicholas Greek pre-school – This year, in addition to the annual support provided to fund the operational costs, the Club provided an additional contribution of \$30,000 for the refurbishment of the pre-school.
- The Greek Glendi – This event is a feature of the National Multicultural Festival and showcases Greek cuisine and the diversity of Greek music and the arts, with live music and dancing performances. Funds raised are distributed to the St Nicholas

³⁰¹ Ucomm, *Managers Focus Group Report*, commissioned by ClubsNSW, July 2007, p.15

³⁰² ClubsVIC, *Hear Our Voices: Celebrating Clubs As Communities Serving Communities*, March 2008

6.10 VOLUNTEERING

A further measure of clubs' contribution to social capital is through the level of volunteering.

It would not occur to many volunteers closely involved in the operation of a registered club that their time is worth assigning a dollar value to, or indeed that they were making an important contribution to the social fabric of their community. However, there is a growing awareness that volunteerism is integral to establishing and maintaining social networks and cohesion and to delivering services that the community needs.

Volunteering contributes to social capital in two main ways. First, it provides significant benefit to the volunteers themselves by increasing their sense of belonging and contributing to their community, by facilitating new friendships, and by developing and maintaining skills. This is especially important for older volunteers, who may not wish or be able to continue to work full time, or at all, but derive enormous benefit from regular voluntary work.

The second aspect is in the value of the work contributed by the volunteers. Clubs act as an important catalyst and organising force for people to find 'causes' to which they can devote themselves.

One noteworthy aspect of volunteering in the club industry is that those who volunteer do so for a long period, especially in the case of directors. This has both benefits and risks for clubs. Benefits include experience, continuity and 'corporate memory'. Risks include lack of fresh ideas and renewed energy, entrenched attitudes and skills deficiencies.

Figure 6.3 outlines the trend for club directors to volunteer over long time periods.

Figure 6.3: Directors – time in industry

| AGE GROUP | LESS THAN 5 YEARS (%) | 6 – 10 YEARS (%) | 11 – 15 YEARS (%) | 16-20 YEARS (%) | MORE THAN 20 YEARS (%) |
|--------------|-----------------------|------------------|-------------------|-----------------|------------------------|
| < 40 | 14 | 19.8 | 31.4 | 27.9 | 7 |
| 41-50 | 5.1 | 10.2 | 13.3 | 32.7 | 38.8 |
| 51-60 | 13.5 | 5.6 | 13.5 | 14.6 | 52.8 |
| 61-70 | 12 | 4 | 4 | 0 | 80 |
| 70+ | 0 | 0 | 0 | 0 | 0 |
| Total | 22.1 | 27.9 | 17.5 | 10.4 | 22.1 |

Source: ClubsConsulting, Managers and Directors Survey, 2006, p. 35.

In the Final Report of its Review of the NSW Clubs Industry, IPART stated that: "IPART considers it essential that clubs continue to involve and retain volunteers."³⁰⁴

³⁰³ ClubsACT, Unpublished Case Study, "The Hellenic Club", March 2009

³⁰⁴ Independent Pricing and Regulatory Tribunal of NSW, *Review of the Registered Clubs Industry in NSW*, Final Report, June 2008, p.64

(a) National statistics

The significance of clubs in respect of volunteering nationally can be seen in the 2006 ABS report on voluntary work. Two types of organisations together claimed almost half of all volunteer hours: sport/physical recreation (26 per cent) and community/welfare (19 per cent). Together with religious (17 per cent) and education/training (10 per cent) organisations, they accounted for almost 75 per cent of all volunteer hours. These four categories were also the largest in terms of the number of volunteer involvements.

The ABS also casts light on gender variations. Male volunteers were most likely to be involved in sporting or recreational organisations. For females, community/welfare organisations involved the largest number. Although there were slightly more female (36 per cent) than male (32 per cent) volunteers overall, there were many more male involvements than female in the fields of sport/recreation and emergency services.³⁰⁵

According to The Allen Consulting Group's 2004 and 2007 SEIS, between 1999 and 2007 the number of volunteers in NSW clubs fell from 59,904³⁰⁶ to 44,000,³⁰⁷ while the number of volunteer hours increased significantly, from 2.8 million to 6.3 million hours in 2007.

This reflects, in part, the difficulty experienced by clubs in attracting volunteers. This is also an issue experienced more broadly in the community. In its 2007 Survey of Volunteering Issues, Volunteering Australia found that a significant number of organisations experience barriers in involving volunteers.³⁰⁸

(b) New South Wales

IPART's valuation of clubs contribution included volunteers. The Allen Consulting Group estimated that in 2007 there were 44,000 club volunteers in NSW, committing over 6.3 million hours of their time as club directors, assisting with trading activities or organising sporting and community events. This contribution is estimated to be worth approximately \$126 million.³⁰⁹ The Allen Consulting Group recognised this is a conservative estimate given the difficulties clubs have quantifying the contribution made by volunteers. Moreover, directors represent only a fraction of the volunteer complement. Each sub-club has its own group of volunteers, including coaches, event organisers, and many others who contribute their time and efforts.

(c) Australian Capital Territory

Clubs in the ACT provided opportunities for at least 2,553 volunteers in 2007, who contributed a total of at least 186,243 hours.

In addition, in recognition of the role played by volunteers in the community, the Canberra Labor Club Group's largest recipient of support is Volunteering ACT, the peak body for volunteer organisations in the Territory, which coordinates and facilitates large number of community members. Groups specifically targeted by Volunteering ACT's own programs are at-risk youth and seniors.

³⁰⁵ Australian Bureau of Statistics, 4441.0, *Voluntary Work Survey*, 2006

³⁰⁶ The Allen Consulting Group, *Socio-Economic Impact Study of Clubs in New South Wales (2004)*, April 2004, p.37

³⁰⁷ The Allen Consulting Group, *Socio-Economic Impact Study of Clubs In New South Wales (2007)*, February 2008, p.51

³⁰⁸ Volunteering Australia, *National Survey of Volunteering Issues*, 2007

³⁰⁹ The Allen Consulting Group, *Socio-Economic Impact Study of Clubs In New South Wales (2007)*, February 2008, pp.42-43, 53

Total support provided by the Labor Club Group last year was \$234,500, of which \$135,723 was a cash contribution. The Club Group provides unlimited free use of its office building to ensure that Volunteering ACT has the infrastructure and administrative capacity required to facilitate its numerous programs.³¹⁰

Figures for the other jurisdictions are unavailable at the time of writing. However, volunteers play a crucial role in each State and Territory and particularly the other jurisdictions which have smaller average club sizes, because smaller clubs tend to rely more heavily on volunteers.

(d) Queensland

Preliminary figures from the Queensland Club Movement's socio-economic impact study indicate clubs in that State facilitate and support 5.097 million volunteer hours per year, with a monetary equivalent value of \$109 million.³¹¹

(e) Barriers to involving volunteers

The 2007 National Survey of Volunteering Issues³¹² found that 51 per cent of organisations experience barriers to involving volunteers. This includes attracting and retaining suitable volunteers, skills and training, and costs and administration associated with complying with legislative and procedural requirements. This is consistent with the experience of many clubs.

Federal privacy legislation and Federal and State security laws have sometimes been applied excessively, as illustrated in the following comment by a club director during a Ucomm Focus Group:

*...if you do anything with junior sport there's the police checks, there's all these things that are now being imposed on the community of volunteers. Meals on Wheels and all those people. We've got a dance group within our club that goes around to dance for nursing homes and things like that. They got a letter and they've all got to go and have a police background check. How stupid. They're not going to go around to nursing homes knocking off little old ladies. They go along there, they invited them to come and dance, the Mercy Home, they go out there for a couple of hours, give some lovely entertainment for a group of old and disadvantaged people. And they're saying I'm not going to go for a security check and they're just walking away from it. And it's going to happen all over the place and that's just stupidity of government. There is probably a need for it in some areas, but they target the wrong sort of thing.*³¹³

Clubs – and in turn their ability to build social capital – would benefit from assistance in overcoming these burdens and revising unnecessary regulation to remove red tape to attracting volunteers.

³¹⁰ ClubsACT, Unpublished Case Study, "Canberra Labor Club", March 2009

³¹¹ ClubsQueensland, Submission to the Productivity Commission *Review of Australia's Gambling Industries*, March 2009

³¹² Volunteering Australia, *National Survey of Volunteering Issues*, 2007

³¹³ Ucomm, *Directors Focus Group Report*, commissioned by ClubsNSW, July 2007, p. 37

6.11 CLUB TAX

It should be remembered that clubs' considerable tax burden, and particularly gaming tax, plays a significant role in building social capital in Australia. The more than \$1 billion in tax paid each year in revenue to the States, Territories and the Commonwealth allow the governments to provide extensive social services for the population, including education, health and policing. In this way, every resident of Australia benefits from clubs, even if they do not frequent them.

6.12 CLUBS ARE SAFE VENUES

Clubs are safe venues – whether for socialising, drinking, gambling or all of the above. As per their founding legislation, clubs exist primarily to provide entertainment, leisure and a social centre for their members and guests. This factor, together with clubs' not-for-profit nature, ensures they are diligent in the responsible service of alcohol and gaming, committed to being good corporate citizens in their local communities, and highly sensitive to antisocial behaviour. Clubs have always enforced strict standards of conduct and have traditionally worked actively and effectively with other stakeholders to combat local problems linked to alcohol.

Caring for children and family members is also important: 26 per cent of Victorian clubs provide playrooms and playgrounds, while 30 per cent of clubs have courtesy buses.³¹⁴

Clubs work hard to ensure safe alcohol consumption and reduce risky drinking and gambling behaviours. It can be safer to drink in a club where there is supervision, a positive social atmosphere and intervention by staff to prevent drinking to intoxication, than in the home and/or in isolation.

Consistent with the contention that clubs are relatively safe places to socialise, in 2006 the City of Sydney Council published a discussion paper on night trading premises, concentrating on licensed premises.³¹⁵ The paper demonstrates the responsible nature of clubs, as it identifies that the most problematic licence types are hotels and nightclubs. Clubs are not considered problem or high-impact premises primarily because they effectively manage antisocial behaviour and operate responsibly within the existing framework.

Further, research conducted by the NSW Bureau of Crime Statistics and Research on young adults' experience of responsible service practice in NSW points towards clubs' responsible service of alcohol. The research found that in 2006 more than half (53.5 per cent) of survey respondents who partook in risky drinking reported that the type of licensed premises they had been drinking at was a hotel. This compares with 18.3 per cent of respondents who stated they had been drinking at a registered club.³¹⁶

Clubs are vigilant in the prohibition of under-age drinking; minors are far more likely to obtain alcohol from friends or family than directly from a club.³¹⁷ It is also well documented that young people who are involved in organised sport are much less likely to engage in under-age drinking, drug abuse and other antisocial behaviour. Clubs provide young people with a wealth of recreation and sporting facilities, offering a healthy alternative to under-age drinking.

³¹⁴ Percentages calculated on data obtained from 88 ClubsVIC member clubs

³¹⁵ City of Sydney Council, *Draft Discussion Paper: Night Trading Premises*, May 2006

³¹⁶ New South Wales Bureau of Crime Statistics and Research, *Young adults' experience of responsible service practice in NSW: An Update*, January 2007, p. 3

³¹⁷ Eighty-one per cent of minors obtain alcohol from a friend or family member, with only 5 per cent purchasing it themselves according to the National Drug and Alcohol Research Centre: "Under-age overproof", *The Australian*, 22 July 2003, p. 9

Another example of clubs taking an active role to mitigate the harms associated with alcohol abuse relates to drink driving. In NSW, clubs have an alliance with the NRMA to combat drink driving. This has so far seen the implementation of over 20 breath-testing units in clubs as well as a 'Think Before You Drive' drink coaster campaign over the 2007 Easter period. Clubs individually are also involved in youth driver education programs that yield benefits for the broader community in terms of safer road conduct

Government policy, programs and public education campaigns need to increase their focus on personal responsibility, extending not only to the impact of alcohol consumption or abuse on drinkers themselves but also its effects on others, including friends, family, employers and the broader community. In many cases alcohol abuse is a symptom, not the root cause of problems. It is therefore essential to address the core issues underlying irresponsible drinking and gambling, such as mental illness, family breakdown and increasing isolation in our society.

TERM OF REFERENCE:

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

6.13 PROBLEM GAMBLING

PC: Have the nature and extent of the costs of problem gambling on individuals, their families and the wider community changed since 1999? If so, in what way? What factors have contributed to any changes?

6.13.1 Decline in problem gambling prevalence

There is evidence that the incidence of gambling abuse in Australian land-based gaming venues has declined since the release of the 1999 Report. This is addressed in detail elsewhere in ClubsAustralia's submission.

ClubsAustralia is not in possession of detailed costing or information that could allow a critical analysis of welfare support services. However, consistent with our observation regarding a declining incidence of gambling abuse, it is understood that the demand for counselling and associated services is indicating signs of decline.

In the case of New Zealand, which has experienced significant anti-gaming machine media coverage in the recent past, the issue of problem gambling welfare service costs were also recently brought into focus. The New Zealand Government announced that it was "moving to consolidate problem gambling services after a downturn in problem gamblers seeking help."³¹⁸

This was of course followed by strong criticism from certain quarters, and the exact reasons for the downturn are not known, with suggestions that contributing factors may have included a smoking ban in 2004, legislation and a public awareness campaign.³¹⁹ More recently, there has been a slight reported increase in the use of the Gambling Helpline; however, this also coincided with an active "social marketing campaign around problem gambling."³²⁰

The NSW G-Line problem gamblers helpline, which operates '24/7', has also experienced a declining trend in the number of callers seeking assistance.

³¹⁸ New Zealand Ministry of Health, Media release: "Problem Gambling Consolidation", 28 November 2006

³¹⁹ "Gambling downturn triggers review of help services", *The New Zealand Herald*, 29 November 2006

³²⁰ New Zealand Gambling Helpline Press Release, Tuesday 24 April 2007

Figure 6.4: NSW G-Line calls

| Year* | Target calls |
|-------|--------------|
| 2004 | 11,774 |
| 2005 | 9,856 |
| 2006 | 9,292 |
| 2007 | 8,048 |
| 2008 | 6,595 |

* Year end December

While there may be some conjecture about the influence of the smoking ban which was introduced in NSW on 1 July 2007, it is important to note the downward trend was present well before the ban and has continued since the ban. This trend has occurred despite increased spending on promotion of the counselling service.³²¹

It is also noted that claims have been made that only 15 per cent of problem gamblers utilise these services.³²² However, the type of people calling the helpline are more likely to be persons that may have issues with gambling, or have experience of someone with a problem, than surveys which randomly select participants from the general population. In our view, while it may be that only 15 per cent of actual problem gamblers seek assistance from services such as G-Line, the fact that the number of calls is trending down is significant.

Since the Productivity Commission's 1999 Report and following the NSW IPART Report into Gambling,³²³ the NSW Government has taken significant steps to review and implement controls in the delivery of problem gambling services funded by the Responsible Gambling Fund³²⁴. In our view this can be regarded as a constructive and targeted attempt to address problem gambling.

ClubsAustralia is not suggesting that the cost of problem gambling services is excessive; however, it is suggested that alarmist media headlines such as "Gambling spins out of control with poker machines"³²⁵ or "Problem gambling a 'root cause of homelessness'"³²⁶ generate and perpetuate an impression that problem gambling is increasing and out of control, whereas in our view the evidence simply does not support this view and in fact suggests the opposite.

As in the case of New Zealand, perhaps the issue now seems to be how to more effectively target the resources being applied.

³²¹ New South Wales Minister for Gaming and Racing, Media release "Budget tackles liquor hotspots and problem gamblers", 3 June 2009

³²² NSW Minister for Gaming and Racing, in "The gambling helpline that too few people know about", *The Sydney Morning Herald*, 22 September 2007

³²³ Independent Pricing and Regulatory Tribunal of NSW, *Gambling: Promoting a Culture of Responsibility*, Final Report, June 2004

³²⁴ "\$2.4 million To Fight Problem Gambling" reported at <http://www.racingandsports.com.au/racing/rsNewsArt.asp?NID=148197>

³²⁵ Michael Warner, *The Herald-Sun*, 31 January 2008

³²⁶ Daniel Hoare, ABC News, Tuesday 29 January 2008

6.13.2 Gambling and its impacts on significant others

Gambling is popularly cited as a cause of family breakdown. However ClubsAustralia suggest that it is extremely difficult to determine with accuracy the number of people affected by problem gambling.

ClubsAustralia commissioned Dr Rohan Miller to review the gambling studies undertaken by State and Territory authorities since the Productivity Commission's last report in 1999, to investigate the possible effect that individuals with gambling related problems may have on their 'significant others' (that is, family and friends).

This review was undertaken based on the assumptions and data used to estimate the prevalence of gamblers who report SOGS 5+ or CPGI 8+ and the effect of their activities on significant others.

Australian Capital Territory

The ACT 2001 study used the SOGS questions (in a 12-month timeframe) as the primary screening tool for problem gambling prevalence. It also included measures of HARM, as used in the Productivity Commission 1999 study.

This study reported that about 25 per cent (n=15) of ACT problem gamblers had their job adversely affected by gambling or felt that they had less time to spend with their families. These two questions were separate items in the survey, yet were combined in the report, so it is not possible to identify if they are the same respondents for both items. As this response reflects great ambiguity, it should be disregarded.

The report also suggests that ACT respondents were more likely to experience relationship breakdown as a result of their gambling than Australians overall. However, as the report does not provide actual data and only provides percentage results rather than any significance testing, and it is not possible to explore if this result was due to the size of the sample, further analysis was not able to be undertaken. The sample size should be adequate to provide a high probability of detecting as significant an effect size of a given magnitude if such an effect actually exists.

New South Wales

The CPGI gambling suggests respondents may be dissected into the groups of 'low risk', 'moderate risk' and 'problem gambling'.

However, the New South Wales 2006 study elected to combine two groups; at-risk gamblers are referred to throughout the report, and they are a net of moderate and problem gamblers. Moderate risk respondents are CPGI 3-7 and problem gamblers are CPGI 8+. The 2006 report states that 32 per cent of the population indicates exposure to problem gambling through an interpersonal relationship.

However, in terms of items sacrificed for gambling money among all gamblers to spend on family, the result is consistent for all groups at 5 per cent. This is regardless of whether the respondent is at non-risk or with a CPGI 8+. Importantly, the report also suggests caution when reviewing these data as the sample is so small in the subset for gamblers with a CPGI of 8+.

Northern Territory

In 2005 the prevalence of gambling in the NT was measured by both the South Oaks Gambling Screen (SOGS) and the Canadian Problem Gambling Index (CPGI).

However, while community attitudes are reported extensively, the examination of the effect of gambling on others was not addressed.

The results of community perception of the net community benefit of gambling across all gambler types at the national and NT levels remained similar.

The report suggests that the net community benefits of gambling may be relatively consistent across jurisdictions and across time. This, however, is only explored in the NT and national context so no claim can be made in this regard.

Queensland

In Queensland, all three studies used the Canadian Problem Gambling Index (CPGI) as the problem gambling screening tool.

For the 2001, 2003–04 and 2006–07 Queensland Household Gambling Surveys, nine CPGI questions were scored to determine the gambling group of each survey respondent.

The reasons provided in the Queensland studies for weighting variables were: first, to gain results based on the population rather than the sample – for example, to make estimates about the 2.9 million Queensland adults from the 29,923 sampled in the survey – and, second, to adjust for differences in probability of selection so that people with a higher probability of being in the sample do not have a greater influence on the result than people with a lower selection probability.

Taking the results of 0.47 per cent, the percentage was extrapolated to the entire adult population, suggesting that 14,000 people may have scored eight or more in the CPGI questions had they taken the survey.

The Queensland report acknowledges that due to the small numbers of gamblers who scored 8+ with the CPGI, many of the figures in the forms of gambling need to be interpreted with caution. Disappointingly, the actual numbers of respondents in 8+ CPGI are not provided in the report.

Emotive language has been used to report the possible effects on significant others. Using terms such as “notable finding” when *17 per cent** reported the break-up of an important relationship because of gambling (with relative standard error of between 25 per cent and 50 per cent). The accuracy of such claims is subject to attribution bias (easier to blame gambling than other relationship shortcomings in themselves) and is considerably lower than the national rate of divorce.

The report did identify data which are *less than reliable*: figures with a relative standard error between 25 per cent and 50 per cent are marked with an asterisk*, and figures which have a relative standard error exceeding 50 per cent are marked with a double asterisk**.

Further, *users of the Queensland report were advised to exercise caution when interpreting results marked with * or **.*

In this report, data with high relative standard errors have usually occurred when analysing small sub-populations such as regions or the problem gambling group.

Variability of estimates

The Queensland studies employed 95 per cent confidence intervals for the percentages reported in the various tables. These intervals represent the range within which there is a 19/20 chance that the population value falls. For example, an estimate of 65 per cent might have an associated confidence interval of 59.5 per cent or 70.5 per cent. Thus, the probability that the actual population value of that proportion is between 59.5 per cent and 70.5 per cent is 0.95. When comparing estimates, differences are considered 'statistically significant' only if the 95 per cent confidence intervals do not overlap.

South Australia

The 2005 South Australian study reported the impacts of 240 respondents who measured CPGI 3–7 and CPGI8+ in relation to family and interpersonal impacts, family interests and if an important relationship had broken up as a result of gambling.

The 55 respondents who reported that they had children aged under 16 were also asked if gambling had reduced the time spent with their children.

Overall, while it was reported that 5 per cent of respondents experienced a break-up of an important relationship because of their gambling, this equates to *13 respondents*. No further statistical analysis was conducted.

It is therefore not possible to assess whether the deterioration in family relationships may have occurred by chance or misattribution of why the relationship deteriorated (that is, blaming gambling as a soft target). It should also be noted that the figure is below the national rate for divorce.

Tasmania

In the 2007 Tasmanian study, comparative analyses were undertaken to examine trends in responses to questions relating to the effect on significant others.

In 2007, 50 per cent (or 2,027) of respondents claimed to know someone experiencing serious problems with gambling, which was an increase from 2005 (42 per cent). It is unclear whether or how merely knowing someone has any adverse impact.

In total, it was reported that 12.8 per cent of the total sample identified at least one family member as having a gambling problem. These figures are similar to those obtained in 2005 (12.2 per cent) and 2000 (12.3 per cent).

Victoria

In a 2003 Victorian study, in which the newly developed Victorian Gambling Screen (VGS) was used for the first time, the prevalence rates for the respondents (regular gamblers n=433) measured by the three screens ranged from 0.74 per cent (VGS 21+) and 0.97 per cent (CPGI 8+) to 1.12 per cent (SOGS 5+). *Note: The validation of the VGS had been completed and this was the first and only time this screen has ever been employed.*

It is reported that approximately 13 per cent of respondents live alone, which is slightly higher than the State average. It is not clear whether this is any harmful activity in itself or was attributed to gambling.

The report also suggests that many others may be affected on a daily basis, but the GRP

supply *no data to support this claim*.

From a total sample for the survey (n= 1,758), regular gamblers respondents (n=433) and only 68 (weighted) gamblers with 0.74 per cent (VGS 21+), 0.97 per cent (CPGI 8+) to 1.12 per cent (SOGS 5+) were reported. This makes any difference highly unreliable, and it is not clear from the data whether differentiation of gender or age is caused by gambling prevalence scores. However, the following differences between the effects of problem gambling for males and females, and for different age groups, are reported:

- A larger proportion of male gamblers (20 respondents; reported as 40.5 per cent) than female (eight; reported as 29.6 per cent) reported that gambling had impacted on the amount of time spent with families during the previous 12 months. A large proportion of problem gamblers aged 25–49 experienced these problems (which is 18:17).
- A substantially higher proportion of males (20, or 48.8 per cent) than females (three, or 11.5 per cent) had experienced problems at work.
- However, female problem gamblers in Victoria are more likely to lose a job due to their gambling (one, or 3.7 per cent), which equates to one person.
- A much higher proportion of females (four, or 15.4 per cent), especially in two age groups (18–24, 35–49), had also experienced problems with relationships than had male problem gamblers (three, or 7.1 per cent).

We are unsure whether and how the prevalence screens were used in this report. Assuming the data were aggregates, the results of 68 respondents, employing emotive language and at times basing statements on one response, suggests gambling has an adverse impact on significant others.

At the least it is very misleading, and no statistical analysis has been undertaken (perhaps because the sample set is far too small).

Because respondent numbers who exceed the screens' various cut-offs are very low, it is not possible to drill down very far to discover any real impacts. Although there is emotive language often used, there is very little data in the Australian prevalence studies since the 1999 study to suggest there is any significant impact on 'significant others'. Moreover, it is very difficult to quantify harm to significant others. This is certainly the case with most studies because there is insufficient data. In many instances, the issue of significant others is totally overlooked (suggesting it is not a concern).

Moreover, as many people with problems claim to gamble to "self-medicate", then there is a strong possibility that gambling can also assist relationships, rather than harm them.

While ClubsAustralia does not dispute that the family and friends of people with problematic gambling habits are affected by their behaviour, in general the evidence that *gambling* adversely impacts significant others appears to be extremely limited and unreliable.

6.13.3 Differences between recreational and problem gamblers

PC: What kinds of consumer issues may arise from gambling and how best should policy deal with them?

ClubsAustralia believes that consumers should have information that allows them to make their own decisions. It is also important to draw a distinction between problem gamblers and recreational gamblers, the latter group making up the overwhelming majority of gamblers.

ClubsAustralia is concerned that discussion and research into both problem gambling and gambling generally has been overcome by what Dr Rohan Miller calls an inaccurate 'deviant paradigm'. This is a general habit of tarring with the same 'problem gambler' brush everyone who participates in gambling – and especially those who use gaming machines.

6.13.4 Gambling is not a deviant behaviour

The simple truth is that the vast majority of gamblers enjoy gambling as a form of entertainment, like any other. As with any form of consumption or pastime – food, alcohol, even shopping or exercise – there is of course such a thing as 'too much', but there is nothing inherently wrong with gambling as an activity, or with the people who participate in it.

This view of gambling is prevalent among anti-gambling campaigners driven by religious conviction and the firmly held belief that gambling is sinful. Although this motivation is mostly not admitted publicly (in fact some anti-gambling advocates, like the Reverend Tim Costello go to great lengths to explain that they are not wowsers) it is clearly evident. The extent to which this is the case can be seen by the 2007 decision of the Anglican Church in Sydney to ban fundraising raffles because they were considered a form of gambling.

People who gamble are not deluded. They choose to do so in knowledge of their basic odds and are content to 'budget' a 'spend' amount. Indeed, the price sensitivity of the market demonstrates gamblers' strong innate awareness of the rate of return.

As noted by the Centre for Independent Economics:

As the Productivity Commission put it in 1999 (section 5.1), "In many respects the gambling industries are like any other industry." As with most products and services, gaming machines are used mainly because people enjoy using them. This is the case for the majority of users of gaming machines and other forms of gambling (Australasian Gaming Council 2008). But the use of gaming machines is addictive and harmful to some. In this respect gaming machines share many of the attributes of products such as alcohol or tobacco.

In understanding the gaming machine industry it is useful to categorise users of gaming machines into problem gamblers and recreational gamblers. While the dividing line between these groups is fuzzy, this categorization allows the positive aspects of gaming machines (enjoyment by recreational gamblers) to be balanced against the negative aspects (problem gambling). An expanding and innovative industry is a positive outcome if it is built on increasing recreational gambling. Innovation and expansion due to increased numbers of or spending by problem gamblers, is, on the other hand, a negative outcome. Unfortunately, the data to

*understand changes in the industry according to these categorizations is typically not available.*³²⁷

In a historical examination of this 'deviant paradigm', Dr Rohan Miller states:

Most early research investigating gambling (which was banned in most jurisdictions) assumed gambling was a form of deviant consumption.^{328,329,330} It is obvious that this "deviant paradigm" still pervades the gambling debate in Australia and is inherent in much research related to gambling.

Underpinning the "deviant paradigm" in gambling research is the notion that gambling behaviour is somehow driven by faulty or flawed cognition. The "deviant paradigm" is condescending and demeaning to the vast majority of Australians who choose to participate in gambling consumption, and in particular the one-third (approximately) of all Australians over the age of eighteen years who choose to participate in electronic gaming machine entertainment.

It is stressed that electronic gaming machine consumers should not be at risk of being stigmatised or be adversely depicted in any way through this Inquiry. The Productivity Commission must be mindful that gamblers are not undertaking any inappropriate or illegal activity and should be depicted justly and fairly at all times.

Different gambling products evolve over time

The Productivity Commission chose not to include lottery products in their research for products associated with problem gambling and in doing so legitimised lotteries as a non-deviant form of consumption. However, many of the early claims about problem gambling pertain to lotteries. For example, De Balzac observes that in the 19th century, lotteries were universally condemned: "No-one has realised that it is the opium of poverty."³³¹

Similarly, Weiss and Weiss comment that by 1800, the poorer classes in the American colony had become "lottery addicts" and lotteries were generally regarded as a consumer vice and were typically banned in the USA.³³² Indeed, some States in the USA still prohibit lotteries and many US States waited until the 1980s before introducing lotteries due to these concerns. Adding support to the notion that lotteries are not always considered a benign consumer product, Wood and Griffith claim that Gamblers Anonymous reported a 17 per cent increase in calls within the first year after the UK's National Lottery began in 1994.³³³

Products typically have lifecycles and over time a substantial body of evidence suggests the consumption of many products becomes habitual. If the "opium of poverty" can transform into a benign consumer product, then time and societal learning suggest electronic gaming machines are in transition to be considered similar to lottery products (they are, after all, forms of gaming).

³²⁷ Centre for Independent Economics, *Gambling with policy: The economic contribution of gaming machines to the Australian economy*, January 2009

³²⁸ Zola, Irving K, "Observations of Gambling in a Lower-Class Setting", *Social Problems* Volume 10, Issue 30, 1963, pp.353-361

³²⁹ Henslin, James M, "Craps and Magic," *American Journal of Sociology*, 73, 1967, pp.316-330

³³⁰ Bloch, Herbert A, "The Sociology of Gambling", *The American Journal of Sociology*, Volume 57, Issue 3, November 1951, pp.215-221

³³¹ DeBalzac, Honore, *The Black Sheep*, Penguin, (translated by Donald Adamson), London, 1970 (Translation date, not first publication), p.88

³³² Weiss, HB and GM Weiss, *The Early Lotteries of New Jersey*, Past Times Press, Trenton, NJ, 1966

³³³ Wood, Richard T.A and Mark D Griffiths, "The Acquisition and Maintenance of Lottery and Scratchcard Gambling in Adolescence," *Journal of Adolescence*, Volume 21, 1998, pp.265-273

The evidence demonstrates there is a very low level of gambling related issues, and prevalence is clearly declining over time.

Thus, Dr Miller suggests, although some have a *perception* of gaming machines as inherently dangerous, this is largely a social construct directed at the (relatively) novel and a natural part of the product's evolution.

6.13.5 At-risk and pathological progression

Another, related recent trend in problem gambling research is the concept of a pathological progression of gambling problems (as occurs in physiological medical conditions).

This has framed some researchers' conceptualisation of those who are 'at risk' with an inaccurate belief that gambling problems figure on a continuum, and a misuse of 'problem gambling' data and screening instruments to extrapolate estimates of the rate of 'at risk'.

ClubsAustralia questions the assumption that at risk gamblers move along a continuum to become problem gamblers and cautions against developing policy designed to stop this assumed progression.

A discussion of this trend by Dr Rohan Miller follows.

The Concept of Pathological Progression

One of the schools of thought pertaining to gambling research suggests a medical or disease model. This approach is encapsulated in the American Psychiatric Association's Diagnostic and Statistical Manual's gambling screen (DSMIV).

The term "pathology" typically refers to scientific study into the nature of disease and its causes, processes, development, and consequences. The concept of pathological progression refers to a sequence through which a disease intensifies or develops.

The concept of pathological progression is typically applied in the physiological disciplines, particularly under the umbrella of biomedicine such as genetics,³³⁴ cancer research,³³⁵ urology,³³⁶ immunology,³³⁷ anatomy,³³⁸ and in specific areas of pathology such as Parkinson's Disease.^{339,340}

³³⁴ Carafoli, E and M Brini, *Calcium Signalling and Disease: Molecular Pathology of Calcium* Springer, 2007, p.450

³³⁵ Kaspers, Gertjan JL, Michael C Heinrich and Bertrand Coiffier, *Innovative Leukemia and Lymphoma Therapy*, Informa Health Care, 2008

³³⁶ Makarov, D, E Humphreys, L Mangold, P Walsh, A Partin, J Epstein, and S Freedland, "Pathological Outcomes and Biochemical Progression in Men With T1c Prostate Cancer Undergoing Radical Prostatectomy With Prostate Specific Antigen" *The Journal of Urology*, Volume 176, Issue 2, 2005, pp.554-558

³³⁷ Welsh MD, RT Cunningham, DM Corbett, RM Girvin, J McNair, RA Skuce, DG Bryson and JM Pollock, "Influence of pathological progression on the balance between cellular and humoral immune responses in bovine tuberculosis", *Immunology*, Volume 114, Issue 1 January 2005, pp.(1):101-11

³³⁸ Hurst, JW and RC Schlant, *The heart, arteries and veins*, McGraw-Hill Information Services Co, Health Professions Division, 1990

³³⁹ Halliday, G, "Clarifying the pathological progression of Parkinson's disease", *Acta Neuropathologica*, Volume 115, Number 4, April 2008, pp.377-378

³⁴⁰ Molina, JA, MJ Sainz-Artiga, A Fraile, FJ Jimenez-Jimenez, C Villaveva, M Orti-Pareja, F Bermejo-P, "Pathological Gambling in Parkinson's Disease: A Behavioural Manifestation of Pharmacological Treatment?" *Movement Disorders*, Volume 15, Issue 5, 2000, pp.869-872

It must be reiterated that the DSMIV is a screen of ten questions that must administered in a clinical environment by trained personnel. The APA is emphatic on the issue that a trained clinician is used to administer the DSM for the results to have any reliability and meaning.

To be diagnosed as a “pathological” gambler, respondents must answer five or more of the ten questions affirmatively. These scales have no provision other than the five item cut-off. That is, according to the DSM, people are either classified <5 and do not have problems, or are 5+ and may have problems. There is no scope for progression.

Thus, applying the concept of pathological progression would be inappropriate and inconsistent with the APA’s conceptualisation of pathological gambling.

The SOGS was validated against the DSM and designed for use in a clinical environment. The conceptualisation and validation of these diagnostic tools makes no provision and does not consider the concept of progression or “at risk” in their composition.³⁴¹

Given the stated purpose and protocols of the SOGS and DSM scales, the burden of proof lies with those who want to use clinical diagnostic tools outside their intended purpose to prove they are accurate and reliable indicators of pathological progression and “at risk”. Without substantive theory and supporting empirical evidence proving otherwise, the notion that the SOGS and DSM can be used to show pathological progression must be rejected.

Creating a Myth

Attempts to translate SOGS or the DSM to encapsulate the concept of pathological progression are deficient in theory and lack empirical justification.

Nonetheless, it is interesting to see how a concept can be misconstrued and grow to become a powerful myth.

The popularisation of the myth that gambling related problems lie on a continuum began in 1999. The Productivity Commission makes use of a reference in a comparatively new gaming law journal and assumes the content of the paper must be valid and factual. In fact, the reference pertains to a footnote in the paper which is reproduced below:³⁴²

“There are ongoing debates about the appropriate language to use in referring to the difficulties that individuals experience in relation to their involvement in gambling. There are also debates about the best way to measure this phenomenon. In this article, we define “problem gambling” as any pattern of gambling behavior that negatively affects other important areas of an individual’s life, such as relationships, finances or vocation. The mental disorder of “pathological gambling” lies at one end of a broad continuum of problem gambling behaviour.”

The footnote refers to the difficulty in defining terms to describe differences in the gambling debate to differentiate between the terms problem and pathological.

There is no research evidence or theory to support the footnote and establish a continuum or progression exists.

³⁴¹ Lesieur and Blume (1987) make no reference that can be construed as “pathological progression” or “at risk” other than the 5+ cut-off. However, they do warn the sensitivity and specificity may fluctuate in other populations.

³⁴² Volberg, Rachel A, WL Moore, EM Christiansen, WE Cummings and SM Banks, “Unaffordable Losses: Estimating the Proportion of Gambling Revenues Derived from Problem Gamblers,” *Gaming Law Review*, Volume 2, Issue 4, November 1998, pp.349-360

The lesson of this myth is that an organisation with a reputation for objectivity and quality research should be exceptionally cautious about transporting a concept from the physiological disciplines to an area of psychology without considering the theory or reference to any empirical evidence.

Indeed the Productivity Commission suggested in 1999:

“The mental disorder of “pathological” gambling lies at one end of a broad continuum of problem gambling behaviour (Volberg et al. 1998, p. 350).”

Although the concept of pathological progression is employed as a method of tracking the progress of disease within the context of biomedicine, when viewed from a psychological perspective, the concept of pathological progression is highly subjective.

In short, the concept of pathological progression has not been proven.

The present debate surrounding the accuracy of the gambling screens with respect to establishing a suitable cut-off point (please refer to the sections examining SOGS for this discussion) suggests there are considerable obstacles to establishing pathological progression utilising existing tools. Specifically, the tools used to measure gambling prevalence are just too crude to accurately measure any changes or progression. In contrast to many physiological disciplines where change or progression can be “physically” determined, gambling diagnostic tools rely exclusively on responses to questions.

Repeatedly asking the same questions is extremely problematic and cannot be recommended to assess changes in pathological stage related to gambling. Hence, different measures will be required to assess pathology, and even these may present substantive measurement effects that will need to be managed. At present, the concept of “pathological progression” remains only a concept in the gambling debate, and has not been validated empirically.

Moreover, gambling research is deficient in having too few longitudinal studies, and the authors know of no panel data that can or has been used to establish pathological progression has ever existed in the gambling context.

Considerable literature is also being developed that there are multiple pathways to pathological gambling,³⁴³ and it is entirely possible that entry and exit to a pathological stage lies external to screens such as SOGS. This literature also facilitates our observation that progression remains a concept not yet empirically tested.

‘At Risk’

Unfortunately the waters are muddy around the concept of “at risk”. For example, the GRP state:

“Authors of the SOGS suggested a distinction, on the basis of SOGS scores, between ‘nonpathological’ gamblers (SOGS score of 0 to 2), possible pathological gamblers (3–4) and probable pathological gamblers (5+).³²

³⁴³ Blaszczynski, Alex and Lia Nower, “A Pathways Model of Problem and Pathological Gambling,” *Addiction*, Volume 97, 2002, pp.487-499

[“32” refers to the citation which is: Lesieur and Blume 1987. ‘The South Oaks Gambling Screen. A new instrument for identification of pathological gamblers’. American Journal of Psychiatry, 144 (9), pp.1184-8.]

A word search of this citation reveals the term “at risk” only appears in the paper’s Appendix 1(p5):

“Scores on the South Oaks Gambling Screen itself are determined by adding up the number of questions that show an “at risk” response:”

There are no categorisations 0-2, 3-4, only that “5 or more = probable pathological gambler”. The reader is urged to read the source documentation to verify this for themselves.

The Productivity Commission’s note (1999, 6.21) that

“Dickerson et al. (1996a)³⁴⁴ have usefully developed the notion of the ‘at risk’ gambler. People identified in this at-risk group may experience harms from gambling, but not at levels which justify specific individual interventions. However, such groups may have large policy significance — being the target for public health campaigns, information provision and preventative strategies (either intended to cut the number of people in this at-risk group or to prevent the likelihood of people moving to the group which do need individual interventions). If tests reveal large numbers of people in this group, governments may consider regulations or other policy instruments to deal with the problems”.

This citation adds support that “at risk” and “pathological progression” are concepts, but also acknowledges these concepts are deficient in empirical testing using SOGS measures.

Another screen, the CPGI, has been proposed with levels connoting “at risk”. This screen also suffers from the conceptual short-coming in not being able to “measure” progression happening, and at risk and progression remains largely untested as theory.

In their review of the CPGI, McCready and Adlaf undertook research on the theory of “at risk”. To this end, they learned:

“[there] is less confidence in the soundness of the labels, classifications, and cut-points which, at worst, are considered unexplained and arbitrary.”

“One investigator suggests that low risk gamblers endorse the low threshold items and wonders if such people even have a problem”.

“To increase statistical power, “moderate risk gamblers” are often added to “problem gamblers”. One investigator added “low risk” gamblers to the “problem gambler” group.”

“Respondents suggested that more research on the sub-types is needed, and that a guide to the analysis of sub-types would be a useful tool in an updated CPGI user manual.”

³⁴⁴ Dickerson, Mark, C Allcock, A Blaszczyński, B Nicholls, R Williams, and R Maddern, *An Examination of the Socio-economic Effects of Gambling on Individuals, Families and the Community Including Research into the Costs of Problem Gambling in New South Wales*, report prepared for the Casino Community Benefit Fund, NSW Government, 1996

“Other suggestions include: adding items, adding theory-based items, adding items specifically for “low risk” and “moderate risk” categories, and weighting items.”

“Respondents call for more research, particularly efforts to study the labels, definitions, classifications, and cut-points for sub-types. In addition, it was suggested that the existing data sets be pooled and studied, and that longitudinal studies be undertaken.”

In sum, “at risk” remains a theory without empirical justification. On one level it may seem intuitive and consistent with the “deviant paradigm” where innocent consumers are seduced by gambling, however to accept this is “the way” towards developing gambling related problems is premature.

Indeed, as outlined in the rational addiction model of consumption and consistent with the research on the motivations problem gamblers have, it is highly possible that many persons classified as problem gamblers gamble to escape other trauma.

As Dr Miller states, the use of the CPGI and other instruments to label people as ‘at risk’ and/or calculate the rate of at-risk individuals in the community is based on a basic misunderstanding of the purpose and workings of those instruments.

6.13.6 Repeated consumption and the role of habit

Habit undoubtedly plays a large part in some of our regular behaviours and that behaviour is at least partially “mindless”.³⁴⁵ Once a product reaches maturity in a market, then the market can be described as stable and consumption patterns are characterised by repeat purchase. It follows that much consumption, including gambling consumption, falls within the ‘habit’ paradigm, which is explained below.

Dr Rohan Miller writes:

Consumers’ behaviour, and particularly repeat purchase behaviour, in stable market conditions can be modelled as a stochastic process without any cognitive factors.³⁴⁶ The ‘Habit Paradigm’ can generally be described by patterns described by the Negative Binomial Distribution (NBD). The NBD has successfully been applied to a broad range of products³⁴⁷ and has demonstrated stability in steady conditions³⁴⁸ such as mature markets.

The NBD has been empirically validated to ‘fit’ a broad range of products over many years. It has also been empirically proven that the NBD fits the consumption of gambling products, suggesting that stochastic patterns of consumption are similar to the vast majority of normal consumer goods.

³⁴⁵ Feldman, Jack and John G Lynch, “Self Generated Validity and Other Effects of Measurement on Belief, Attitude, Intention, and Behavior,” *Journal of Applied Psychology*, Volume 73, Issue 3, 1988, p.423

³⁴⁶ Ehrenberg, Andrew SC, *Repeat-Buying: Facts, Theory and Applications*, Oxford University Press, New York, 1988

³⁴⁷ Uncles, Mark, Andrew Ehrenberg and Kath Hammond, “Patterns of Buyer Behavior: Regularities, Models and Extensions”, *Marketing Science*, Volume 14, Issue 3, 1995, pp.71-79

³⁴⁸ Morrison D and D Schmittlein, “Generalising the NBD Model for Customer Purchases: What are the Implications and is it Worth the Effort”, *Journal of Business and Economic Statistics*, Volume 6, Issue 12, 1999, pp.145-159

As explained by Mizerski, Miller, Mizerski and Lam,³⁴⁹ the NBD was initially introduced by Greenwood and Yule in 1920 in terms of the incidence of reoccurring diseases and accidents. In consumer research, the NBD has been applied to study purchase incidence for the total product category or for a single brand. Applying the NBD to data from past behaviour provides estimates of future penetration of population use, and estimates of usage by groups (for example, nonusers, heavy and light users) over time.³⁵⁰ This model is typically quite accurate,³⁵¹ and can be more accurate than using cognitive data³⁵² to explain and predict future purchase behaviour.

Studies have shown the NBD fits gambling consumption,^{353,354} leading to the inference that gambling consumption is no different in terms of purchasing patterns, than the vast majority of consumer goods.

In 2006 Lam and Mizerski applied the Productivity Commission's 1999 data to the NBD and the Dirchlet. The results are in the Figure below, and the description of their method follows:

"At the product/game level, the data on **aggregate penetration** and **average frequency of play/purchase** in the population were input into and NBD model in order to derive an expected distribution of play of the game. This distribution was then compared with the observed distribution using simple correlation".

Figure 6.5 Observed distribution versus NBD-derived (expected) distribution of use of buyers

| Australian Productivity Commission | | |
|------------------------------------|-------------|-------------------|
| Product | Sample Size | Correlation (r) ^ |
| Lotto | 6,368 | 0.25 |
| Instant | 4,603 | 0.56 |
| Electronic Gaming Machine | 3,780 | 0.81 |
| Horse | 2,362 | 0.90 |
| Keno | 1,573 | 0.86 |
| Table Games | 803 | 0.94 |
| Sports | 588 | 0.72 |
| Bingo | 480 | 0.69 |

^ p<.05

On the metrics modelled from the Productivity Commission's study using the NBD, it can be argued that electronic gaming machine consumption approximates typical patterns of consumption. Indeed, the NBD offers a high and significant level correlation for electronic gaming machines.

It is clear that few acts of consumption occur without at least some people experiencing negative affects (for example, eating, shopping, watching TV, driving cars). Gambling may reasonably be included as act of consumption with some negative affects for a small

³⁴⁹ Mizerski, Dick, Rohan Miller, Katherine Mizerski and Desmond Lam, "The Stochastic Nature of Purchasing a State's Lottery Products," *Australasian Marketing Journal*, Volume 12, Issue 3, 2004

³⁵⁰ East, Robert, *Consumer Behaviour*, Prentice-Hall, United Kingdom, 1997

³⁵¹ Morrison D and D Schmittlein, "Generalising the NBD Model for Customer Purchases: What are the Implications and is it Worth the Effort", *Journal of Business and Economic Statistics*, Volume 6, Issue 12, 1999, pp.145-159

³⁵² Ehrenberg, Andrew SC, G Goodhardt and TP Barwick, "Double jeopardy revisited", *Journal of Marketing*, Volume 54, July 1990, pp.82-91

³⁵³ Jolley, Bill, Richard Mizerski and Doina Olaru, "How habit and satisfaction affects player retention for online gambling", *Journal of Business Research*, Volume 59, Issue 6, June 2006, pp.770-777

³⁵⁴ Mizerski, Dick, Rohan Miller, Katherine Mizerski and Desmond Lam, "The Stochastic Nature of Purchasing a State's Lottery Products," *Australasian Marketing Journal*, Volume 12, Issue 3, 2004

proportion of consumers. However, the present stream of gambling research does little to advance knowledge about the causality of negative consumption effects or how gambling may be used to moderate other problems (that is, the self-medication effects).

If the trends shown in gambling prevalence studies are to be believed at any level, claims of gambling related problems throughout Australia continue to decline. Consistent with the theory of product lifecycle, as a product category matures consumers and society gain experience with the positive and negative aspects of that categories consumption.

Electronic gaming machine play may be characterised through the exchange of money for a consumption or hedonic experience. It is common knowledge that long run expected values of electronic gaming machine play are exclusively negative and that most of the money spent on this form of hedonic consumption is by people who have played and generally lost in the past³⁵⁵. Over time, consumers adapt to the consumption experience by protecting themselves from the potential adversities associated with gambling³⁵⁶. This process is known as social learning.

It has been more than a decade since the Productivity Commission's first report into gambling. The decline in prevalence levels shown in many gambling studies reflects effective social learning has occurred.

³⁵⁵ Barr, Graham DI and Ian N Durbach, "A Monte Carlo Analysis of Hypothetical Multi-line Slot Machine Play," *International Gambling Studies*, 8(3) December 2008, pp.265-280

³⁵⁶ Shaffer, Howard J, Matthew N Hall and Joni Vander Bilt, "Estimating the Prevalence of Disordered Gambling Behavior in the United States and Canada: A Research Synthesis", *American Journal of Public Health*, Volume 89, Issue 9, September 1999, pp.1369-1376

Chapter 7: Taxation & regulatory arrangements

TERM OF REFERENCE:

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

7.1 STATE AND TERRITORY TAX ARRANGEMENTS

PC: What have been the main changes to State and Territory taxation arrangements applying to gambling since 1999?

7.1.1 Taxes paid by clubs

Clubs pay a range of Commonwealth and State and Territory Government taxes and charges:

- Gaming machine tax;
- Payroll tax;
- Pay-as-you-earn (PAYE) tax;
- Fringe benefits tax;
- Company income tax;
- Land tax;
- Stamp duty;
- Goods and services tax (GST); and
- Council rates and charges.

In 2004/05 clubs paid nearly \$1.1 billion in gaming machine tax. When other taxes on gaming machine operations such as payroll tax, land tax, company tax and others are included, however, the combined annual tax take from clubs is closer to \$2.75 billion, out of a total tax bill of \$5.2 billion for all gaming operators.

Figure 7.1: Estimated tax receipts related to operation of gaming machines 2006/07

| Type of tax | Clubs | Hotels | Casinos ^a | Manufact. | Operators | Total |
|----------------------------------|-------|--------|----------------------|-----------|-----------|--------------|
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Gaming machine tax ^b | 1,064 | 906 | 201 | 976 | 3,148 | |
| Payroll taxes | 42 | 14 | 21 | 7 | 11 | 95 |
| Land taxes | 23 | 14 | 9 | 45 | | |
| Personal income tax ^c | 164 | 51 | 96 | 23 | 39 | 373 |
| Company tax ^d | 71 | 53 | 123 | 37 | 137 | 421 |
| Other taxes | 10 | 4 | 17 | 30 | | |
| Sub-total | 1,374 | 1,042 | 467 | 67 | 1,163 | 4,112 |
| GST | | | | | | 1,067 |
| Total | | | | | | 5,180 |

^a Data on the break up of casino operations between gaming machines and table gaming is not available for all casinos. We assume a figure of 40 per cent of gambling revenues and taxes are from gaming machines based on available data. ^b Gaming machine tax data for clubs and pubs is from 2006-07 and is allocated to clubs and pubs based on ABS estimates in 2004-05. ^c Calculated using tax paid on average earnings for each of the sectors (clubs, pubs, casinos, manufacturers and operators). ^d Calculated based on a 30 per cent company tax rate. Note: 2004-05 payroll and wage data are rolled forward to 2006-07 using the increase in average weekly earnings. Other tax collections are increased in line with nominal GDP.

Source: CIE estimates based on ABS (2006), Clubs, Pubs, Taverns and Bars 2004-05, Cat. no. 8687.0; IBISWorld (2008), Gaming and Vending Machines Manufacturing in Australia; Australian Casino Association (2008), The Australian Casino Industry: Economic Report 2006-07, Annual Reports for Tatts Groups and Tabcorp 2007-08, State Budget papers 2007-08.

7.1.2 Gaming machine tax by jurisdiction

State and Territory Governments receive varying proportions of their total tax revenues from taxes on gaming machines.

In 2006/07, total revenue from taxing gaming machine revenues in clubs and pubs (including operators' taxes) was \$2.95 billion, which accounted for 6 per cent of total State and Territory tax revenues. Western Australia received no revenue from taxing gaming machines in clubs and pubs, as gaming machines are not permitted. South Australia received the largest share of its revenue from taxing gaming machines in clubs and pubs, with almost 10 per cent of its tax revenue coming from this source, reflecting the high tax rates in that State.

If we consider the additional tax take from other taxes related to gaming machine activity, then the tax revenue from gaming machines is equivalent to about 9 per cent of the total tax revenues collected by State and Territory Governments

The figure below shows total gambling and betting taxes as a percentage of State and Territory taxes and total revenues for financial year 2007/08. It is clear that States and Territories are not 'reliant' upon gambling revenue, as is commonly suggested by anti-gambling advocates.

Figure 7.2: Gaming tax as a percentage of State tax and revenue

| 2007-2008 | Gaming as a % of State taxes | Gaming taxes as % of total revenues |
|------------|------------------------------|-------------------------------------|
| NSW | 9.2% | 3.6% |
| Victoria | 13.2% | 4.5% |
| Queensland | 9.4% | 2.7% |
| SA | 12.5% | 3.3% |
| ACT | 5.6% | 1.7% |
| NT | 14.8% | 1.7% |
| Tasmania | 11.8% | 2.4% |
| WA | 4.9% | 1.5% |

Source: Table generated by ClubsNSW from data derived from State and Territory 2007/08 Budget Papers.

7.1.3 Average gaming machine tax rates

Although State and Territory Government reliance on gambling revenues has reduced over time (as a result of both the introduction of the GST and the introduction and increasing of rates for other taxes), average gaming machine tax rates have increased in the past decade.

Based on the rate tables the following 'average rates' of tax apply. Average rate is the tax paid divided by the gaming revenue (gross revenue). For example, if a club earns \$500,000 gaming revenue and pays \$150,000 tax, then the average tax is \$150,000 divided by \$500,000 – that is, 30 per cent.

Figure 7.3: Clubs average rates (total tax including GST and community levy)

| Annual Gaming Revenue | NSW | VIC | QLD | SA | ACT | NT |
|-----------------------|-------|-------|-------|-------|-------|-------|
| \$20,000 | 0.0% | 33.3% | 9.1% | 9.1% | 15.0% | 22.0% |
| \$50,000 | 0.0% | 33.3% | 9.1% | 9.1% | 15.0% | 22.0% |
| \$100,000 | 0.0% | 33.3% | 9.1% | 14.3% | 15.0% | 26.0% |
| \$200,000 | 0.5% | 33.3% | 16.7% | 22.2% | 16.5% | 29.0% |
| \$300,000 | 3.4% | 33.3% | 20.1% | 24.8% | 21.0% | 30.0% |
| \$500,000 | 5.7% | 33.3% | 22.9% | 28.5% | 25.4% | 30.8% |
| \$750,000 | 6.8% | 33.3% | 24.2% | 31.5% | 28.4% | 33.2% |
| \$1,000,000 | 7.4% | 33.3% | 25.2% | 33.2% | 30.3% | 35.4% |
| \$2,000,000 | 22.7% | 33.3% | 27.9% | 38.2% | 33.2% | 39.7% |
| \$3,000,000 | 25.2% | 33.3% | 29.6% | 42.6% | 34.1% | 43.8% |
| \$4,000,000 | 26.4% | 33.3% | 30.6% | 47.0% | 34.6% | 38.2% |
| \$5,000,000 | 27.1% | 33.3% | 31.5% | 50.4% | 34.9% | 42.6% |
| \$7,500,000 | 29.8% | 33.3% | 32.7% | 55.0% | 35.3% | 47.0% |
| \$10,000,000 | 31.1% | 33.3% | 33.2% | 57.2% | 35.5% | 50.4% |
| \$15,000,000 | 33.4% | 33.3% | 33.8% | 59.5% | 35.7% | 55.0% |
| \$20,000,000 | 34.6% | 33.3% | 35.6% | 60.7% | 35.8% | 57.2% |
| \$30,000,000 | 36.4% | 33.3% | 38.7% | 61.8% | 35.9% | 59.5% |
| \$50,000,000 | 37.8% | 33.3% | 41.2% | 62.7% | 35.9% | 51.5% |

Orange cells indicate the approximate annual gaming machine revenue of the largest clubs in the jurisdiction.

7.1.4 Gaming tax is a tax on revenue, not profit

Gaming machine tax is imposed on revenue, regardless of the cost to clubs for providing the service, and as a result tax increases have a direct and significant negative impact on overall viability.

Clubs must pay significant sums to provide gaming, including for machine purchase, maintenance, depreciation, security and staffing. Any other business can use these costs as a tax deduction. However, gaming tax is imposed on revenue and does not allow for these standard deductions to be offset. This is widely misunderstood, with a commonly held perception that clubs pay tax on gaming machine profit.

7.1.5 Gaming machine tax in NSW

Between 2003 and 2007, taxation of NSW clubs increased by 30 per cent, with the largest growth (61 per cent) originating from changes in State Government gaming machine taxes.

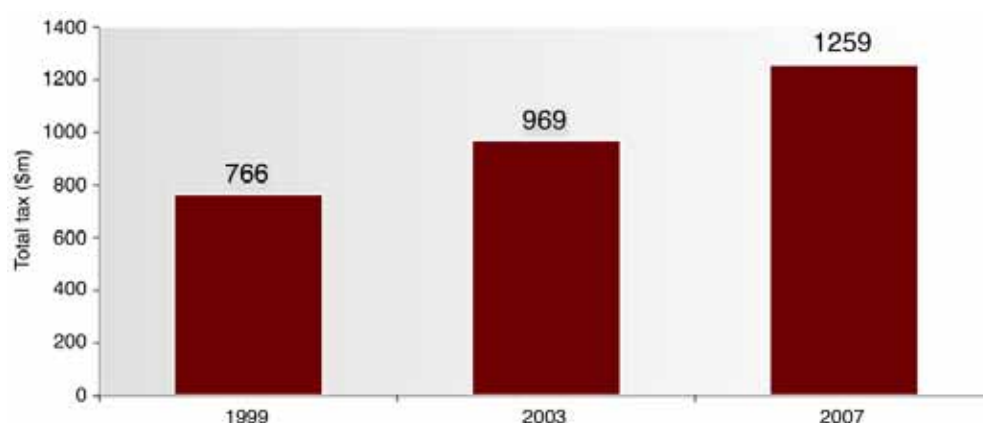
The State gaming machine tax rates and related matters were agreed in a Memorandum of Understanding (MOU) which recast the rates set in the 2003 Budget. The MOU was signed with the Government in March 2006 and extends until 31 August 2012.

The gaming machine taxes imposed are progressive and are based upon the level of gaming machine revenues earned. Between 2004 and 2007 the rate schedules underwent a restructure and progressive change which is detailed in the MOU.

From 1 September 2007 the State gaming machine tax rates for clubs vary from 0 per cent for clubs with gaming revenues of less than \$1,000,000 to 30.09 per cent on clubs where gaming machine revenues exceed \$20 million. GST is also paid on the revenue, which means that the highest marginal rate paid by clubs is 39.99 per cent on revenue over \$20 million. For annual revenue over \$1 million the applicable rate can be reduced by 1.5 per cent if the equivalent funds have been spent in accordance with the Community Development Support Expenditure (CDSE) guidelines.

NSW clubs paid \$1.26 billion in total taxation in 2007. This was an increase from the total tax bill of \$969 million in 2003, which is equivalent to an annual growth rate of around 7 per cent³⁵⁷. All forms of tax have increased in absolute value terms (with the exception of payroll tax). The largest growth by type of tax was in State Government gaming machine duty, which has increased by 61 per cent between 2003 and 2007. The increased total tax bill has had a negative impact across the industry.

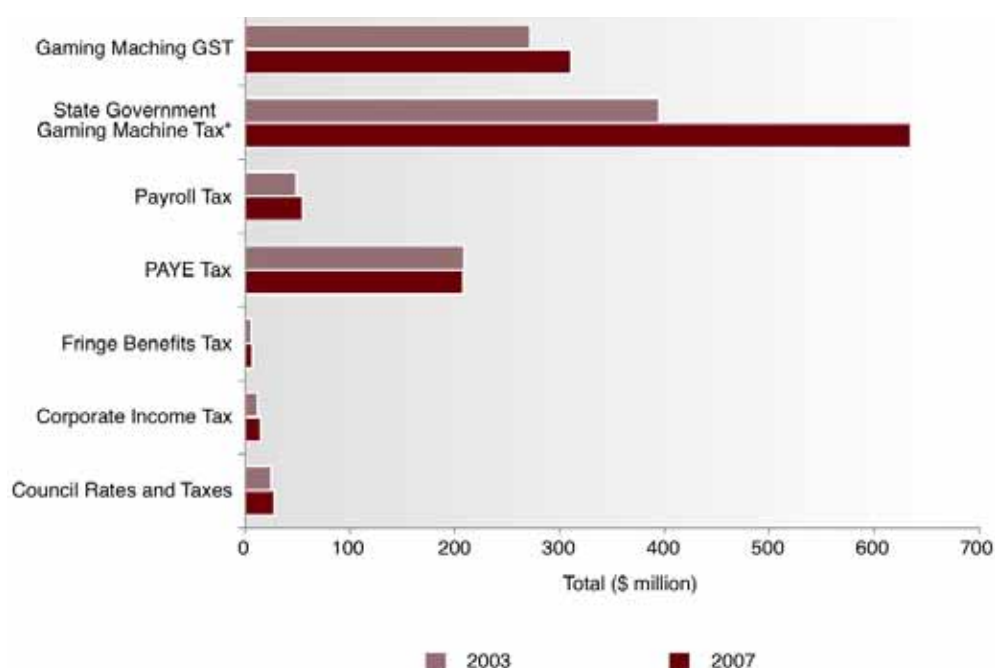
Figure 7.4: Total taxation paid over time by NSW clubs



Source: Allen Consulting Group, 2007 Survey of Clubs in NSW.

³⁵⁷ The Allen Consulting Group, *Socio-Economic Impact Study of Clubs In New South Wales (2007)*, February 2008, p.29

Figure 7.5: Type of taxations paid by NSW clubs

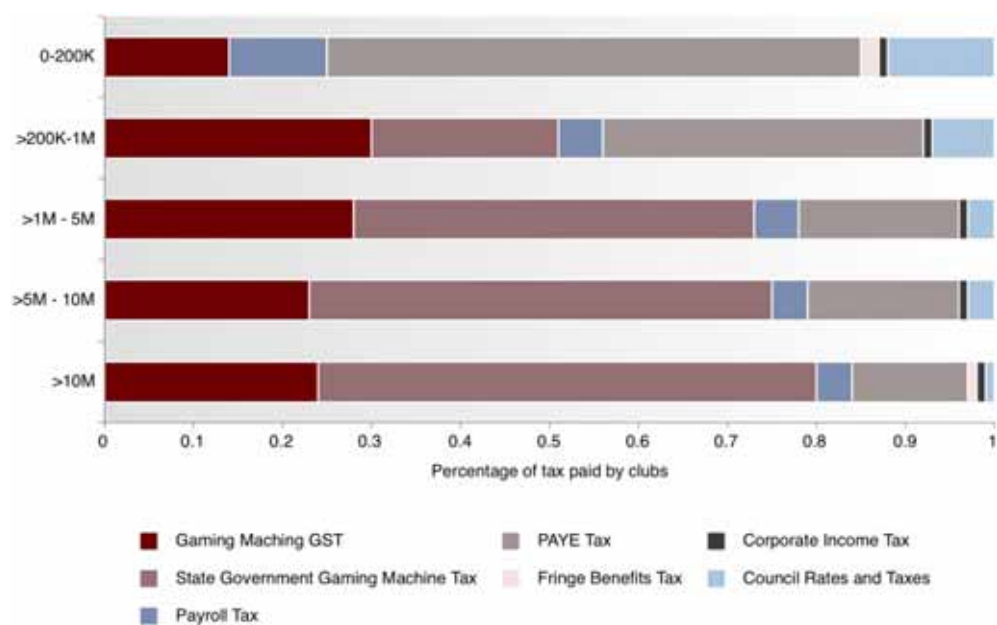


* A GST rebate on the first \$200,000 of gaming machine revenue earned applies until 2012. The total value of the rebate is approximately \$20 million per annum.

Source: Allen Consulting Group, 2007 Survey of Clubs in NSW.

Figure 7.6 details each type of tax as a proportion of the total tax paid for each club size category. For the smallest clubs (those earning less than \$200,000) payroll tax was a significant share of all taxes paid. However, as the club size increases, the proportion of tax paid to payroll tax fell and the proportion of tax paid for the State Government gaming machine tax increases.

Figure 7.6: Taxes paid by NSW club size in 2007 (percentage of total)



Source: Allen Consulting Group, 2007 Survey of Clubs in NSW.

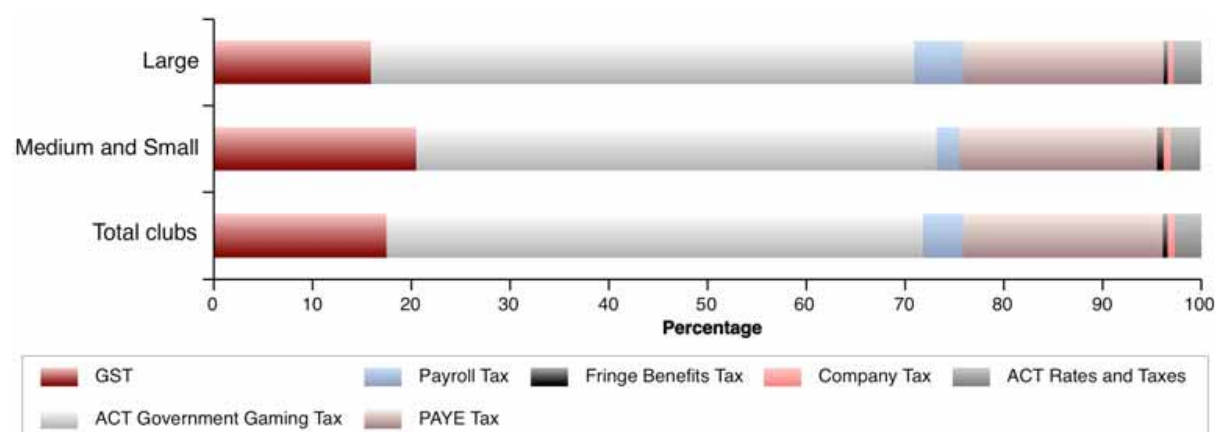
7.1.6 ACT

The SEIS conducted for ClubsACT by the Allen Consulting Group in 2007 found that gaming taxes in recent years have increased for the top marginal tax rated clubs. In 2004/05 there was a 2 per cent increase in the gaming machine tax for clubs earning gaming machine revenue over \$600,000 per year (representing an 8 per cent increase in tax payments).

Figure 7.7 details the percentage of taxes paid by club size. Survey results indicate that clubs in the ACT paid a total of \$50.5 million in taxation in 2007. ACT gaming machine taxes represented, by far, the largest percentage of the taxes paid in 2007 (54 per cent). There is little difference in the type and proportion of tax paid between large and medium/small clubs.

The ACT Government estimated that it would receive \$31.2 million from gaming machine tax in 2006/07. Clubs in the ACT provided the vast majority of this amount, \$27.4 million, with taxes from gaming machines in hotels making up the remainder.

Figure 7.7: Percentage of taxes paid in 2007 by club size



Source: Allen Consulting Group, Survey of Clubs in the ACT 2007.

Following a gaming tax increase in 2004/05, a further increase to gaming tax rates took place from 1 July 2007, affecting the two top marginal tax rates:

- an increase from 16 per cent to 17 per cent for those clubs with annual gross gaming machine revenue in excess of \$300,000 per year; and
- an increase from 18 per cent to 21 per cent for those clubs with annual gross gaming machine revenue in excess of \$600,000 per year.

Although no analysis is available on the impact of these increases, the Allen Consulting Group projected that the increase in gaming machine tax will have a negative impact on club's revenue over the next few years, particularly with the additional effects of smoking bans.

7.1.7 Queensland

Gaming tax rates in Queensland are as follows:

Figure 7.8: Gaming tax rates in Queensland

| Premises type | Monthly taxable metered win (\$) | Gaming machine tax (% of monthly taxable metered win) |
|----------------|----------------------------------|--|
| Licensed clubs | \$0 – 9,500 | Nil |
| | \$9,501 – 75,000 | 17.91% |
| | \$75,001 – 150,000 | 20.91% |
| | \$150,001 – 300,000 | 23.91% |
| | \$300,001 – 1,400,000 | 25.91% |
| | > \$1,400,000 | 35.91% |
| Hotels | All amounts | 35.91% + hospital levy if applicable |

* 8.5 per cent of gaming machine tax to be paid into the Community Investment Fund.

Source: Queensland Office of Liquor and Gaming Regulation³⁵⁸

7.1.8 Victoria

Currently, under the *Victorian Gambling Regulation Act 2003*:

- One-third of club and hotel gaming machine revenue is paid in tax;
- Another third is paid to the gaming operator (either Tattersall's or Tabcorp, which must then pay a hospital levy of \$4,333 per machine); and
- The final third goes to gaming venues (clubs, hotels, etc). Clubs are required to submit statements showing they have allocated 8.33 per cent of total gaming revenue towards community benefits, while hotels pay 8.33 per cent of total gaming revenue into a Community Development Fund.

However, under the significant changes proposed to the structure of gaming in Victoria, outlined in Section 3.1.5, clubs would be subject to the following tax scale from 2012:

Figure 7.9: Proposed tax scale for Victoria

| Average monthly per-machine revenue | Hotel tax rate | Club tax rate |
|-------------------------------------|----------------|---------------|
| \$0 - \$2,666 | 8.33% | Nil |
| \$2,667 - \$12,500 | 50.83% | 42.5% |
| \$12,501+ | 58.33% | 50.0% |

Source: "Call For Comment on New Gaming Arrangements"³⁵⁹

³⁵⁸ <http://www.olgr.qld.gov.au/resources/fees/index.shtml>, accessed 16 March 2009

³⁵⁹ Media release: "Call for comment on new gaming machine arrangements", 11 December 2008, <http://www.premier.vic.gov.au/minister-for-gaming/call-for-comment-on-new-gaming-machine-arrangements.html>, accessed 16 March 2009

7.1.9 South Australia

A comparison of gaming machine tax rates in South Australia can be seen below.

Figure 7.10: Gaming tax rates, South Australia

| Net gaming revenue | Clubs | Hotels |
|-------------------------|--------------------------------|--------------------------------|
| \$0-75,000 | 0% | 0% |
| \$75,001-399,000 | 21% | 27.5% |
| \$399,001-945,000 | \$68,040 + 28.5% | \$89,100 + 37% |
| \$945,001-\$1,500,00 | \$223,650 + 30.91% | \$291,120 + 40.91% |
| \$1,500,000-\$2,500,000 | \$395,200.50 + 37.5% | \$518,170.50+47.5% |
| \$2,500,000-\$3,500,000 | \$770,220.50 + 47% | \$993,170.50 + 57% |
| Over \$3,500,000 | \$1,240,200.50 + 55% excess | \$1,563,170.50 + 65% excess |

Source: ClubsSA

7.2 MUTUALITY

PC: Have there been changes to the application of the mutuality principle?

7.2.1 Support for clubs as not-for-profit entities

Research conducted in NSW for ClubsConsulting reflects club members' support for the not-for-profit, mutual status of clubs and the purpose for which they are formed and maintained. The research found that:

- 63 per cent of people are aware that clubs are not-for-profit organisations, with awareness higher among the older demographic;
- 81 per cent of people are aware that clubs contribute revenue to local community projects; and
- 41 per cent of people are aware that clubs make community contributions in excess of the statutory (CDSE) requirement.³⁶⁰

The perception that clubs compete unfairly with private operators and crowd out private investment by virtue of favourable taxation arrangements stems mainly from a misunderstanding of club taxation arrangements, particularly the principle of mutuality.

The principle of mutuality is not specifically contemplated under the Income Tax Assessment Act, but rather has arisen out of common law. The principles behind mutuality are still as relevant in 2007 as they were in 1918 when set out in *The Bohemians Club v The Acting FCT (1918) 24 CLR 334*.

³⁶⁰ ClubsNSW, Submission to Independent Pricing and Regulatory Tribunal *Review of the Registered Clubs Industry in NSW*, July 2007, p.20

The current taxation treatment of clubs is governed principally by the 'Guidelines for registered and licensed clubs' issued by the Australian Taxation Office in 1992. The Guidelines are based on the premise that clubs are associations formed for the mutual benefit of members rather than as profit-making commercial enterprises.

The Guidelines explain mutuality in the following terms:

*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. This principle, of course, does not extend to include income that is derived from sources outside the group. Where the principle aim of a club is to provide and improve facilities to its members, the principle of mutuality will apply to all transactions between that club and its members.*³⁶¹

In brief, a mutual entity like a club cannot derive any gain, and thus any income, from dealings with itself. The ATO's Guidelines say that the principle of mutuality will apply where a club has the following general attributes:

- Its rules prohibit the distribution of surplus funds to members;
- Upon dissolution, its rules require surplus funds to be distributed to another club with similar interests and activities;
- Club operations fall within the ambit of State/Federal laws governing clubs; and
- The club is a member of a recognised Club Association.

Effectively, clubs are subject to tax on income from sources wholly outside the club, such as investment income, or where a club simply leases space or a facility to an operator. Plus they are subject to an appropriate proportion of profits from general trading activities in which both members and non-members take part – for example, gaming machine, bar and catering. No tax is payable in respect of receipts generated solely from members, such as subscriptions and purchases of membership badges.

The ATO's Guidelines contain a formula – the Waratahs Formula – to assist clubs in calculating the proportion of club trading surplus attributable to members and non-members respectively, the latter being the taxable proportion. On the assumption that 75 per cent of members' guests contribute to a club's assessable income, the proportion of the surplus that is assessable equals the number of contributing non-members divided by the total number of persons (members and non-members) who attend a club during an income year. The formula is named after a decision in *Waratahs Rugby Union Football Club v Federal Commission of Taxation* (1979) 10 ATR 33; 79 ATC 4337.

The ATO's Guidelines require clubs to keep records of the number of members and non-members attending the club throughout the year and, in some cases, surveys need to be taken to ascertain the percentage of members who attend.

Historically, governments have sought to link the provision of liquor and gaming to the social benefits associated with participation in a club. As outlined throughout this submission, clubs occupy a unique position as not-for-profit organisations that exist for the benefit of their members and the community. This role has been enshrined in legislation via a range of provisions relating to membership and operations.

³⁶¹ Australian Taxation Office, *Guidelines for Registered and Licensed clubs*, May 1992
<http://www.ato.gov.au/nonprofit/content.asp?doc=/content/17832.htm>, accessed July 2007

As a group, not individually, club members are the owners of club assets but, importantly, they do not have property rights to their share in the common funds that support the club's activities. They cannot sell their share, and when they cease to be members they lose their right to participate and they receive no financial compensation in return.

In contrast, a non-mutual trading corporation is established and operated for the purpose of making profits for its shareholders. Such corporations trade for commercial gain and have no obligation to support community activities or contribute to local social services or infrastructure. Annual profits may be distributed to shareholders, who are free to dispose of their shares for value on the open market. Most corporations are not restricted to the principal purposes of providing 'accommodation'³⁶² to members and assisting the community, but may trade at large with the public for profit. The public is aware that any profits from trading may be distributed to the corporation's shareholders. On winding up, excess assets of a non-mutual trading corporation are distributed to its shareholders.

In the case of clubs, any trading surpluses are held and applied for the benefit of the membership as a whole and, by extension, the surrounding community. In practice, surpluses are channelled into facilities to promote the club's purpose or to support its chosen cause or community services. These characteristics of clubs distinguish them from normal commercial trading entities.

Anyone wishing to become a member must be nominated and seconded by current members and have their application approved by existing members and the club's board. This is distinct from the shareholder provisions for public companies in the Corporation Act.

7.2.2 Clubs are membership-run

Another distinct feature of clubs is their origin as community-based organisations run by member-elected, volunteer boards. Unlike commercial entities, clubs have traditionally measured performance, including governance, in terms of the club's purpose, not financial success. This has had significant implications for the industry recently as governance expectations have increased.

Club membership remains notable in terms of its size and diversity, both demographically and geographically. Club membership is fundamental to the mutual nature of clubs and is the foundation of the industry's relevance and capacity to deliver services and facilities to the community. It is encouraging that club membership levels have grown strongly in the last four years, and this may indicate a growing support for the mutual benefits provided by being a club member.

7.2.3 Not-for-profit status

Strong financial performance should be encouraged. Unfortunately, a view exists in the community that 'not-for-profit' status is inconsistent with the making of healthy surpluses. ClubsAustralia believes that healthy surpluses are essential for clubs to build and maintain facilities and provide support to the community.

7.2.4 Case law

The decision of the Federal Court in *Coleambally Irrigation Mutual Co-operative Ltd v Commissioner of Taxation* [2004] FCAFC 250 reaffirmed the principle of mutuality in Australia. The decision expressly extended the principle as applying to incorporated clubs.

³⁶² New South Wales Government, *Registered Clubs Act 1976*, Section 10 1 (e)

7.3 TRENDS IN STATE AND TERRITORY TAX REVENUES

PC: What factors have influenced trends in State and Territory gambling tax revenues, following the introduction of the GST? Have declining shares of tax revenues from gambling and gaming machines resulted from increases in other State and Territory taxes, such as payroll tax and stamp duty? How has the determination of gambling tax rates changed?

7.3.1 GST

Since the introduction of the GST, State and Territory Governments' dependence on gambling taxes has reduced. Gambling tax as a share of government revenue has fallen in recent years and, as shown in Figure 7.1, now comprises a small proportion of government revenues.

State taxes on gaming machine revenue were adjusted to accommodate GST in a manner that achieved revenue neutrality for the States, and this largely remains the case today. However, the States have benefited from the additional revenue that has flowed through from GST monies. So the introduction of GST changed only the way the States and Territories receive tax from clubs, not the amount they receive. Effectively, the Commonwealth collects 9.09 per cent of club gaming machine revenue and passes it back to the States and Territories. So in the top club tax bracket in NSW, for example, the State Government receives gaming machine tax of 29.4 per cent plus (indirectly to the community) CDSE of 1.5 per cent plus (indirectly from the Commonwealth) 9.09 per cent, representing GST on club gaming revenue. This totals 39.99 per cent in the top tax bracket.

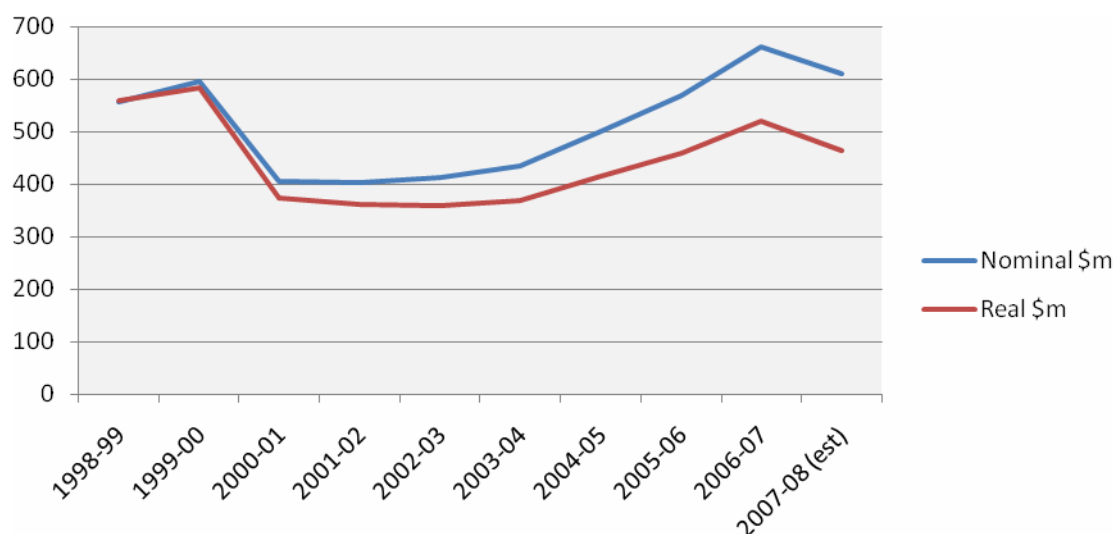
The Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA) guaranteed that between 2000 and 2004 the States and Territories would be no worse off – that is, all of the GST levied on gaming machine revenue, although paid to the Commonwealth, was returned to the State and Territory Governments.

Since 2004, Budget papers have indicated that around 85 per cent of GST is returned to States by way of Commonwealth grants. As an example, the 2008/09 NSW Budget papers indicate that the total GST tax revenue generated by NSW in 2008/09 will be \$15.1 billion, of which \$13.1 billion will be returned by way of the general purpose grant. That is, NSW can expect almost 87 per cent of the GST collected by the Commonwealth to be returned, and this proportion is likely to increase in future.

There has been much political and media attention to the distribution of the GST monies. Smaller, less-wealthy States such as Tasmania and, more controversially, Queensland and Western Australia, have benefited from receiving more GST than was collected in those States by the Commonwealth – effectively being 'subsidised' by other States.

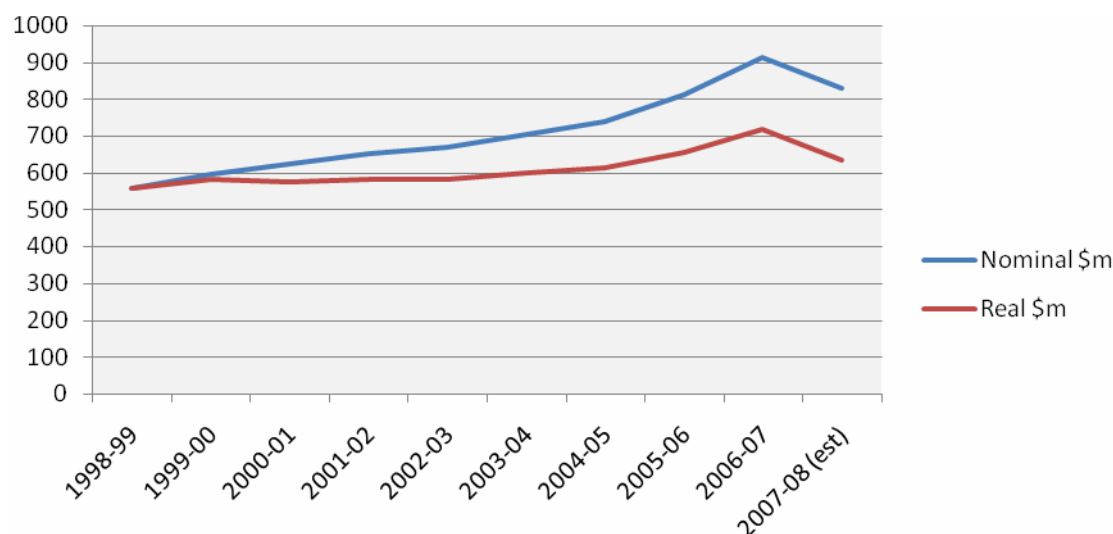
Revenue from club gaming machines has plateaued as figure 7.11 shows.

Figure 7.11: NSW Government revenue from club gaming machine tax



Source: IPART – Figure E.9 and ClubsNSW

Figure 7.12: Revenue from club gaming machine tax with GST included



Source: Office of Liquor, Gaming and Racing Quarterly data and ClubsNSW

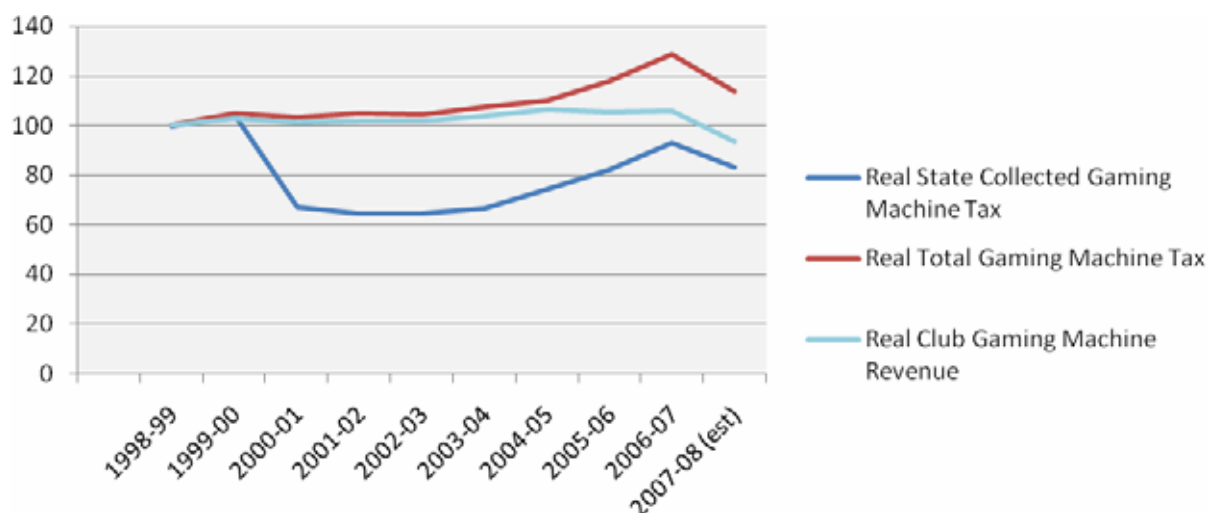
ClubsAustralia believes that Figure 7.12 is a more accurate depiction of revenue flowing to the State from club gaming machines. Figure 7.12 allows for the Inter-Governmental Agreement and a Commonwealth Government return to NSW of 85 per cent of the GST from 2004 on. Clearly this portrays a different understanding of State gaming machine taxation growth over time.

The downturn shown in Figure 7.12 for 2007/08 is a result of the total indoor smoking ban from 1 July 2007, together with a number of other external factors.

It is also extremely important to understand and acknowledge the relativity between taxation and the gaming machine revenue generated by clubs. Increasing taxation revenue does not necessarily reflect growth in gaming machine revenue and/or profits, especially once bracket creep and increasing costs are factored in.

Figure 7.13 shows that the real gaming machine revenue in clubs has remained relatively flat over the last decade, with a significant drop in 2007/08 for reasons outlined above.

Figure 7.13: Relative comparison of real club gaming machine revenue with real gaming machine taxes



Source: Office of Liquor Gaming and Racing Quarterly data and ClubsNSW

However, the tax revenue has increased over time and, while also exhibiting a decrease in 2007/08, has nonetheless managed to establish a clear differential over time. This is due to the significant tax increases, commenced in September 2004, on larger size clubs which together with the indoor smoking bans has created extremely difficult trading conditions for clubs.

7.3.2 Smoking bans

One factor affecting State and Territory gambling tax revenues is the introduction and extension of smoking restrictions in clubs and hotels. In most jurisdictions there is now a total indoor ban on smoking, which has led to a significant, decline in gaming machine revenue.

The bans affect gaming revenue and hence gaming tax revenues, both by discouraging smokers to attend clubs and hotels in the first place, and by forcing patrons who smoke to go outside, making the venue a less desirable place to be, especially during colder months.

Clubs hope to recover from the impact of the smoking ban over time, as clubs have suffered average drops in revenue of nearly 10 per cent. Although the impact varies according to jurisdiction many clubs have also spent money building purpose-designed outdoor areas to ensure that members who smoke are provided with the same benefits as members who don't.

ClubsAustralia discusses the impact of the smoking bans in greater detail in section 8.7.

7.4 TAX TREATMENT OF DIFFERENT GAMBLING FORMS

PC: To what extent are different forms of gambling taxed differently? What impacts have any differences in taxation had? Have they led to problems or distortions in gambling activity? How have any differences in taxation, and consequent impacts, changed since 1999?

7.4.1 Tax differential between hotels and clubs is justified

ClubsAustralia believes that the differential between club and hotel gaming machine tax rates that generally exists is justifiable. Any comparison between clubs and hotels/casinos tax rates must have regard to the different roles played by the sectors in the provision and support of social infrastructure.

As stated earlier, IPART valued the social contribution of clubs in NSW alone at \$811 million.³⁶³ This estimate does not include employment or other economic flow-ons, nor does it include the indirect or intangible contributions made by clubs.

It is appropriate that a significant tax differential be maintained between clubs and hotels, rightly reflecting the not-for-profit and mutual status of clubs as well as their role in building social capital – and in many cases allowing governments at all levels to avoid expenditure.

In contrast, hotel ownership is increasingly moving from individuals to publicly listed companies and now private equity firms. Woolworths owns and operates more gaming machines than any other single entity, and a number of hotel chains have listed on the Australian Stock Exchange. The corporatisation of the hotel market has not only generated substantial wealth for hotel owners, with the sale price of certain hotels exceeding \$50 million, but also increased the intensity of gaming in hotels as they seek to maximise shareholder dividends. The tax treatment of hotels addresses in some ways the issue of the escalating rates of return on capital in the hotel market. Gaming tax rates for hotels attempt to capture excess profits that would otherwise be made by hotels if not for a higher tax level.

A proper comparison should take into account more than just tax rates when attempting to assign dollar values to clubs and hotels.

7.4.2 Casino gaming tax in NSW

A comparison of club and casino gaming tax rates reveals further deficiencies in the tax treatment of clubs compared to for-profit gaming entities.

Figure 7.14 sets out the tax rates payable for Sydney's Star City Casino, with the addition of an extra column showing the applicable rate with GST (9.09 per cent) and Responsible Gambling Fund (RGF) levy (2 per cent) included.

³⁶³ Independent Pricing and Regulatory Tribunal of NSW, *Review of the Registered Clubs Industry in NSW*, Final Report, June 2008, p.3

Figure 7.14: Casino duty from 1 July 2008

| Year | Rate | Rate including GST (9.09%) and RGF (2%) |
|---------|--------|--|
| 2008-09 | 13.04% | 24.13% |
| 2009-10 | 13.41% | 24.5% |
| 2010-11 | 14.41% | 25.5% |
| 2011-12 | 15.41% | 26.5% |
| 2012-13 | 16.41% | 27.5% |
| 2013-14 | 16.41% | 27.5% |

Source: NSW Independent Pricing and Regulatory Tribunal Review of State Taxation, Table E 37 of the Draft Report

In addition to the taxation on gaming revenue, the Star City Casino is to pay a one-off \$100 million fee for 12-year exclusivity. It is understood that the fee is payable in two equal instalments over two years.

The rates of taxation for the Star City Casino remain considerably lower than those faced by large clubs and hotels in NSW. The extent of the concession, relative to large clubs, that the Casino has been given should not be underestimated. By way of example, the annual casino gaming revenue (tables and poker machines) in 2007 was around \$580 million.

Applying the 2008/09 rates this would result in tax of \$140 million (includes GST & RGF).

The largest 12 clubs generate around \$580 million in annual gaming machine revenue. These clubs pay a total tax of approximately \$219 million (including GST and CDSE) on this amount of revenue.

If the Star City Casino was taxed at the same level as the largest clubs this would generate approximately \$80 million annually of additional tax revenue. In our view the Casino receives a significant annual tax advantage over large clubs which over a 12-year period will far exceed the \$100 million one off upfront exclusivity payment.

The differential between the tax paid by large clubs and casinos is unjustifiable and should be redressed.

PC: What challenges to State and Territory tax arrangements are posed by technological changes to gambling (for example, the emergence of certain forms of internet gambling)?

ClubsAustralia refers the Commission to the information presented in Chapter 1.5: Internet Gambling.

7.5 HARMONISATION OF TAX ARRANGEMENTS

PC: Has there been greater harmonisation of taxation arrangements across the States and Territories or across different gambling forms? What role should the Australian Government take in this area?

ClubsAustralia does not believe there has been significant harmonisation in gambling taxation arrangements. For example, the recent decision by the Victorian Government on club and hotel gaming machine tax from 2012 is completely different to any other jurisdiction.

ClubsAustralia believes that where the States and Territories are the regulators, as they are in relation to clubs and gaming, they should also decide the tax regime.

However, there is a role for the Australian Government in relation to internet-based gambling. Currently, for example, an undesirable situation exists where Tasmania and NT derive tax from NSW customers via internet gambling sites located in those jurisdictions. The Commonwealth regulates the space through the *Interactive Gambling Act 2001*. Given the pan-jurisdictional nature of web-based gambling, ClubsAustralia believes it is appropriate for the Commonwealth to also play a role in taxing these businesses.

7.6 APPROPRIATENESS OF GAMBLING TAX LEVELS

PC: Are the current levels of gambling taxes, particularly in respect of gaming machines, appropriate?

7.6.1 Assessment of gaming

ClubsAustralia has dealt with the level of gambling tax elsewhere. Here, ClubsAustralia discusses the gaming tax in terms of appropriateness.

The efficiency of a tax is assessed according to the extent that the tax alters the choices that consumers make. It is highly efficient if consumers make the same choice before and after the tax is imposed. It is inefficient if the tax discourages consumers from their original choice, meaning consumer sovereignty is being eroded. (This is not to suggest that there might not be other legitimate social objectives at hand in support of such an outcome; for example, the taxation of tobacco products to discourage smoking.)

Gaming machine taxes are generally perceived as efficient taxes at least in regard to small tax changes. Taxes are more efficient when consumer demand is less responsive to changes in price. The Productivity Commission's 1999 report, while stating that there was little reliable data on the sensitivity of consumers to the price of gambling, implicitly supported this assessment when it concluded that "the weight of evidence and other more qualitative considerations support the presumption of relatively insensitive demand."³⁶⁴

³⁶⁴ Productivity Commission of Australia, *Australia's Gambling Industries 1999*, AusInfo, Canberra, 1999, p.53

The Commission did, nevertheless, report that EGM activity appears to be more price sensitive than some other forms of gambling such as lotteries and that the ability of operators to pass on tax increases could be partially overcome by mandating minimum payout levels.

The following excerpt from its 2008 Review of State Taxes in NSW³⁶⁵ demonstrates that IPART believes gaming machine tax is relatively efficient. ClubsAustralia agrees with this, with reservations. Although the tax itself is applied efficiently and works well, issues arise when the levels are too high.

Efficiency

Gambling taxes could be regarded as relatively efficient as changes to the tax rates do not significantly alter economic behaviour. Gambling exhibits reasonably inelastic demand, which means that gambling levels are not affected significantly by the imposition of tax.

Equity

The equity of gambling taxes depends on the extent to which gambling taxes lower profits to operators or reduce the payouts to gamblers. To the extent that they lower payouts to the gambler, gambling taxes are a relatively regressive tax in comparison to payroll tax or a broad based expenditure tax such as the GST. This is because gambling accounts for a higher proportion of both income and total expenditure for those on lower incomes.

Horizontal equity is low for some gambling taxes as a result of the differential tax treatment of gambling within casinos, clubs and hotels, even though there is no substantial difference in the gambling product (in respect of gaming machines, for instance).

Robustness

Gambling taxes are a relatively stable source of revenue. The propensity to spend on gambling is largely in line with gross disposable income, so gambling taxes are likely to grow with the economy. However, mobility (particularly international) is likely to increase as a result of the spread of electronic gambling. The rates for most gambling taxes have been set in long-term agreements. This provides a high degree of certainty and stability but also means that changes are largely outside the scope of this review.

Simplicity

Gambling taxes are relatively simple to administer and comply with. The costs of collecting gambling revenue include the compliance costs for gambling operators – record keeping, assessing liability, making payments – and the costs to government of processing receipts and ensuring taxes are paid. They do not include the costs of regulating the activity or ensuring probity, as these are costs that will be incurred regardless of taxation arrangements.

Looked at in this way, the administration costs of collecting most gambling revenue appear to be quite low. Taxes are collected from relatively few sources compared to most State taxes and remittance processes can be automated.

Transparency

While the existence of gambling taxes is probably well known, few gamblers would be aware of the rates of tax applied to various gambling activities, thereby significantly reducing the transparency of gambling taxes for gamblers.

³⁶⁵ Independent Pricing and Regulatory Tribunal of NSW, *Review of State Taxation*, Final Report, 17 October 2008, Table 4.3

7.6.2 Administrative simplicity

ClubsAustralia believes that the existing system of calculating, collecting and accounting for tax is, relative to many other forms of taxation, administratively simple. Although the administrative burden differs between clubs, the existing system can be regarded as efficient. In some jurisdictions, central monitoring systems have assisted Government in automating the collection of State gaming machine tax, despite significant technical problems being experienced with its introduction.

7.6.3 Equity

ClubsAustralia considers as it applies to the taxable entity (that is, the club) the existing system rates well in terms of orthodox criteria of vertical and horizontal equity. Progressive tax rates mean those clubs with greater revenue pay more (vertical equity) and those with similar revenue pay the same (horizontal equity).

The situation is less equitable in terms of the incidence of the tax. According to the Productivity Commission, gaming machine taxes (along with lotteries) are the most regressive forms of gambling taxation and cause the most concern on equity grounds. However, this must be considered in light of the overall regressive nature of the State and Territory tax system, and the restrictions limiting the types of taxes governments can impose.

7.7 IMPACT OF GAMBLING TAXES ON CONSUMERS

PC: How do gambling taxes affect the 'odds' of gambling for consumers, and with what distributional outcomes for consumers and effects on problem gamblers?

Taxes are effectively invisible to gamblers, particularly on gaming machines.

Club gaming machines have a very high Return To Player percentage (RTP) compared with other forms of gambling like tote betting and lotteries. In the case of gaming machines the 'price' is taken to be synonymous with the RTP – that is, the 'odds'.

RTP is calculated from the ratio of wins to bets placed. An RTP below 100 per cent indicates that in the long run the house can expect to hold a certain percentage of the value of all bets made. In the long run, clubs that have an RTP of 92 per cent can expect to retain 8 cents of every dollar bet before tax. Lotto, by comparison, has an RTP of 56 per cent, meaning that the operator retains 44 cents of every dollar bet. The figure below shows comparative RTPs in NSW.³⁶⁶

In Victoria and the ACT the mandated RTP is 87 per cent, but clubs average between 91 and 92 per cent, reflecting the heavy competition in the market and the very price-sensitive nature of gaming machine users.

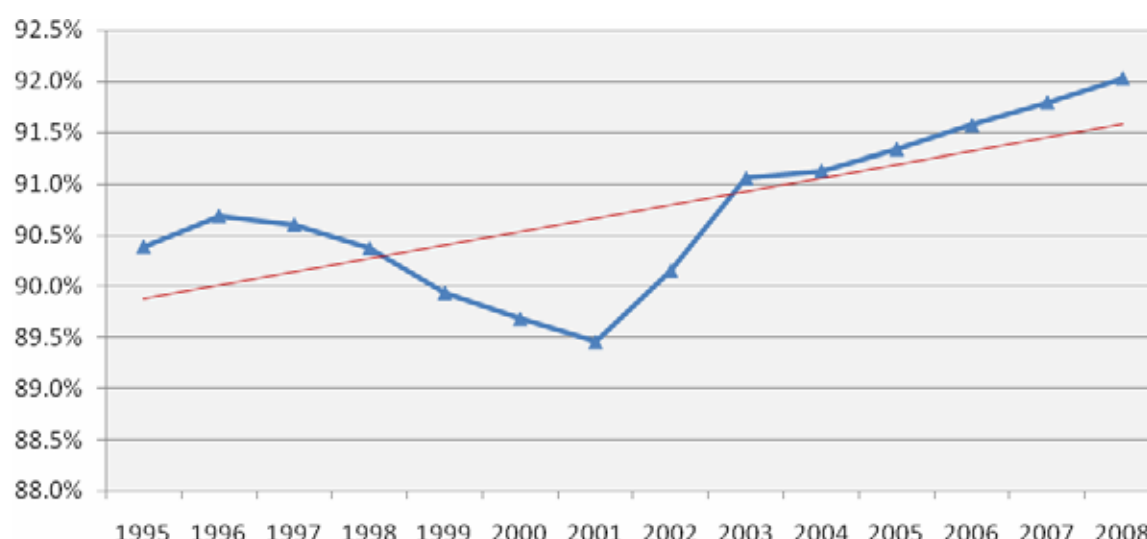
³⁶⁶ Queensland Treasury, *Australian Gambling Statistics, 2005-06* and ClubsNSW.

Figure 7.15: Return to player rates

| Type of gambling | Return to player rate |
|------------------|---|
| Gaming machines | 91.1% (clubs and hotels; clubs are currently 92%) |
| Instant lottery | 58.8% |
| Keno | 75.2% |
| Lotteries | 61.1% |
| Lotto | 55.9% |
| Pools | 46.4% |
| TAB | 85.4% |

Figure 7.16 illustrates the actual RTP³⁶⁷ in New South Wales clubs for the period 1997–2008.

Figure 7.16: RTP in NSW clubs, 1997–2008



Source: NSW OLGR Quarterly Gaming Statistics and ClubsNSW

While the minimum legislated RTP in NSW is 85 per cent, the actual RTP in clubs is significantly higher and has exhibited a long-term increasing trend. That is, over time price has been decreasing.

The decrease in price has taken place despite increased operating costs, a very significant tax increase commencing in 2004,³⁶⁸ and a real gaming machine revenue³⁶⁹ growth rate of 2.3 per cent in the period 1995 to 2007 and 1.1 per cent in the period 1995 to 2008.³⁷⁰

³⁶⁷ Actual RTP = $(1 - \text{Revenue/Turnover})$ expressed as a percentage. Revenue and turnover are for all clubs statewide year ending 31 May

³⁶⁸ With the final increase in 2007

³⁶⁹ "Real" has the same meaning as that used by the Australian Gambling Statistics – that is, adjusted by the annual deflation figure for Sydney CPI

A question arises as to why clubs have not been increasing the price given the increased taxes and costs and low growth in real revenue; that is, why are clubs not decreasing the RTP and passing on the costs?

In its 1999 Report the Productivity Commission stated that:

Two factors explain, at least in part, why most gambling forms are likely to be relatively insensitive to price:

- *As discussed in chapter two, unlike normal consumer goods, the price of gambling is not readily apparent. To the extent that consumers do not know the price, it is reasonable to suggest that they will not be particularly responsive to price changes.*
- *Secondly, there appears to be only limited substitution of one gambling form for another by consumers. As illustrated in figure 19.2 the introduction of gaming machines and casinos in a number of States drew more gamblers into the market, rather than drawing significant revenue from existing forms of gambling. The less substitutable a good is, in general, the less price responsive it is.³⁷¹*

ClubsAustralia suggests that the reasons for the inelastic demand characteristics in the 1999 report do not explain or are not significant as suggested. That is, the price of gambling is more readily discernible to gamblers than suggested and gambling is more like 'normal consumer goods' than suggested. Additionally, while there may have been limited opportunities for substitution in the mid/late 1990s, this is not the case today with the proliferation of internet gambling.

Discussion with respected club gaming managers suggests that:

- For electronic games such as blackjack or roulette, where the RTP is known because of well-established rules, there is no opportunity to increase the price. In the case of electronic roulette, for example, players will easily distinguish between single and double zero games and migrate to those games that offer the best odds (single zero).
- In the case of gaming machines the RTP is not readily apparent or calculable without machine specification information but it can be readily accessed in menu screens or deduced from the metering information if and when required.

Machines are normally approved for use with a range of RTPs which can be selected. However, a gaming machine is authorised to operate at a particular RTP setting and any change requires the club to submit an application for authority authorisation to operate at the changed RTP. That is, changing RTP is strictly controlled.

In addition to the gaming machine itself, prizes can also be won through linked jackpots associated with the gaming machine and which effectively increase the RTP – that is, lower the price.

³⁷⁰ An indoor smoking ban commenced on 1 July 2007, causing a drop in annual gaming revenue for year end 31 May 2008 of 9.4 per cent

³⁷¹ Productivity Commission of Australia, *Australia's Gambling Industries 1999*, AusInfo, Canberra, 1999, Volume 2, pp.19.16 - 19.17

While players may not be aware of the exact RTP, it is suggested that over a period of time regular players do obtain a relatively accurate understanding of the 'cost' involved in purchasing their gambling entertainment. For example, taking two extremes, if a gaming machine was set at 100 per cent RTP versus 85 per cent a regular player would notice either or both the time spent playing or amount won/lost was different on each.

It is suggested that regular players are sensitive to changes in RTP and migrate to venues that offer higher RTP unless other factors such as distance, facilities or environment compensate for an increased price in gaming entertainment.

It is our view that a majority of venues are aware of these considerations and increasing the price of gaming is not as straightforward as might be suggested by a simple 'inelastic demand' assumption.

A small number of clubs might respond to an increase in gaming taxes by reducing their return to player in an attempt to claw back revenue, while others might in fact increase RTP to better compete. However, large and widespread changes of RTP in either direction is unlikely given the force of competition with other sectors, the basic operational costs of running a club, the mandated RTP levels that exist in each jurisdiction, and the practical difficulties involved in varying RTP as detailed above.

As stated above, most clubs would respond to a gaming tax increase by adjusting their outgoings, such as donations and capital expenditure, and increasing the prices of other non-gaming products, such as food and drink. The real negative impact would be not on gamblers but on all club members and the broader community. In some cases, as has been seen in NSW since the introduction of higher gaming machine tax rates, the club would be unable to absorb the additional tax and would be forced to close.

The 2007 NSW SEIS asked clubs how they would respond to reductions in net revenue of \$10,000 to \$1 million. Clubs' responses suggested that the smallest clubs would seek to compensate for the effect by increasing membership fees (23 per cent) and retail prices (17 per cent) or reduce capital expenditure (22 per cent).

Similarly, the largest clubs identified increases in retail prices (around 22 per cent), reduced community support (around 21 per cent) and reduced capital expenditure (around 20 per cent) to fund a reduction in revenue of between \$10,000 and \$100,000. If faced with a \$1 million reduction in revenue, the largest clubs identified that they would reduce capital expenditure (31 per cent) and community support (20 per cent) to fund a shortfall.³⁷²

It is worth keeping in mind that, in reality, most clubs are likely to respond with a combination of changes in their behaviour.

This finding is instructive and relevant to all jurisdictions, especially in the context of IPART's recommendation that clubs be fully consulted by the State Government in advance of future changes in club-related policy.

ClubsAustralia has no evidence to indicate whether increasing or decreasing the price has any particular impact on problem gamblers; that is, whether it is a factor which causes/contributes to an increase or decrease in problem gambling. However, it is suggested that there are sufficient alternatives available, for example internet gaming, to allow problem gamblers to adjust their behaviour and circumvent price increases.

³⁷² The Allen Consulting Group, *Socio-Economic Impact Study of Clubs In New South Wales (2007)*, February 2008, pp.65-66

7.8 DEVELOPMENTS IN STATE & TERRITORY GAMBLING REGULATIONS

PC: What have been the main developments in State and Territory regulations applying to gambling since 1999? What are the rationales, benefits and costs of any new regulatory measures?

7.8.1 Steadily increasing burden

The regulatory burden on clubs – in relation to gaming and other aspects of operations – has increased steadily since the Commission's last report. In 1999 there was no dedicated gaming legislation. In the subsequent decade, every State and Territory has seen substantial increases in the volume, breadth and rigour of gaming regulation.

In relation to the main gaming regulation developments, ClubsAustralia refers the Commission to *A snapshot of Harm Minimisation Measures in Australia*,³⁷³ a summary of State and Territory legislation compiled, and regularly updated, by the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA).

The regulatory regime impacts significantly on the operation of clubs, primarily through the duplication of requirements across Government departments and the practice of unnecessary bureaucratic processes for day-to-day operations. These include (depending on the jurisdiction):

- The volume of legislation affecting the club industry;
- Overwhelming signage requirements;
- A range of governance issues;
- Responsible Service of Alcohol and Responsible Conduct of Gambling
- Sign-in registers;
- The introduction and application of central monitoring systems;
- The compliance auditing process;
- Social impact assessments;
- Record keeping requirements;
- Workers' compensation and OHS legislation; and
- Issues across Local Government.

7.8.2 Improving the regulatory process

- The extent to which regulation impinges on business and the urgent need to alleviate the general compliance burden has received recent attention from the Australian Government. The Taskforce on Reducing Regulatory Burdens on Business found that regulatory burdens fall disproportionately on the economy's many small (including 'micro') businesses, which lack the resources to deal with them. Tailoring regulation to limit the impact on small business and keeping regulatory costs down generally are essential if the 'engine room' of employment and economic growth is to prosper.

The Taskforce's report recommended that the Australian Government should endorse the following six principles of good regulatory process:

³⁷³ Commonwealth Department of Families, Housing, Community Services and Indigenous Affairs, *National Snapshot of Harm Minimisation Strategies in Australia*, accessed 28 February 2009 at http://www.facs.gov.au/Internet/facsInternet.nsf/aboutfacs/programs/gambling-gambling_framework.htm

- Governments should not act to address ‘problems’ until a case for action has been clearly established. This should include establishing the nature of the problem and identifying why actions additional to existing measures are needed, recognising that not all ‘problems’ will justify (additional) government action.
- A range of feasible policy options – including self-regulatory and co-regulatory approaches – need to be identified and their benefits and costs, including compliance costs, assessed within an appropriate framework.
- Only the option that generates the greatest net benefit for the community, taking into account all the impacts, should be adopted.
- Effective guidance should be provided to relevant regulators and regulated parties in order to ensure that the policy intent of the regulation is clear, as well as the expected compliance requirements.
- Mechanisms are needed to ensure that regulation remains relevant and effective over time.
- There needs to be effective consultation with regulated parties at all stages of the regulatory cycle.³⁷⁴

In NSW, IPART also acknowledged the burden of regulation on clubs and recommended:

*That any future changes in Government policy affecting the revenue stream from gaming machines should be preceded by consultation with the clubs industry to determine the likely impact of proposed changes.*³⁷⁵

7.9 IMPACT OF TECHNOLOGICAL CHANGE

PC: To what extent has technological change affected the ability of State and Territory governments to regulate gambling? Has regulation impeded technological innovation within Australia’s gambling industries?

7.9.1 Regulation has not kept pace with technology

ClubsAustralia is of the view that technology and gaming regulation develop at different rates, with a significant lag between the availability of new technology and the appropriate rate of regulatory control – particularly in the case of gaming. Technology and gaming are also driven by different imperatives.

In the case of gaming technology, there is a constant drive for innovation to develop products that are less costly, more attractive and desirable to customers, and offer greater flexibility for the operator.

The primary regulatory drivers relate generally to ensuring the security and integrity of gaming machine operation and protection of government tax revenue.

At around the time of the 1999 report and in the period following, at least some States and Territory Governments introduced legislation that specifically included minimisation of gambling related harm as a primary objective.³⁷⁶ This objective was additional to the already well-established objectives of security and integrity.

³⁷⁴ Commonwealth of Australia, *Rethinking Regulation: Report of the Taskforce on Reducing Regulatory Burdens on Businesses*, 2006, p.147

³⁷⁵ Independent Pricing and Regulatory Tribunal of NSW, *Review of the Registered Clubs Industry in NSW*, Final Report, June 2008, p.3

³⁷⁶ New South Wales *Gambling Legislation Amendment (Responsible Gambling) Act 1999*, No 49

7.9.2 Impact of non-technological regulations

In the case of NSW, a significant number of specifically legislated problem gambling initiatives have been introduced. Examples include a ban on external gaming machine advertising and signage, consumer-directed problem gambling warnings, compulsory gaming machine shutdown periods, machine caps, machine trading scheme with built-in forfeiture mechanism, mandatory self-exclusion, prohibition of credit betting, limits on value, prohibition of cash prizes for gaming machine related promotions, and many others.

The impact of these regulatory measures on technological innovation is arguably minor as they are general in nature and not specifically directed at any type of technology or game. As discussed in Chapter 3, the main drivers of increased expenditure came not so much from new technologies but more from the opening up of gaming to hotels and the opening of the Casino.

7.9.3 Impact of regulations concerning types of games and equipment

However, there is also another level of regulation which exerts significant influence on technology through guidelines and standards against which games and gaming equipment is approved for use. These regulatory instruments have a direct impact on the types of games that are approved and the type of gaming-related equipment that can be operated by gaming machine venues.

All Australian jurisdictions with gaming machines utilise some form of technical approval process that is supported by guidelines or standards which are used to evaluate the games and equipment submitted by licensed manufacturers³⁷⁷ for approval.

The national technical standards³⁷⁸ are controlled by regulators with input from gaming equipment manufacturers and operators (casinos, clubs and hotels). The national technical standards have over time acted as a filter to extract those requirements that are common to each gaming State/Territory while allowing for differences by way of State-specific 'attachments' to the standards. This means that in reality there is no one standard against which gaming equipment manufacturers can obtain a single regulatory approval that is recognised by every State and Territory.

Over time, and in a manner not dissimilar to the inclusion of harm minimisation objectives in legislation, the national standards have been subject to attempts that when successful widen the scope of the standards to include additional rules that in our view are motivated by problem gambling considerations or other issues.

In ClubsAustralia's view, such rules go beyond purely technical considerations which technical standards are normally intended to address. This is important because technical considerations are objective in nature and readily evaluated and measured, whereas problem gambling considerations are not. Examples of technical considerations include random number generation, security, accountability (metering), communication protocols and electrical safety. ClubsAustralia have provided comment to the Chair of the National Standards working group from time to time commenting on the expansion of national standards,³⁷⁹ and argued against this trend.

³⁷⁷ Licensing or its equivalent is typically State-based

³⁷⁸ Australian/New Zealand Gaming Machine National Standard, Revision 9.0, 23 March 2007

³⁷⁹ ClubsAustralia correspondence to Chair of National Standards Working Party, 27 August 2002, 16 August 2003, 12 August 2004, 5 July 2005, 6 August 2008

7.9.4 Impact of technical regulations concerning game design

In addition to national technical standards and State-specific attachments, NSW has also developed a set of criteria³⁸⁰ which directly influence technical features associated with game design. ClubsAustralia is not aware of any objective research that has shown such features to be factors that might exacerbate problem gambling and has also argued that there is no attempt to balance factors such as player enjoyment, entertainment, and/or convenience when implementing a technical policy that prohibits these features.

In ClubsAustralia's opinion these types of technical restrictions, such as limitations on game standard deviation which affects the game volatility as well as 'truncation' rules, have impacted on the types of games and game features available.

Feedback from clubs indicates that newer games subject to volatility and truncation restrictions are noticeably less popular with patrons than older games not subject to these restrictions. As a result, and from practical necessity, clubs are retaining the older games which still have these features rather than replacing them with new games and new technology. In some cases clubs are seeking out and installing older games because of patron demand.

It is our view that attempts through policy instruments such as technical standards or guidelines to remove features of games that can arguably be considered as contributing to enjoyment and stimulation, that is, contributing to attractiveness, with the effect of making these games less interesting and attractive, are not good policy and do not effectively address the issue of problem gambling, but rather disadvantage all players, of which problem gamblers are a minority.

ClubsAustralia suggests that potentially successful products that would otherwise have been available to clubs and their patrons have been prevented from reaching the market because of the inclusion of such technical restrictions in the standards and guidelines which underpin the approval process.

ClubsAustralia further notes that in its 2004 report³⁸¹ IPART expressed concerns about the use of technical standards for developing and establishing responsible gambling measures.

7.9.5 Server-based gaming

ClubsAustralia is aware that there is discussion regarding the introduction of new technology involving 'server-based gaming' or 'downloadable' gaming. There are a significant number of regulatory and commercial issues that require consideration and resolution by each State and Territory prior to the full introduction of server-based gaming.

In Australia the existing technical regulatory environment can be described as stand-alone gaming machines connected to monitoring systems that utilise different, often proprietary, communication protocols in each State/Territory³⁸² and which do not readily facilitate the type of communications capability that is required to deliver server based/downloadable gaming. Australia can be described as a technical environment in which the regulatory standards/guidelines are technically prescriptive; that is, the communication protocols/standards are prescribed down to a detailed level.

³⁸⁰ New South Wales Office of Liquor and Gaming, *NSW Gaming Machine Prohibited Features Register, Revision D*, available at http://www.olgr.nsw.gov.au/liquor_lab_tech_stnds.asp

³⁸¹ Independent Pricing and Regulatory Tribunal of NSW, *Gambling: Promoting a Culture of Responsibility*, Final Report, June 2004, p.149

³⁸² The ACT does not have a monitoring system

However, in the opinion of ClubsAustralia a successful introduction of server-based or downloadable gaming will need the regulatory framework to have sufficient flexibility in order to accommodate a more general communications protocol such as that developed by the Gaming Standards Association and which is capable of supporting multiple manufacturers and activities on a single network within a venue.

Failure to provide for a flexible regulatory regime that can accommodate this type of development will, in our opinion, impede or even prevent the introduction of new gaming technology.

7.10 REGULATION OF DIFFERENT FORMS OF GAMBLING

PC: To what extent are different forms of gambling regulated differently? What impacts have any differences in regulations had? Have they led to problems or distortions in gambling activity? How have any differences in regulation, and consequent impacts, changed since 1999?

Since the 1999 Report, States and Territories have introduced numerous pieces of legislation intended to address problem gambling. Gaming machines have been the subject of more problem gambling regulation than other forms of commercial gambling.

ClubsAustralia again refers the Commission to *A snapshot of Harm Minimisation Measures in Australia*, a summary and comparison of State and Territory legislation compiled, and regularly updated, by the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA).

A brief comparison of problem gambling related legislation in NSW, which deals with gaming machines, casino, wagering and lotteries, highlights the extent to which different forms of gambling are regulated differently.

7.10.1 Case study: NSW

The following summarises significant differences in NSW regulatory requirements:

- **Caps on gaming machine numbers**
Gaming machine numbers are subject to a legislated cap in clubs and hotels. Casino table games and gaming machines do not have a legislated cap and lotteries and wagering do not have any legislated caps on the number of outlets.
- **Advertising**
External advertising of gaming machines is prohibited in clubs and hotels. There are no legislative prohibitions in the case of casino table games. Wagering and lotteries do not have prohibitions on advertising.
- **Limits in cash payout – payment of prizes by cheque**
Clubs and hotels are limited by legislation in the amount of cash that prize winners can receive. Any amount over the limit of \$2,000 must be paid by means of a cheque. Payment by cheque for casino prizes is voluntary with a player able to receive the whole amount in cash.
- **Cashing cheques**
Clubs and hotels have strict conditions and limits on cheque cashing (one cheque per person to a maximum of \$400 per day). Casinos have no comparable limits.
- **Compulsory gaming machine shutdown**
Gaming machines in clubs and hotels must be shutdown for a period of three or six hours. There is no legislated shutdown for the casino, lotteries or wagering.

- **Cash from ATMs**

ATMs equipped with a facility to withdraw cash using credit cards are prohibited in clubs and hotels. This prohibition does not apply to the casino.

- **Credit betting**

Prohibited by legislation in clubs and hotels. Wagering or online bets can be placed by means of credit cards.

The above summary applies to regulatory differences between well-established land-based gaming companies and venues. See Chapter 1.5 for a discussion of differences between internet- and land-based gaming.

ClubsAustralia considers that across Australia, gaming machines in clubs are generally subject to more regulation and supervision than other forms of gaming or even the casino, which also offers gaming machines under less strict conditions.

ClubsAustralia believes that this results partly from an unfavourable political and media focus on gaming machines as a gambling form and a perception that while a flutter at the races or a scratch lottery is relatively harmless, anyone who plays gaming machines is necessarily participating in perverse behaviour.

7.10.2 Harmonisation of regulations

PC: To what extent has there been greater harmonisation of regulations across the States and Territories or across different gambling forms?

In ClubsAustralia's view, there has been little organised harmonisation of regulation across State and Territories. The history of harm minimisation measures taken by governments across Australia has been somewhat chequered, in that too often governments have implemented measures that may appear politically attractive but in practice are minimally effective in achieving their intended objective of reducing the incidence of problem gamblers or gambling related harm. A feature of this approach has been the 'leap frogging' that has taken place between States to have the 'toughest anti-gaming laws in the country.'

The common feature of these type of 'populist', reactive measures is that they are not supported by solid research to indicate they have a chance of real success or will make a real difference. This causes great concern to ClubsAustralia and other stakeholders.

7.11 GAMING MACHINE NATIONAL STANDARD

PC: Are there any inconsistencies across jurisdictions in the application of the Gaming Machine National Standard? Are these justified? What impact do they have on the gambling industries? Are the individual gambling policy objectives of jurisdictions unduly affecting the technical orientation of the National Standard?

The national Gaming Machine Standards reflect the unique history and operating environment (technical and policy) that is characteristic of each gaming jurisdiction.

While there are many game and equipment features that are common in every jurisdiction and can be readily standardised – or at least differences are such that they can be accommodated in the Standards³⁸³ – there are also technical matters that are significantly more difficult to standardise.

³⁸³ For example, different maximum bet and prize levels

This has resulted in a national Standard with State appendices. The effect of this is a requirement for multiple approvals of games or gaming equipment that arguably performs the same function. That is, a particular game and/or hardware platform that is approved in one State or Territory is not necessarily accepted by other States, and in most cases requires a variant in order to obtain approval for use in the other State(s) or Territory. This undoubtedly contributes to increased cost of games and equipment.

Arguably the most prominent technical difference between States and Territories involves communication protocols that are used between gaming machines and systems that connect to the gaming machines. Such systems can be very large – for example, State-wide monitoring systems mandated by governments, State-wide link jackpot systems or local in-house systems that are installed at the discretion of the venue. Venue-specific systems perform a variety of functions, including linked jackpots, player tracking/reward, security, accounting/auditing and a variety of analysis functions.

Standardisation of communication between machines (games) and systems is an important concern where server-based (downloadable) gaming is under consideration.³⁸⁴ ClubsAustralia believes that failure to reach a consensus on this at a national level will act to impede and can potentially prevent access to this type of technology.

While individual States have taken some preliminary steps³⁸⁵ to allow trialling and possible approval of server-based/downloadable technology, there remains no national consensus on a way forward utilising a standard communication framework.

ClubsAustralia supports developing or adopting a suitable standard communications framework. However, any implementation policy must also have regard to the substantial investment in infrastructure that already exists and the costs/benefits of migrating to a new technology.

Further comment regarding the Gaming Machine National Standard can be found in Chapter 7.9.

7.12 REGULATORY AND POLICY-MAKING PROCESSES AND INSTITUTIONS

PC: What have been the main changes to State and Territory regulatory frameworks for gambling since 1999? How have the governance and administration of regulatory frameworks changed? What impacts have any changes had on the quality of policy and regulation-making in the jurisdictions?

7.12.1 Changes to State and Territory frameworks

The regulatory processes around gaming have become more open and transparent since 1999. Productive working relationships between the industry, Government and other stakeholders have evolved, with more open consultation involving the community, as evidenced by latest review of gaming legislation in NSW which required public submissions.

PC: To what extent have these measures been supported by research, especially field trials and evaluations? What has been the quality of this research against such criteria as validity, reliability, independence, and transparency?

³⁸⁴ See Section 7.9 of this submission

³⁸⁵ In June 2007, the NSW Appendix to National Standards (Communications Protocol, version 2.2) was amended and made provision for manufacturers to submit for consideration server based/downloadable gaming technology solutions. The amendment does not specify any particular protocol or solution, unlike the standards for existing standalone gaming machines, stating that any submission may be considered for approval on a case by case basis provided it meets some broad regulatory requirements

7.12.2 Research basis for regulation

Clubs have a strong commitment to fostering a culture of responsibility in relation to gambling. This philosophy is entirely consistent with and supportive of the principles of the National Framework on Problem Gambling 2004–2008, the joint initiative of the Australian Government and State and Territory Governments through the Ministerial Council on Gambling and co-signed by the South Australian Government.

However, ClubsAustralia maintains that much of the new regulation surrounding gaming machines has been introduced without adequate supporting research.

It is crucial that harm minimisation strategies are not initiated on an ad hoc basis or introduced on the strength of one stakeholder's urging in the absence of supportive evidence of its efficacy in addressing harm minimisation or problem gambling.

ClubsAustralia believes measures should be introduced only if:

- 1) There is a strong evidence and research base in support of its effectiveness, or, in the absence of evidence;
- 2) There is strong stakeholder consensus for the measure.

There have been several cases where Government has been prepared to consider on its merits and accept rigorous research commissioned by the industry into the costs and benefits of new proposed measures (in NSW, there were calls to regulate reel spin and note acceptors and make the maximum bet \$1) *before* introducing them. Further information on this, and the research commissioned by the University of Sydney, can be found in Section 8.8.

And, as noted above, the NSW Government also conducted community consultation on its most recent raft of proposed regulations prior to their introduction.

ClubsAustralia believes these should be regarded as success stories and a model for future policy-making.

As the principles of the National Framework on Problem Gambling 2004-2008 note:

*'Research and evaluation are essential to ensure that initiatives are likely to minimise problem gambling without unintended negative consequences for the community.'*³⁸⁶

7.12.3 Future research

PC: How effective has the Ministerial Council on Gambling been in addressing its objectives? To what extent has the National Framework on Problem Gambling been applied by State and Territory governments? How effective has Gambling Research Australia been in addressing its objectives? Are its priority areas of research appropriate? What changes, if any, should be made to the various national initiatives?

ClubsAustralia has made comment in regard to the success or otherwise of research throughout the submission. ClubsAustralia has made recommendations in Chapter 1.7 for better directing research and determining best practice.

³⁸⁶ Commonwealth Department of Families, Housing, Community Services and Indigenous Affairs, *National Snapshot of Harm Minimisation Strategies in Australia*, accessed 28 February 2009 at http://www.facs.gov.au/Internet/facsInternet.nsf/aboutfacs/programs/gambling-gambling_framework.htm

Chapter 8: Consumer protection measures

TERMS OF REFERENCE:

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

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

8.1 HARM MINIMISATION MEASURES AND CODES OF PRACTICE

PC: What industry codes of practice have been introduced since 1999, or are in prospect, to address problem gambling and other consumer protection concerns? What measures do they contain?

PC: What measures have gambling venues introduced to address problem gambling and other consumer protection concerns?

Gaming in clubs is already highly regulated. Clubs throughout Australia follow voluntary codes of practice involving responsible service of gambling and comply with legislative requirements in the various States and Territories. While the codes are voluntary, they are often a 'must do'. For instance, Queensland's gaming regulator, the Office of Gaming Regulation (QOGR) and the Gaming Commission look favourably at venues that have implemented the code. In some cases, such as ACT and South Australia, the codes have been made mandatory.

ClubsAustralia takes the view that more can be done, particularly with regard to ensuring the different forms of gambling are regulated equally.

8.1.1 Voluntary responsible gambling programs

Clubs across Australia have introduced a range of voluntary programs to enhance the responsible conduct of gaming in their venues. The very existence of these programs, which often preceded responsible gambling legislation in those jurisdictions, demonstrates the proactive and positive approach clubs take on this issue. The Movement is highly motivated by the principle of 'doing the right thing' and ensuring the wellbeing of their patrons.

(a) New South Wales

The first such program, ClubSAFE, was launched in 2000 by ClubsNSW prior to the introduction of responsible gambling legislation in NSW. The program is voluntary and has been adopted by over 1,000 clubs in NSW, with the management manual now in its third revision. A copy of the management manual used with the ClubSAFE program is available to the Commission on request. The Manual has also been made available in a web based format with lookup and searching capabilities to facilitate the educative process.

The manual is divided into easy to understand sections:

- *Definition*, which describes problem gambling and its impact and risks;

- *Education*, informing patrons, staff, and the public about problem gambling and the ClubSAFE program;
- *Prevention*, covering policies and procedures to minimise the occurrence of problem gambling; and
- *Intervention*, covering policies for problem gambling incidents and support for problem gamblers.

The ClubSAFE program is based on a Code of Practice and an Advertising Code.³⁸⁷ ClubsNSW believes that the ClubSafe program is unique in that it has managed to combine not only legislated requirements, which came into force after significant development of ClubSAFE had taken place, but is also a comprehensive resource for helping to reinforce what IPART identified in its subsequent 2004 report as a critical component in the provision of gambling: a 'culture of responsibility'.³⁸⁸

The ClubSafe training for new staff is as follows:

1. ClubSafe induction brochure included in new employee welcome pack;
2. ClubSafe awareness video is shown to new staff;
3. ClubSafe interactive, face-to-face induction training is conducted as soon as a small group of new employees are available (within 3 months of start date) and is repeated once every two years.

In addition to the services and resources above, the package also includes:

- ClubSAFE counselling services (experienced counsellor available for front line telephone counselling/referral for both club patrons and staff);
- ClubsSAFE self-exclusion program;
- ClubSAFE staff gambling facts poster (A3);
- ClubSAFE Awareness DVD; and
- ClubSAFE resources including posters, stickers, counselling cards, forms and signs.

ClubSafe also provides several other types of training for member clubs to ensure all managers and staff members are thoroughly trained in responsible gambling procedures:

- The ClubSafe training program is specifically designed to summarise the content of a training manual for staff members. The sessions are interactive and group sizes are usually around 15-20 people. This is a non-accredited course facilitated by a ClubsNSW representative;
- Management-level courses cover a broad range of club topics including responsible gambling measures;
- During 2009, ClubSafe will move to an online training system to allow delivery of training programs on-demand over the Internet. This measure will be initially designed for staff induction;
- ClubsNSW is analysing a 'train-the-trainer' program that would enable clubs to nominate a manager to receive the preparation required to conduct future ClubSafe training sessions; and
- The Responsible Conduct of Gaming (RCG) certificate program, required for any club employee who works with electronic gaming machines, covers responsible conduct of gambling and is offered by providers approved by the relevant Government authority. Under law in NSW, it is mandatory to keep a RCG Training Register.

³⁸⁷ Copies available to the Commission on request.

³⁸⁸ Independent Pricing and Regulatory Tribunal of NSW, *Gambling: Promoting a Culture of Responsibility*, Final Report, June 2004

ClubsNSW commenced development of a comprehensive responsible gambling management package in early 1998 and launched the program in the first half of 2000. A timeline showing significant events leading up to the Code development and launch is shown below.

Timeline of significant developments

| | |
|---------------------------|---|
| 1956 - | Poker machines legalised in clubs. |
| 1984 - | Card machines (AADs) legalised in hotels. |
| 1987 - | 48,000 gaming machines in NSW (<i>approx 3,000 AADs in hotels and 45,000 poker machines in clubs</i>). |
| 1996 - | Hotels permitted to operate poker machines. |
| 1997 - | Star City permanent casino 1500 poker machines, 210 tables. |
| 1998 - (March) | ClubsNSW (RCA) contracts Australian Institute of Gambling Research to develop and trial a responsible gambling program (ClubSafe). |
| 1998 - (Nov) | IPART 'Report to Government: Inquiry into Gaming in NSW' |
| 1999 - (Nov) | Productivity Commission (PC) Report into Australia's Gambling Industries |
| 2000 - (April) | NSW introduces the first legislation in Australia dealing specifically with problem gambling ('inducements to gamble', cheque cashing restrictions, prize payment by cheque, signage) |
| 2000 - (June) | ClubSafe Responsible Gambling program officially launched. |
| 2001/2 - | Gaming Machines Act 2001 and Gaming Machine Regulations 2002 replace the Registered Clubs Act and Regulations and the Liquor Act and Regulations further introducing responsible gambling measures. |
| 2004 - (June) | IPART report 'Gambling – Promoting a Culture of Responsibility' |

Areas where ClubSAFE has introduced measures that go beyond legislation include:

- A Responsible Conduct of Gambling (RCG) counselling service as an alternative option to G-Line and accessible via a dedicated telephone number;
- Adoption and public display of Best Practice Guidelines;
- Adoption and public display of an Advertising Code (for internal gaming machine advertising purposes);
- A comprehensive consumer information document that clearly advises patrons about 'Conditions of Play' on gaming machines;
- Development and public display of Financial and Complaint Handling policies and procedures;
- Refined processes in relation to self-exclusion;
- Training and refresher training of staff in relation to responsible gambling, privacy, financial policies and dealing with self-exclusion;
- Formalised community liaison arrangements with the appointment of a responsible person and active liaison with a number of organisations/services in the area;
- Provision of food and beverages in a manner that encourages breaks in play;
- Assistance for patrons requesting help with transport;
- Development and implementation of an appropriate staff gambling policy; and
- Regular audit of all responsible gambling practices.

The ClubSAFE program, while originally developed as the primary standard for responsible conduct of gambling in clubs, now acts to complement the legislatively mandated requirements by explaining, promoting and reinforcing a culture of responsibility among the management of clubs.

(b) Queensland

Queensland clubs, along with other gambling providers, operate under the Queensland Responsible Gambling Code of Practice, launched in May 2002, which commits the industry to implement and adhere to responsible gambling practices, with a particular focus on consumer protection measures, across six broad categories:

- Provision of information
- Interaction with customers and community
- Exclusion provisions
- Physical environment
- Financial transactions
- Advertising and promotions

The Code was established by the Responsible Gambling Advisory Committee (RGAC), an independent, tripartite forum of government, industry and community representatives which receives administrative support from the Office of Liquor, Gaming and Racing but reports to the Treasurer.

Although the Code is a voluntary instrument, it is effectively binding on the stakeholders because the OLGR assesses each gaming venue against compliance with the Code.

A review of the implementation of the Code found that a majority of clubs have introduced new voluntary measures such as:

- Ceasing to send correspondence or promotional material to excluded gambling customers (99 per cent);
- Implementing practices to ensure that customers are discouraged from participating in extended, intensive and repetitive play (100 per cent);
- Ensuring that advertising and promotion does not give the impression that gambling is a reasonable strategy for financial betterment (99 per cent);
- Not using external signs to advise of winnings paid (99 per cent);
- Not depicting or promoting the consumption of alcohol by individuals participating in gambling activities (99 per cent); and
- Introduced a customer liaison officer to provide information and assistance to staff and members about responsible gaming (94 per cent).³⁸⁹

Clubs Queensland has developed a comprehensive Resource Manual to enable clubs to implement the Code at a venue level, and also provides responsible gambling training and has a dedicated officer who guides clubs to form meaningful relationships with local gambling help services.

(c) Victoria

The Club Movement in Victoria has put in place the following voluntary measures:

- In 1997 the industry introduced a voluntary Code of Practice³⁹⁰ and accord. Since then, clubs have administered the Code through the establishment of a secretariat which is funded by the industry. The Code commits to the principles of responsible gaming.³⁹¹
- Among other provisions, the Code requires that all gaming staff complete responsible service of gaming and responsible service of alcohol training courses.³⁹²
- The industry has also developed, funded and maintained an independent complaint resolution process and a self-exclusion program.³⁹³
- Clubs are committed to abiding by the Code of Practice, implementing the self-exclusion program, training all staff in responsible service of gaming, interacting with problem gambling services and ensuring that those that want help get it.

(d) Australian Capital Territory

ClubsACT formed the Clubcare Program, which was initiated in October 2001. The program, which operates jointly between Lifeline Canberra and Canberra clubs under the auspices of ClubsACT, was recently renewed for a fourth time in February 2009, guaranteeing another three years. The program, which has evolved over time, has funding support from almost all ClubsACT member clubs.

The 26 clubs account for almost 90 per cent of gaming machines, operating from 46 venues across Canberra with an overall membership of 500,000.

³⁸⁹ Queensland Treasury, *Queensland Responsible Gambling Code of Practice: Report on the Cultural Shift Review*, December 2007, 2008

³⁹⁰ Mandated Code of Conduct to commence 1 June 2009

³⁹¹ Copy of Code available to the Commission upon request

³⁹² Mandatory responsible gambling training now legislated

³⁹³ Mandated self-exclusion program to commence 1 June 2009

Under the arrangement, clubs contribute funding to Lifeline, while Lifeline provides access to daily counselling hours for crisis support or face to face counselling for club patrons. Counselling is now the primary focus of the program. Lifeline has also worked with clubs on a range of preventative and education measures at the venue. Club staff have also been trained to observe for warning signs of problem gambling, display prominent signage urging problem gamblers to seek help, and make education brochures available at their venues. Since the introduction of the Code of Practice these activities are now provided by a range of service providers, including Lifeline on a fee for service basis.

Each club has Gambling Contact Officers (GCOs) within their staff and each staff member who directly works with gaming machines has a Responsible Conduct of Gaming Certificate.

Since its inception the ACT clubs have contributed an average of \$315,000 per year to the program, and more than Lifeline received from the ACT Government for its more general Gambling Care counselling service.

ClubsACT also played an important role in the development and implementation of the ACT Government's mandatory Gambling Code of Practice, which was first introduced in December 2002 and reviewed in 2004. The Code followed an earlier voluntary Code and a ClubsACT Code of Conduct.

The Code³⁹⁴ provides gambling providers with a minimum set of standards that should be met in providing patrons access to gambling products, and can be seen as part of a national trend to minimise the harmful consequences associated with problem gambling behaviour.

Clubs ACT also works closely with Lifeline Canberra and the ACT Gambling and Racing Commission on harm minimisation issues, including partnering on the promotion of Gambling Awareness Week in the ACT which takes place in May each year.

(e) South Australia

Clubs and hotels in South Australia introduced a voluntary Code of Practice in 1995. The Code became law in 2001. The South Australian Codes of Practice for both Advertising and Responsible Gambling were most recently amended in December 2008, including the introduction of SmartCard technology and pre-commitment programs, though no programs are currently approved.³⁹⁵ The SA Government has also banned gaming venues from being under the same roof as shops or within shopping complexes.³⁹⁶

In 1995 the industry and State Government jointly established the Gamblers Rehabilitation Fund (GRF), which provides funding to various gambling help services in the State. The club and hotel industry currently voluntarily contributes over \$2 million to the GRF, which is managed by the Office of Problem Gambling.

In August 2006, Clubs SA established a separate organisation called Club Safe. Club Safe was developed to:

- Assist venue staff to identify patrons who may be having issues with gambling
- Equip staff with skills and knowledge to approach these situations in a safe manner
- Promote early intervention with patrons

³⁹⁴ See Australian Capital Territory Government, *Gambling and Racing Control (Code of Practice) Regulation 2002*, <http://www.legislation.act.gov.au/sl/2002-28/current/pdf/2002-28.pdf>

³⁹⁵ The Responsible Gambling Code of Practice – Clause 2A (2)(b)(iii) “the gambling provider implements such smartcard or pre-commitment programs as are approved by the Authority and by the Minister for Gambling”

³⁹⁶ South Australia Government, *Gaming Machines Act 1992*, Clause 15A

- Promote a closer working relationship between gaming venues and local gambling support services
- Assist gambling venues to understand the mandatory Responsible Gambling and Advertising Codes of Practice, and support venues with compliance of these Codes
- Provide ongoing training and workshops for staff so as to give them confidence to deal with these very delicate and sometimes difficult situations.

The clubs are regularly monitored by Club Safe officers to ensure compliance with the Codes, and that the voluntary measures meet high standards. This dedicated work of Club Safe (and Gaming Care, a similar program run by hotels) has formally been acknowledged by the Independent Gambling Authority:

*If it were not for the emergence of Gaming Care and Club Safe...the Authority would now be recommending further serious machine number reductions directed at achieving a 30 per cent reduction in the number of premises with gaming.*³⁹⁷

In November 2008 Club Safe and Gaming Care were both approved by the Independent Gambling Authority as 'Approved Intervention Agencies'. The new Codes of Practice which became effective on 1 December 2008 exempt gambling providers from certain clauses if the "gambling provider is a party to and is fully compliant with the terms of, an approved intervention agency".

(f) Western Australia

Although clubs in WA do not have gaming machines, clubs with TAB facilities are able to agree to a Code of Practice run by Racing and Wagering Western Australia (RWAA), the controlling authority for the racing industry and TAB in that State.

8.1.2 Self-exclusion

Self-exclusion remains an appropriate and effective measure as one of a number of tools that can be employed to assist a problem gambler. In this case, a person is seeking to be prevented from entering a gaming area or club. This should be complemented by referral to appropriate counselling services so that self-exclusion leads to effective rehabilitation.

However, ClubsAustralia believes self-exclusion across multiple venues would be highly problematic in effect. ClubsAustralia is not aware of any multi venue self-exclusion scheme which is operating effectively or successfully, one reason being that a large club like Penrith Panthers, with around 40,000 patrons visiting the club each week, would find it difficult to identify patrons who do not usually frequent the club.

In the ACT, where venue initiated exclusions have been a mandated requirement since 2002, the number of such exclusions in the club sector have been few – although it is understood that ACTTAB and the Canberra Casino between them have identified a number of problem gamblers and acted to exclude them from their venues.

8.1.3 Identification of a problem gambler

An issue currently being debated is the extent possible, if any, of venue intervention into patrons' gaming machine playing behaviour; that is, problem gambler identification. This remains a particularly vexed area as unlike excessive alcohol consumption, which exhibits a number of identifiable characteristics, a venue employee will find positive identification of a person betting beyond their means a much more problematic area in which to intervene.

³⁹⁷ South Australian Independent Gambling Authority, *2004 Amendments Inquiry Report*, 2007, p.27

Professionals in the field of problem gambling are undecided about how to identify a problem gambler.³⁹⁸ While some research has identified some key indicators, the majority of experts do not accept that staff should approach patrons based on these indicators.³⁹⁹

Many of these signs must be interpreted in the context of the presence of possible non-gambling related stresses that an individual may be experiencing and displaying in a gambling venue, the level of available disposable income that can be spent on gaming without causing problems, alternative leisure pursuits, and so on. For example, a single person with no commitments may elect to spend hours at a hotel, playing electronic gaming machines. He/she is not failing to meet social obligations and prefers using an ATM rather than carrying cash. He/she does not meet criteria for problem gambling and it would be inappropriate and an intrusion for gaming staff to raise the issue for discussion.⁴⁰⁰

Rather than place the primary focus on problem gambler identification, clubs should foster a climate of open and rapid management of problems that is integrated with and utilises existing counselling services.

There are many potential problems in requiring venues to identify problem gamblers. These include questions of liability if the venue fails to identify someone or offending members by questioning their financial position.

It is always better if the player makes the first approach. Years of research have helped us realise that the causes of problem gambling are complex, and it is only the players themselves or in some cases their direct family members, who must take the first steps towards corrective action.⁴⁰¹

8.2 LITIGATION AND CONSUMER PROTECTION

PC: Are there sufficient incentives, such as the threat of litigation by gamblers, for gambling venues to introduce consumer protection measures? What does the case law in this area reveal?

There has not been a successful court case in Australia won by a gambler on the basis of a failure of 'duty of care' by a venue.

Legislation that has been introduced that has identified legal obligations of clubs and this has resulted in a practical legal framework for clubs and their patrons within which to operate. In terms of black letter law, ClubsAustralia believes there is ample incentive for clubs to introduce and ensure appropriate consumer protections.

In any event clubs are not motivated by fear of litigation, but by a desire to do the best by their patrons and ensure – as much as reasonably possible – that they provide a safe venue in which to enjoy gaming machines and other club facilities. It should also be noted that the Club Movement began voluntarily developing and implementing responsible gambling initiatives before a case was ever brought against a venue by a gambler.

³⁹⁸ Allcock, Dr Clive et al, *Current Issues Related to Identifying the Problem Gambler in the Gambling Venue*, Australian Gaming Council, August 2002

³⁹⁹ Ibid, with agreement from Professor Alex Blaszczynski, Professor Mark Dickerson, Dr John Haw, Professor Robert Ladouceur, Dr Henry Leseur, Ms Kate Earl, Mr Tim McCorriston, Mr Simon Milton and Mr Paul Symond.

⁴⁰⁰ Blaszczynski, Alex, "Problem Gambling Behaviours: what can be observed in venues and how should staff respond?", *Current Issues Related to Identifying the Problem Gambler in the Gambling Venue*, Australian Gaming Council, August 2002

⁴⁰¹ Ladouceur, Professor Robert, "Problem Gambling Behaviours: what can be demonstrated in the venue and how should staff respond?", *Current Issues Related to Identifying the Problem Gambler in the Gambling Venue*, Australian Gaming Council, August 2002

Indeed, in the 2001 NSW case *Reynolds v Katoomba RSL All Services Club Ltd*, where a gambler sought to recover economic losses he had incurred while using gaming machines at Katoomba RSL Club, the Court found that no duty of care was owed to the plaintiff, Mr Reynolds. The case was dismissed by the District Court and in 2001 the decision was upheld by the NSW Court of Appeal, which found that Katoomba RSL Club had acted responsibly towards the plaintiff. Chief Justice Spigelman found that Mr Reynolds's loss followed a "deliberate and voluntary act on the part of the person...loss of money by way of gambling is an inherent risk in the activity and cannot be avoided." Further extracts from the Court of Appeal's judgment follow:

SPIGELMAN JA

There was nothing which prevented him (Mr Reynolds) staying away from the club. The suggested duty on the club to advise him to resign his membership emphasises the point. He could have resigned at any time. The requests to refuse to cash cheques when asked did not shift his personal responsibility for his own actions to his club. There was no reason for the club to honour one request rather than the other. In my opinion this combination of circumstances is such that no duty of care was owed of the character for which the Appellant contended. The risks were obvious. As Gleeson CJ said with respect to the analogous situation of a participant in sport: "The only way to avoid risk of injury is not to play" (Agar v Hyde at [18].) The Appellant must accept responsibility for his own actions. There was no duty of care. There was no unconscionable conduct."

POWELL JA

"Save only that the club could have refrained from cashing cheques for Mr Reynolds or could have placed a limit on the amount for which on any day during any period cheques could have been cashed for Mr Reynolds, there does not appear to have been anything which the club could have done, either, to prevent Mr Reynolds using the gambling facilities in the club or to limit his use of those facilities... Those matters also lead me to conclude that Mr Reynolds failed to make out a case of unconscionable conduct on the part of the club."

GILES JA

*Control ultimately rests with the gambler, and society encourages the problem gambler to regain control. In the present case, with the benefit of the evidence of the consultant psychiatrist, the trial judge did not accept that the appellant "did not have a free will to exercise", and the appellant's counsel expressly said that the case was not put as one in which the appellant "had lost a capacity to make choices for himself" or "had been deprived of all choice of action in every respect". Even with knowledge of problem gambling, how is the club to know, when asked to cash a cheque, whether the anticipated gambling is the unwanted but compulsive craving of a problem gambler or the choice of a sometime problem gambler then in control of his indulgence? How is the club to know what the gambler can really afford? Must the club inquire, and what if the club is told that it is none of its business? Even when there is knowledge of the gambler's vulnerability ..., the questions... suggest that the law should not impose on persons with whom the gambler deals the burden of these inquiries and the decisions which then must be made. It is not the place of the law of negligence to oblige persons with whom the problem gambler deals to provide society's encouragement to regain control, and compensating the gambler for his losses will be counterproductive to that outcome. These are sound reasons telling against a duty of care sustaining recovery of the appellant's economic loss. In the circumstances of the present case, my judgment is that a duty of care of the requisite content should be held not to have been owed.*⁴⁰²

⁴⁰² *Reynolds v Katoomba RSL All Services Club Ltd* [2001] NSWCA 234

8.3 MANDATORY CODES OF PRACTICE

PC: Should governments make industry codes of practice mandatory?

ClubsAustralia believes that Governments should not mandate industry codes of practice. While there may be some arguments in favour of mandating codes of practice in a totally self-regulated environment; these arguments are much less persuasive where responsible gambling initiatives are subject to legislation.

In Australia, some jurisdictions, such as Queensland, commenced with voluntary codes and minimal legislation while others, such as New South Wales, introduced extensive legislation as well as voluntary codes. Over time most Governments have introduced more extensive legislation so that a situation now exists where there is a varying mixture across all jurisdictions of voluntary and mandated responsible gambling measures.

The Club Movement has a strong track record of innovation and introducing new, positive initiatives in a voluntary manner. As outlined in Chapter 7, these initiatives have been enormously successful. The voluntary, self-initiated nature of the programs means the industry is able to remain more nimble and responsive to changes in the market, consumer demand, and emerging research.

The focus for governments should be ensuring that clubs and other gambling providers are provided with appropriate legislative settings.

Case study: NSW

In the case of New South Wales clubs, the ClubSAFE responsible gambling program was initially designed with a view to operating in a self-regulated responsible gambling environment.

The NSW Government, through legislation, subsequently mandated a number of initiatives that paralleled those contained in the ClubSAFE trial program.⁴⁰³ Examples of measures that were present in the original ClubSAFE trial but were subsequently mandated include self-exclusion, links with counselling services, signage and a financial transaction policy dealing with issues such as cheque cashing and prize payment.

The apparent preference of governments to introduce responsible gambling legislation means that industry initiatives such as codes of practice, which are often overarching documents articulating the aims and aspirations of clubs, must co-exist with legislative initiatives. As outlined previously,⁴⁰⁴ the responsible gambling environment in NSW clubs can be characterised as a regulatory framework complemented by industry programs such as ClubSAFE.

It appears that the future direction of responsible gambling policy will involve a mixture of regulation and self-regulation and will be an ongoing feature in Australia. Under these circumstances there is no reason to mandate Industry Codes of Practice. It should be left to clubs to develop, disseminate and monitor codes of practice in consultation and cooperation with relevant stakeholders.

⁴⁰³ See "Timeline of significant developments".

⁴⁰⁴ See section 8.

8.4 NATIONAL SNAPSHOT AND OTHER INITIATIVES

PC: Does the National Snapshot of Harm Minimisation Strategies provide a complete representation of government actions? What other government actions have taken place since 1999 to introduce harm minimisation measures? What harm minimisation measures are in prospect?

ClubsAustralia believes the National Snapshot provides a comprehensive picture of government actions.

Apart from the regulatory measures included in the Snapshot, there have been other instances where industry has worked with Government on initiatives to raise awareness of the issue of problem gambling and the resources available to those who may be affected – either themselves or as the family, friend or employer of a gambler.

For example, in 2008 NSW clubs have cooperated with hotels, Star City Casino, the State Government and non-government organisations such as the Salvation Army and Mission Australia to promote ‘Responsible Gambling Awareness Week’. Run each May, the initiative is aimed at educating the community on the nature of problem gambling, how it affects people and where to find help. In 2009 the campaign included public seminars, distribution of awareness resources such as posters, youth outreaches and a teen-targeted poster competition, and local activities across the State to promote regional support services.

8.5 ADHERENCE TO BEST PRACTICE IN REGULATORY DEVELOPMENT

PC: To what extent have the development of harm minimisation measures reflected regulatory best practice (such as clear objectives, evidence of likely efficacy, consultation with stakeholders, coordination with other measures, and cost effectiveness)? What changes, if any, in regulatory processes in this area are warranted?

In terms of gambling regulation and policy development, the Commission’s 1999 Report stated that the approach used was not based on any one strategy (such as absolute consumer sovereignty or absolute consumer safety) but rather entailed developing a suite of measures,⁴⁰⁵ involving:

- Consumer protection measures for the benefit of all gamblers;
- Harm minimisation measures (such as voluntary self-exclusion); and
- Reactive harm alleviation measures (such as help services).

The 1999 Report also expanded on and called for the application of good policy process. ClubsAustralia further understands that evidence based policy would be a pre-requisite for any good policy process.

In terms of gambling policy and regulatory best practice it is noted that the 1999 Report regarded State-wide caps as unlikely to have any impact on reduction of problem gambling. While a State-wide cap already existed in jurisdictions like Victoria, NSW proceeded to cap machine numbers for clubs in March 2000 and hotels in April 2001. Queensland has more recently also applied caps on clubs.

⁴⁰⁵ Productivity Commission of Australia, *Australia’s Gambling Industries 1999*, AusInfo, Canberra, 1999, Volume 2, p12.22

In relation to consumer protection, the 1999 Report examined a number of measures including information, advertising and inducements.⁴⁰⁶

It is worth noting that the 1999 Report did not recommend a ban on gaming machine advertising. However, in 2001/02 NSW legislated to ban all external gaming machine advertising and signage, and has more recently strengthened provisions regarding visibility of gaming machines and other gaming equipment from outside a venue.

A blanket ban on external advertising was not initially part of legislation in Victoria and Queensland, although it is understood that Victoria has recently strengthened its legislation in this area.

Whether or not the introduction of responsible gambling legislation in the various jurisdictions can be described as ‘reflecting regulatory best practice’ is questionable, and the answer is probably of most interest to academics involved in the study of regulatory policy. ClubsAustralia believes that in numerous instances the measures introduced would certainly not qualify as being ‘evidence based’ in a genuine scientific sense.

However, perhaps the climate of urgency which in our view underpinned a ‘race’ by various State Governments to introduce problem gambling legislation was at least in part formed by the 1999 Report, which appears to have created a climate where the potential harm from gambling was regarded as sufficiently great that it justified immediate introduction of legislative measures.

Case study: NSW

An example of the negative perception of gambling and urgency for legislative action can be seen in the case of New South Wales.

In April 2000 the Government acted quickly to introduce what is believed to be the first legislation dealing specifically with problem gambling. This legislation addressed matters including inducements to gamble, cheque cashing restrictions, prize payment by cheque and signage. This was later followed by legislation in 2001/02⁴⁰⁷ that introduced further measures including machine shutdowns and a prohibition on external advertising. Clubs argued against many of the measures, claiming that they were not evidence based.

In relation to new problem gambling related legislation, a period of relative stability followed and in 2003 IPART was commissioned to conduct a review into gambling harm minimisation measures. IPART published its report ‘Gambling: Promoting a Culture of Responsibility’ in 2004.

Examples of gambling harm minimisation measures that were reviewed by IPART included:

- Compulsory gaming machine shutdown – 24 hour trading
- Periodic shutdown of individual gaming machines
- Periodic information messages
- Restrictions on alcohol consumption and service
- Self-exclusion schemes
- Requirements to display certain signage and general advertisements highlighting problem gambling
- Clocks in gaming areas

⁴⁰⁶ Ibid, Volume 2, Chapter 16

⁴⁰⁷ New South Wales Government, *Gaming Machines Act 2001* and *Gaming Machines Regulations 2002*

- Information brochures
- Information on betting tickets
- Role of community services, including gambling counselling services
- Compulsory display of payout ratios and probability of winning specific prizes, credit, bet and wins in monetary values and player information displays
- Player session information and player activity statements
- Cheques
- Large payout by cheque
- Cheque cashing
- Prohibition on credit gambling
- Limits on ATMs in close proximity to a gambling venue
- Restrictions on note acceptors, slowing of reel spin speeds, reduction of maximum bet.
- Cashless (card based systems) and pre-commitment mechanisms
- Reduction of maximum permissible win
- Training
- Other changes to influence rate of play and rate of loss.
- Large payouts and forced payouts
- Requirement for human intervention in 'large' payouts
- Forced payout by cheque when 'large' amounts of credit are accumulated and then payment only by cheque
- Controls on advertising
- Controls over player reward schemes
- Promotions and gambling inducements
- Controls on gaming machine artwork
- Elimination of 'double-up' and other gamble features
- Removal of visual and sound stimuli and 'win' celebration

The methodology utilised by IPART was to consider input from various stakeholders, review where possible any appropriate research and make a recommendation.

The positioning of the IPART review in the gambling policy timeline is a good illustration of how regulatory policy following the 1999 Report evolved in practice. That is, the 1999 Report was followed by a period of intense regulatory policy development followed by a review of the regulatory policy.

Clubs requested that given the extent of legislation already enacted, the introduction of further measures directed at the operational environment and at gaming machines themselves not be progressed until proper evidence based research, accompanied by a thorough impact assessment which examines both positive and negative social as well as economic impacts, is undertaken.

In ClubsAustralia's view a climate of urgency and precipitous action was and continues to be fuelled by substantial negative media coverage of gambling. For example, Victoria has announced further legislative measures dealing with pre-commitment and a prohibition on ATMs in gaming venues before sufficient reliable evidence is available as to the efficacy and cost/benefit of implementing such a regulatory policy.

ClubsAustralia believes that relative to the environment in the late 1990s, a stage in the evolution of land-based gaming has been reached where further legislative restriction that is not supported by proper evidence and cost/benefit analysis will simply serve to divert gamblers to other readily accessible forms of gambling, such as the Internet, with no benefit to communities and greater risk to the gambler.

8.6 INCONSISTENCIES IN HARM MINIMISATION MEASURES

PC: Are there inconsistencies in harm minimisation measures across jurisdictions, as well as across the different forms of gambling? What problems or distortions do any inconsistencies cause?

In addition to the inconsistencies between jurisdictions and gambling modes discussed throughout the submission, there are cross-border issues to consider.

In areas along State and Territory borders – especially heavily populated regions such as Tweed/Gold Coast on the NSW/Qld border, the Murray NSW/Vic region, and Queanbeyan/ACT, measures that affect the consumer experience of gaming – especially shutdowns, changes to machine function and disparities in smoking legislation – have led to distortions in player behaviour and sudden dramatic drops in revenue, causing immense uncertainty and loss of financial stability for the clubs involved. In some instances the effects are short lived but in others, such as the introduction of smoking bans at different times in different jurisdictions, the recovery time has been longer. Although some of these cases will be unavoidable as long as there is a Federal system of Government in Australia, it underlines the importance of extensive consultation and reasonable lead times when introducing any regulatory change, to enable venue preparation as well as public education to minimise ‘teething troubles’.

8.7 IMPACT OF SMOKING RESTRICTIONS

PC: What impact has smoking restrictions had on expenditure by gamblers? To what extent is the impact temporary? Are gambling venues able to legally reconfigure their premises to accommodate smokers?

Indoor smoking bans in gaming venues have been introduced in all States and Territories, with the exception of the Northern Territory where a total ban will commence in early 2010.

The bans were introduced at different times and Figure 8.1 shows the various times that the total bans were introduced.

Figure 8.1: Indoor smoking ban – commencement dates

| State or Territory | Date | Comment |
|--------------------|----------------|--|
| Victoria | September 2002 | Smoking initially banned at gaming machines, with total indoor ban from 1 July 2007 |
| Tasmania | January 2006 | |
| Queensland | July 2006 | Phased introduction commencing with smoking at gaming machines and increasingly restricted over a period of 18 months. |
| Western Australia | July 2006 | |
| ACT | December 2006 | |
| New South Wales | July 2007 | Phased introduction based on total area |

| | |
|--------------------|---------------|
| South Australia | November 2007 |
| Northern Territory | Start 2010 |

8.7.1 Bans led to universal drop in revenue

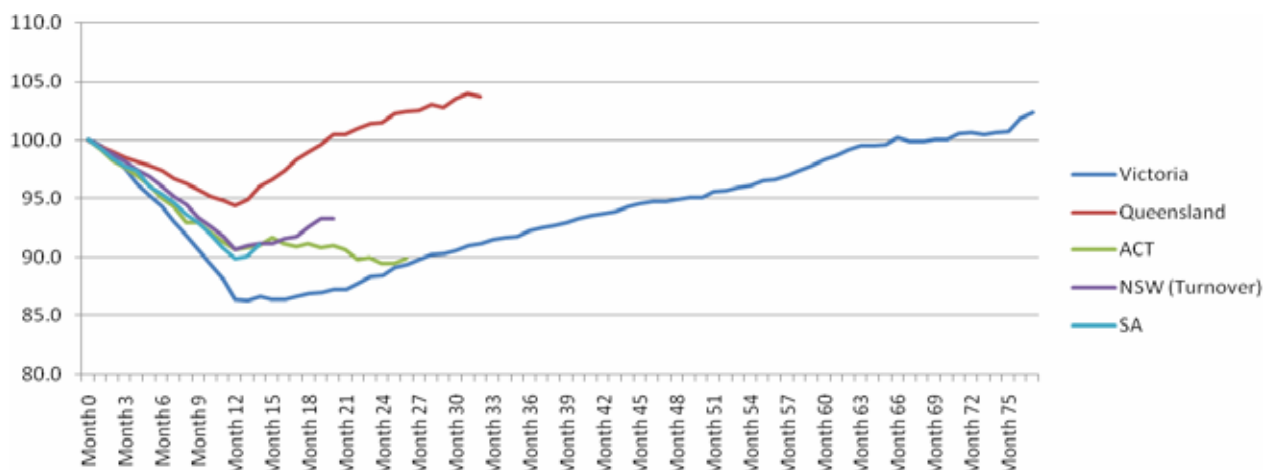
Revenue in all jurisdictions dropped with the introduction of the ban. Figure 8.2 compares the rolling annual revenue for the month before the ban ('month 0') with months following the ban. For purposes of comparison, all revenue is relative to the annual revenue (turnover in the case of NSW) achieved the last month before the ban which is given a nominal value of 100.

Victoria and Queensland were the first States to introduce smoking bans, and revenue dropped significantly. In the case of Victoria the drop was nearly 14 per cent after the first 12 months. It took over 5 years for annual revenue to reach the pre ban levels. In the case of Queensland the decrease was less dramatic, around 6 per cent, with a recovery taking place in about 18 months.

New South Wales, the Australian Capital Territory and South Australia are yet to recover and will have recovery times that are likely to resemble that of Victoria and possibly longer depending on factors such as prevailing economic conditions. Further detail on each jurisdiction's experience is provided below.

In summary, other things being equal, there is evidence that a recovery phase takes place; however, the impact on gaming revenue has severe consequences for venues and in cases such as Victoria appears to have dramatic consequences for post ban growth rates. Prior to the imposition of smoking bans the annual gaming machine revenue growth rate in clubs and hotels was around 8 per cent. Following the ban the average growth rate has dropped to around 3.3 per cent.

Figure 8.2: Impact of smoking bans on gaming machine revenue (clubs and hotels, 6 year trend) (% of maximum)



Annual Revenue (Turnover) for the year ending month before ban, i.e. Month 0, is assumed to be 100.

Month 1: Vic – Sep 02, ACT – Dec 06, Qld – Jul 06, NSW – Jul 07, SA – Nov 07.

(a) New South Wales

Clubs in NSW suffered average drops in revenue of nearly 10 per cent following the introduction of complete smoking bans in July 2007. A study conducted by The Allen Consulting Group⁴⁰⁸ found that bans will impact on clubs' revenue for some time, by discouraging smokers from attending or otherwise requiring them to smoke outdoors. These requirements make a club less attractive for smokers to attend.

NSW Treasury forecast a 5.6 per cent fall in tax revenue for the 2007/08 year,⁴⁰⁹ (coinciding with a gaming tax increase for larger clubs from 1 September 2007, two months into the ban). From July 2007 to February 2008, NSW clubs experienced a decrease in total turnover of average 7.4 per cent which has been directly linked to indoor smoking bans.

Smaller clubs, which were less likely to be able to physically build outdoor smoking areas, or had insufficient resources to modify their premises, experienced the largest reduction in gaming machine turnover. However, large clubs were not immune from the impact: for example, Twin Towns Services Club in Tweed Heads reports that gaming revenue – which makes up 60 per cent of the club's revenue – for the last 12 months had dropped about 21 per cent from the previous 12 months following the bans. Visitation numbers dropped 11 per cent. Combined with the impact of gaming machine tax increases, the club's profits dropped by 80 per cent.⁴¹⁰

ClubsNSW estimates, however, that the reduction in turnover in the first year of the ban for all NSW clubs reduced annual gaming machine revenue⁴¹¹ by approximately 11 per cent. More than three-quarters of NSW clubs experienced a decline in gaming machine revenue.

In the case of NSW the club gaming machine revenue growth in the last decade has been relatively steady and significantly lower than that experienced in Victoria prior to the ban and that experienced by NSW hotels after the introduction of gaming machines in 1997.

The introduction of the indoor smoking ban in NSW clubs also coincided with the last of a series of significant State tax increases for medium and larger clubs which took place over a 4 year period with the final increase on 1 September 2007. The tax increases resulted in the top marginal rate rising by around 87 per cent and the second and third top rates rising by 75 per cent and 56 per cent respectively. This created extremely difficult operating conditions for clubs when combined with the impact of the smoking ban. The situation was further exacerbated in late 2008 with mortgage rate increases and fuel price increases.

(b) Victoria

In Victoria, the annual gaming revenue in clubs and hotels reduced by 13.6 per cent in the first year of smoking bans (1 September 2002 to 31 August 2003). Some individual premises reported drops of 20 to 40 per cent in the initial months.

It should be noted that the changes were introduced with little warning, giving clubs little time to reconfigure their premises and educate patrons before the bans took effect. In other jurisdictions, where the restrictions were introduced with longer lead times and concerted public education campaigns, the impact was considerably less – demonstrating the importance of government working with industry and providing sufficient transition time before bringing in such significant changes.

⁴⁰⁸ The Allen Consulting Group, *Socio-Economic Impact Study of Clubs in NSW* (2007), Feb 2008, page 62

⁴⁰⁹ New South Wales Treasury, *Budget Papers 2007-08*, Table 3.5, pp. 3 -18.

⁴¹⁰ UMR Research Pty Ltd, "NSW Clubs in their Local Communities – A Case Study", commissioned by ClubsNSW, 27 February 2009, p.13

⁴¹¹ Gaming machine revenue is the difference between the bets made and prizes/wins awarded i.e turnover minus wins

Subsequent to the downturn, it took five years for Victorian clubs to recover to pre-ban levels. Annual growth is currently under three per cent, compared with pre-ban growth of over nine per cent.

Figure 8.3: Revenue decline in first year of smoking ban in clubs and hotels in Victoria

| VICTORIA | \$ MILLION |
|---|------------|
| Annual Revenue YE August 2002 (Ban 1 September 2002) | 2,611 |
| Annual Revenue YE August 2003 | 2,255 |
| Drop in Revenue | -356 |
| Growth to YE August 02 % | 9.3 |
| Growth to YE August 03 % | -13.6 |
| Notional Revenue YE August 03 @ 9.3% growth (i.e. no ban) | 2,855 |
| Notional Revenue Forgone | -600 |

Source: Victorian Commission for Gaming and Racing, www.vcgr.vic.gov.au, accessed throughout 2006/07.

(c) Queensland

In Queensland, gaming revenue fell by 5.6 per cent in the first full year of its smoking ban. Pre-ban growth was 5.8 per cent, which means an effective turnaround in revenue of over 11 per cent has been experienced.

Figure 8.4: Revenue decline in first year of club and hotel smoking ban in Queensland

| QUEENSLAND | \$ MILLION |
|---|------------|
| Annual Revenue YE June 2006 (Total ban 1 July 2006) | 1,776 |
| Annual Revenue YE June 2007 | 1,677 |
| Drop in Revenue | -99 |
| Growth to YE June 06 % | 5.8 |
| Growth to YE June 07 % | -5.6 |
| Notional Revenue YE June 07 @ 5.8% growth (i.e. no ban) | 1,879 |
| Notional Revenue Forgone | -203 |

Source: Queensland Office of Gaming and Racing (QGR), www.qogr.qld.gov.au, accessed throughout 2006/07.

(d) Australian Capital Territory

Following the introduction of smoking bans in December 2006, clubs in the ACT were hard hit with gaming revenue experiencing a substantial drop in the first twelve months after the

indoor smoking ban (a drop of 9.3 per cent or \$18.1 million). The impact of this reduction was even more keenly felt following a 17 per cent increase in gaming tax from 1 July 2007.

In the following next twelve-month period, gaming revenue has continued to fall (down 1.3 per cent; that is, a further \$2.4 million). Most recent data (as of January 2009) indicates that gross gaming revenue, at \$175.3 million, is the lowest it has been for seven years (since 2001/02).

Into the third year after the indoor smoking ban and gaming revenue has shown no sign of any sustainable improvement, with monthly gaming revenue over the past year falling in 7 of the 12 months.

Clearly the depressed general economic environment, and the uncertainty associated with any improvement, is still compounding the negative impact on people's confidence and discretionary spend in the ACT. ClubsACT believes any recovery to pre-smoking ban gaming revenue levels in the Territory is still very far off.

Gaming machine revenue dropped by \$18 million (or 9 per cent) in 2007 following the introduction of smoking bans to ACT clubs in December 2006. The impact of this reduction was even more keenly felt following a 17 per cent increase in gaming tax from 1 July 2007.

Since the smoking bans were introduced in December 2006, the following Canberra clubs have ceased as entities: Canberra Soccer Club, Western Districts Rugby Club, West Belconnen Leagues Club and Canberra RSL Club. Other clubs are experiencing serious fiscal pressures and remain on the brink. All clubs have experienced a drop in revenue and accordingly their overall outcome. For example, the Ainslie Football and Social Club, which employs 261 people, has experienced surplus reductions from \$3 million in 2005/06 to \$207,798 in 2007/08.⁴¹²

8.7.2 Clubs can reconfigure premises – but require certainty and equal access

Clubs have in many cases been able to reconfigure their premise, usually constructing purpose-designed outdoor areas to ensure that members who smoke as far as the law allows are provided with the same benefits as members who do not. This has affected their bottom line in addition to the revenue 'hit', but in the longer term should help protect their income by making the venue welcoming and accommodating to the needs of smokers.

This has, however, been extremely expensive in many cases, and their ability to adjust has been dependent on the individual club's financial health, the physical layout of the building(s), local government approval, and ensuring other factors such as noise, littering and security were accounted for.

It is important that clubs and other venues that adjust their premises in good faith – and at often great expense – are given regulatory certainty in their operations.

In relation to outdoor areas for smokers it is noted that all jurisdictions allow these, with the differences being as to what facilities can be offered. In NSW the Government allows smokers access to all facilities, including gaming, in outdoor areas. Given the history of clubs, particularly services clubs, and the accepted role that access to tobacco has played in the past and despite the protestations of the anti-smoking campaigners, it is in our view important for clubs to continue providing access to all amenities, including gaming machines for all of the members.

⁴¹² Information provided by ClubsACT.

While the NSW Government has not prohibited the provision of gaming facilities in outdoor areas, interpretation and compliance with the legal definition of an outdoor area has caused some uncertainty and recent legal challenges have highlighted the difficulties that clubs face when interpreting the legislation.⁴¹³

From ClubsAustralia's perspective it is appropriate that smokers have access to as many facilities as non-smokers. In relation to this Inquiry which is reviewing the issue of problem gambling, it should be noted that all gaming provided by clubs is subject to the same responsible provision of gambling requirements irrespective of where a gaming machine is located on the premises of a licensed club. A patron's use of one area of a club over another is a decision that is entirely at the discretion of the patron.

⁴¹³ See *Dubbo RSL Memorial Club Limited & Anor v Steppat & Ors* [2008] NSWSC 965 (19 September 2008)

8.8 ASSESSING THE EFFECTIVENESS OF HARM MINIMISATION MEASURES

TERMS OF REFERENCE:

The impact that the introduction of harm minimisation measures at gambling venues has had on the prevalence of problem gambling and on those at risk

Evaluate the effectiveness and success of these harm minimisation measures used by the State and Territory Governments

PC: Is the Commission's approach to evaluating consumer protection or harm minimisation measures still appropriate?

PC: To what extent have industry and government actions since 1999 dealt with the inadequacies in arrangements previously identified by the Commission?

PC: What have been the impacts of harm minimisation measures that have been introduced? What have been their impacts on problem gamblers and those at risk of problem gambling? Have the measures led to a reduction in the incidence and prevalence of problem gamblers and of those at risk of problem gambling? Have the measures enhanced consumer protection more generally? Have they provided gamblers with informed choice or greater control over their gambling? Do the measures adversely affect recreational gamblers? Have there been any unintended consequences arising from the measures? What other benefits and costs of the measures are there?

Since the Productivity Commission's 1999 Report, an extensive array of harm minimisation measures have been introduced by Government and industry. In its 1999 Report the Commission identified a number of areas where measures should be considered to help address concerns.⁴¹⁴ In summary, these areas were:

- Regulating access (such as caps);
- Basic consumer information;
- Advertising and promotion;
- Control of the gambling environment (for example, access to credit, staff training, lighting, clocks, serving of alcohol, access to minors);
- Control of accessibility (such as shutdown periods); and
- Control of game features (including frequency of games, enforced breaks)

The Australasian Gaming Council has compiled a summary of Responsible Gambling Policies across the various jurisdictions.⁴¹⁵ This table is attached at Appendix I.

Examination of the summary reveals that to a greater or lesser extent consideration and implementation has taken place of measures that cover all of the areas identified by the Productivity Commission.

That is, there has been a significant amount of work done by both Governments and industry to introduce policy and regulation and implement measures that are thought to be effective in addressing problem gambling.

⁴¹⁴ Productivity Commission of Australia, *Australia's Gambling Industries 1999*, AusInfo, Canberra, 1999, Volume 2, Chapter 16

⁴¹⁵ Australasian Gaming Council, "A Database on Australia's Gambling Industries 2008/9", Table 9-13, accessible at <http://www.austgamingcouncil.org.au/>

However, as outlined in sections 8.5-8.6, ClubsNSW has formed the opinion that many of the NSW measures were introduced without a sound, evidence-based platform on which decisions could be made. ClubsAustralia believes that this is likely to be the case in most jurisdictions, and the reasons for this have been suggested.

Nevertheless, as outlined in Chapter 4.2.2, ClubsAustralia believes that there is now strong evidence to suggest that the incidence of problem gambling has declined since that first measured by the Productivity Commission.

Some of the measures, particularly those that contribute to an increased level of awareness of gambling issues among gamblers and the general population, have in our view assisted in reducing the prevalence rate. However, there are also likely to be other significant factors, for example, a more mature and educated industry and gambling population than that which was present around the time the Productivity Commission undertook its first investigation into Australia's Gambling Industries – particularly the hotel gaming machine and casino industries.

ClubsAustralia is not aware of any studies which have been undertaken to assess the effectiveness of the measures already introduced and indeed it may now be impossible to do so. That is, it is likely to be extremely difficult and probably extremely difficult to isolate one particular measure and quantify its impact.

On the other hand, in a case where sound research was conducted *prior to* a proposed introduction the results proved to be highly valuable and probably unexpected by proponents of the measure.

The background to the event illustrates the importance of sound, evidence-based research when making policy decisions which have significant impacts on industry viability with questionable or unknown efficacy as a gambling harm minimisation measure.

Sample of an evidence based policy response

In November 2000, following earlier consultation on changes to NSW Technical Standards, that State's Liquor Administration Board published a document 'Provisional Determinations'. Three determinations involving slowing the speed of games (by specifying the minimum time of the spin cycle and time between spins), reconfiguration of bill acceptors to accept lower denomination bills and reduction of maximum bet to \$1 caused significant concern as their efficacy was unknown but their costs and impact on viability were potentially enormous.

The Gaming Industry Operators group (GIO), which represented manufacturers, gaming venues and operators (clubs, hotels, casinos, Tabcorp), commissioned the University of Sydney to conduct a study into some of the proposals, including the two determinations in question.

The University of Sydney Research was arguably a world first, distinguished not only by the matters being investigated, but also the recreation of a testing environment/laboratory that was as close to a real life situation as possible. Specially modified machines were constructed with the proposed design features (in all other respects the machines resembled normal gaming machines). The study was conducted in live gaming venues using the modified machines located in amongst normal unmodified machines.

Following the completion of the research the GIO wrote in its 7 February 2002 submission to the Liquor Administration Board (LAB):

It is, however, evident from the research work that the principal GIO concerns – as expressed in the GIO submission of 8th June 2001 – have been substantiated in virtually all respects by the research work. In particular, Sydney University found evidence that:

- *the proposed reconfiguration of bill acceptors to accept denominations of \$20 or less “would be of limited effectiveness in minimizing harm associated with electronic gaming machines”⁴;*
- *the proposed slowing of reel spin speeds “would not be an effective harm minimisation strategy”, would be “unlikely to reduce problems associated with electronic gaming machines” and “may result in an increase in indirect social/family harm associated with problem gambling for a small proportion of problem gamblers.”⁵*
- *the proposed reduction of maximum bet from \$10.00 to \$1.00 “potentially might, for a small number of players, reduce both the development and the severity of gambling problems”, subject to:*
 - *the significant qualification that it is not clear whether players would compensate by playing longer (which could give rise to ‘indirect’ negative consequences referred to above in connection with slowing reel spin) and*
 - *further research, so this measure ‘may’ prove to be an effective harm minimisation strategy for a very small proportion of players (7.5 per cent of the 20 per cent in the total sample who were found to be problem gamblers⁶ in terms of SOGS scores of 5 and above).*
 - *In fact, using the Productivity Commission figure of 2.1 per cent of Australian adults being problem gamblers with severe and moderate problems⁷, the Sydney University Research suggests that it is possible that the reduction of maximum bet to \$1.00 ‘may’ help only 0.16 of one percent of the adult population.*

⁴ Sydney University Report p. 9.

⁵ Sydney University Report p. 9.

⁶ Sydney University Report p. 10.

⁷ Productivity Commission Report, Volume 1, p 6.45.

In conjunction with the University of Sydney research, the Centre for International Economics (CIE) was commissioned to determine the economic impact of these measures. Based on the CIE report, the GIO submission of 7 February 2002 to the LAB noted that:

- *The costs associated with the proposed measure, on its own, are estimated by the independent CIE research work, to be likely to reduce club venue revenue in NSW by 17 per cent (that is, \$440 million¹²) and hotel venue revenue by 39 per cent (that is, \$351 million¹³).*

This would be nothing short of catastrophic for many venues and a large number would undoubtedly close as a direct result of the introduction of such a measure.

- *The reason for this impact – which amounts to a loss of \$791 million in revenue¹⁴ – is that the introduction of the measure would have a significant negative impact on recreational player satisfaction.*

GIO members believe that the vast bulk of the lost revenue would comprise gaming expenditure by recreational players.

¹² CIE Report, pp 35-36.

¹³ CIE Report, p 39.

¹⁴ CIE Report, pp 35-36 and p 39.

As a result of this research and its evidence based findings the LAB did not proceed with implementation of the three proposals.

8.9 COMORBIDITIES

PC: To what extent are comorbidities (such as depression and substance abuse) in problem gamblers and those at risk of problem gambling relevant to the effectiveness of harm minimisation measures?

ClubsAustralia believes that there is a lack of understanding of the true nature of problem gambling and its relationship to certain medical conditions. The complexity of this issue has not been recognised in the current debate over the nature of the problem and the appropriate research and policy response including treatment regimes. It is a complex issue requiring a sophisticated and comprehensive response.

Adding support that the interpretation of gambling prevalence is more sophisticated than previously assumed, is a new and substantial body of evidence that reveals most consumers incurring negative effects related to gambling consumption have other problems.

Recent research from Harvard University reveals that approximately 74 per cent of comorbid disorders were more likely to precede problem gambling.⁴¹⁶ Moreover, recent research from the University of Sydney shows that a high proportion of clients seeking treatment for gambling related issues gamble to 'self-medicate' to escape from other negative aspects in their lives.⁴¹⁷

8.9.1 Correlations between gambling and mental health

It is well known that many problem gamblers have other 'correlates' or mental health disorders.⁴¹⁸

However, it is incorrect to make any inference that gambling is an assignable cause for comorbid disorders. Moreover, as mental health disorders are far more common in our societies than even the highest estimates of gambling related problems, it is illogical to presume gambling causes mental health problems.

Rather, new research shows that most comorbidity precedes gambling, and that many people suffering from mental health problems or other stresses gamble to self medicate.

8.9.2 The 'deviant paradigm' and mental health

In terms of a social and economic assessment of gambling, the 'deviant paradigm' previously discussed suggests any harm associated with mental health is derived from problem gambling and that these 'social costs' should be attributed to gambling.

As gambling and consumer behaviour expert Dr Rohan Miller says, in a report commissioned by ClubsAustralia:

⁴¹⁶ Kessler, RC, I Hwang, R LaBrie, M Petukhova, NA Sampson, KC Winters and HJ Shaffer, "DSM-IV pathological gambling in the National Comorbidity Survey Replication," *Psychological Medicine*, 2008

⁴¹⁷ Xiuping, Li, Steven Lu and Rohan Miller, "Self-Medication versus Pure Pleasure Seeking Compulsive Consumption", *Association for Consumer Research Annual Conference*, Memphis, Tennessee, 2007

⁴¹⁸ Lesieur, Henry R and Sheila B Blume, "The South Oaks Gambling Screen (SOGS): A New Instrument for the Identification of Pathological Gamblers", *American Journal of Psychiatry*, Volume 144, Issue 9, September 1987. Lesieur and Blume developed the SOGS for use in USA psychiatric institution and they describe comorbidity and gambling on p.1184.

This cost-benefit approach is inappropriate as causality has not been proven: mental health problem levels are approximately 10 times higher than gambling prevalence estimates, thereby suggesting causal associations is inaccurate.

Indeed, there is sound evidence that mental disorders precede gambling, and that many comorbidity sufferers adopt gambling as a management strategy. In short, evidence now suggests that gambling may even be a benefit to many suffering mental health issues.

If comorbid or mental health sufferers are denied access to gaming, then they will likely substitute gaming consumption for other consumption activities, some of which manifest in physical harm to the person (for example, illegal drugs or alcohol abuse) or other social cost (such as relationship or crime issues).

In short, no apparent research has overcome the tests for causality that gambling causes mental health or comorbid problems.⁴¹⁹

1. Concomitant variation (correlation);
2. Appropriate time order of occurrence; and
3. Elimination of other possible causal factors.

Specifically, it would seem that the time order of occurrence is contrary to causality, other causal factors have not been eliminated, and the statistical tests so far applied are not robust enough to demonstrate any statistically significant correlation effects in a general population.

8.9.3 Mental health in Australia

Further analysis of comorbidity and related issues has been provided by Dr Rohan Miller:

The evidence shows mental health disorders at much higher levels than any claims of relating to the prevalence of gambling related problems. In Australia, about 18 per cent of respondents to the Australian Mental Health Survey met the DSMIV criteria for a mental disorder in the last 12 months.⁴²⁰

Australia's National Survey of Mental Health Survey, which did not investigate problem gambling, estimated that about one in four persons with an anxiety, affective or substance use disorder also had at least one other mental health disorder.⁴²¹ A recent report shows that one in every 10 GP appointments involve the management of a mental health condition (anxiety and sleep disturbance being the leading conditions), and that one in five Australians will experience mental health problem at some point in their lives.⁴²²

These levels of mental health issues are not discrete to Australia. The US Epidemiological Catchment Area Study reported that of respondents with a life time alcohol use disorder, 37 per cent had at least one other mental disorder and 22 per cent another drug disorder.⁴²³

⁴¹⁹ McDaniel, Carl and Roger Gates, *Marketing Research*, 5th Edition, 2002, p.242

⁴²⁰ Teeson, Maree and Heather Proudfoot, *Comorbid Mental Disorders and Substance Abuse Disorders: Epidemiology, Prevention and Treatment*. National Drug and Alcohol Research Centre, Australia, 2003

⁴²¹ Commonwealth Department of Health and Ageing, *National Comorbidity Project*, September 2005, available at <http://www.health.gov.au/Internet/wcms/publishing.nsf/Content/health-pubhlth-strateg-comorbidity-index.htm>

⁴²² "10m GP visits for Mental Illness" (McLean, Tara), *The Herald-Sun*, 6 August 2008 [citing claims by the Australian Institute of Health and Welfare]

⁴²³ Teeson, Maree and Heather Proudfoot, *Comorbid Mental Disorders and Substance Abuse Disorders: Epidemiology, Prevention and Treatment*. National Drug and Alcohol Research Centre, Australia, 2003, citing Regier et al, 1990

With such high levels of mental health problems, and a growing body of evidence that suggests comorbid and mental health predictors are the best predictor of gambling disorders, the failure to account or control for mental health issues in gambling prevalence research will likely lead to false conclusions that the dependent variables are in a causal relationship with the independent variable.

Claims suggesting gambling leads to mental health or other problems must be considered inaccurate until the potential of mental health issues and comorbid traits are accounted for in the research. As discussed elsewhere, claims of harm attributed to gambling (and particularly EGMs) cannot be sustained without ruling out pre-existing problems.

8.9.4 Evidence of the comorbidity confound in gambling research

As acknowledged by the Productivity Commission in 1999, a number of co-morbid disorders are suspected to be associated with problem gambling. We contend, however, that the Commission did not place sufficient emphasis on this confound in earlier work.

Gambling screens have been based on, or were formulated by, psychiatrists and or psychologists seeking to define a mental disorder. For instance, as outlined earlier, SOGS was developed for “rapid screening of alcoholic, drug dependent, and other patients (of the 334 South Oaks psychiatric hospital in New York) for pathological gambling”.⁴²⁴

It has been amply documented that many gamblers responding to a screen (e.g. SOGS 5+) have other problems.⁴²⁵

A growing body of literature strengthens affirms that comorbidity is associated with gambling. For example, a significant correlation was found between problem gamblers and tobacco use, getting drunk, illegal drug use and arrests for drugs.⁴²⁶ Studies reports drug users have a lifetime prevalence rate of problem gambling approximating 22 per cent;⁴²⁷ people with gambling related problems have significantly higher rates of alcohol and drug abuse;⁴²⁸ and that research into chemically dependent populations has revealed between 20 per cent and 30 per cent have gambling problems, and find dual-problem individuals tend to be younger than exclusively problem gamblers or substance abusers.⁴²⁹ It has also been observed that depression is a major problem for pathological gamblers and reports indicate that between

⁴²⁴ Lesieur, Henry R and Sheila B Blume, “The South Oaks Gambling Screen (SOGS): A New Instrument for the Identification of Pathological Gamblers”, *American Journal of Psychiatry*, Volume 144, Issue 9, September 1987, p.1186, comments in brackets added

⁴²⁵ Lesieur, Henry R and Sheila B Blume, “The South Oaks Gambling Screen (SOGS): A New Instrument for the Identification of Pathological Gamblers”, *American Journal of Psychiatry*, Volume 144, Issue 9, September 1987. Lesieur and Blume developed the SOGS for use in USA psychiatric institution and they describe comorbidity and gambling on p.1184.

⁴²⁶ Lesieur, Henry, John Cross, Michael Frank, Michael Welch, Carolyn M White, Garry Rubenstein, Karen Moseley and Marie Mark, “Gambling and Pathological Gambling Among University Students,” *Addictive Behaviors*, Volume 16, 1991, pp.517-527

⁴²⁷ Cunningham-Williams, Renee M, Linda B Cottler, Wilson M Compton, and Edward L Spitznagel and Arbi Ben-Abdallah, “Problem Gambling and Comorbid Psychiatric and Substance Use Disorders Among Drug Users Recruited from Drug Treatment and Community Settings,” *Journal of Gambling Studies*, Volume 16, 2000, pp.347-376

⁴²⁸ Frisch, G Ron, Media release, “Community Impact of Increased Gambling Availability on Adult Gamblers - A Four Year Follow-up”, 4 March 1999, accessed at <http://web2.uwindsor.ca/pgrg/fyear.htm> 24 September 2005

⁴²⁹ Feigelman, William, Lynn S Wallisch and Henri R Lesieur, “Problem gamblers, problem substance users, and dual problem individuals: an epidemiological study,” *American Journal of Public Health*, Volume 88, 1998, pp.467-470

24 and 40 per cent of pathological gamblers have *previously* visited mental health professionals prior to their gambling.⁴³⁰

However, those who have commissioned and undertaken research such as gambling prevalence studies have typically not taken comorbidity or other pre-existing mental health issue into account in their research design, analyses and reporting.

For example, according to the Gambling Research Panel, problem gamblers are most likely to have characteristics including:

- *Live with others who could be affected on a daily basis;*
- *Have a family history of gambling;*
- *Consume alcohol and drugs;*
- *Depressed.*⁴³¹

The following figure from the 2003 Victorian Longitudinal Community Attitudes Survey⁴³² provides a little more detail to some of the claims made in the executive summary.

Figure 8.5: Correlates of problem gambling: problem gamblers by age and gender

| Statements | Male % (n) | Female % (n) | 18–24 % (n) | 25–34 % (n) | 35–49 % (n) | 50–64 % (n) | 65+ % (n) |
|--|---------------|-----------------|----------------|----------------|----------------|----------------|--------------|
| In the last 12 months, have you gambled while under the influence of alcohol or legal or illegal drugs? | 53.7 (22) | 29.6 (8) | 50.0 (2) | 58.3 (7) | 47.8 (11) | 32.0 (8) | 40.0 (2) |
| In the last 12 months, have you been under doctor's care because of physical or emotional problems brought on by stress? | 21.4 (9) | 34.6 (9) | 0.0 (0) | 16.7 (2) | 26.1 (6) | 40.0 (10) | 20.0 (1) |
| In the last 12 months, have you felt seriously depressed? | 59.5 (25) | 57.7 (15) | 75.0 (3) | 83.3 (10) | 47.8 (11) | 60.0 (15) | 25.0 (1) |
| Have you seriously thought about or attempted suicide as a result of your gambling? | 9.8 (4) | 14.8 (4) | 0.0 (0) | 8.3 (1) | 4.3 (1) | 24.0 (6) | 0.0 (0) |
| In the last 12 months, have you wanted help for problems related to your gambling? | 51.2 (21) | 57.7 (15) | 25.0 (1) | 66.7 (8) | 65.2 (15) | 40.0 (10) | 50.0 (2) |
| Have you sought assistance from any source for other problems? (collapsed multiple responses) | 15.0 (6) | 38.5 (10) | 25.0 (1) | 33.3 (4) | 19.0 (4) | 20.0 (5) | 25.0 (1) |
| Has anyone in your immediate family ever had a gambling problem? | 41.5 (17) | 30.8 (8) | 50.0 (2) | 50.0 (2) | 50.0 (11) | 28.0 (7) | 0.0 (0) |
| In the last 12 months, if something painful happened in your life, did you have the urge to gamble? | 33.3 (14) | 57.7 (15) | 25.0 (1) | 50.0 (6) | 47.8 (11) | 44.0 (11) | 0.0 (0) |

Source: QH1, QH17, Q35-QC04. Problem gamblers. Weighted n = 68. Fine conclusions cannot be drawn from this table because of small sample sizes.

⁴³⁰ Blaszczynski, Alex, AC Wilson and Anna Frankova, "Boredom Proneness in Pathological Gambling," *Psychological Reports*, Volume 67, 1990, pp.35-42

⁴³¹ Gambling Research Panel, *2003 Victorian Longitudinal Community Attitudes Survey*, 2004, p.12

⁴³² Gambling Research Panel, *2003 Victorian Longitudinal Community Attitudes Survey*, 2004, p.115

Taking 'depressed' as an example, Figure 8.5 shows there were 40 respondents to this question from the total sample. No statistical tests were undertaken. ClubsAustralia questions how 40 respondents from an overall sample of several thousand manage to qualify within the statement "Problem gamblers are most likely to have the following characteristics".

Similarly, 25 respondents have a history of gambling, and somehow qualify in the statement that "Problem gamblers are most likely to have the following characteristics".

Serious questions need to be asked about research that makes these sorts of claims. It also follows that policy informed and formulated based on such low numbers of responses and poor quality analysis should be discarded.

The failure to account for mental health issues is a fundamental flaw in gambling prevalence studies. Even the Productivity Commission's 1999 study falls into this category.

In a clinical environment such as the ones SOGS and DSM were designed for, it would be typical for clinicians to assess clients for disorders such as alcoholism, drug abuse or mental health. Indeed, this is the exact environment the SOGS was designed for. Unfortunately, the vast majority of gambling prevalence studies are aimed at the general public, and there is likely to a small proportion of the general public who respond to gambling screens.

Researchers must be careful to distinguish between symptoms and the real problem. Failure to measure pre-existing comorbidity and mental health disorders may lead to mis-specified models suggesting relationships may exist that actually do not exist.

8.9.5 Motivations research

A substantial and growing body of literature suggests that pathological consumption may be a rational act on behalf of consumers undertaken for positive benefit.

According to leading consumer research Elizabeth Hirschman, consumers may rationally engage in what is phenomenologically experienced as an effective treatment for unhappiness.⁴³³ Jacobs⁴³⁴ and Blaszczynski and McConaghy⁴³⁵ similarly suggest that gambling can be used as a means to dissociate for or escape states of chronic depression, and therefore is rational consumer behaviour.

More recently, Li, Lu and Miller⁴³⁶ use a large dataset of 600 clinically defined problem gamblers to show the majority of consumers with problems associated with gambling are motivated by the desire to self-medicate (typically to move from a position of negative emotion related to some other issue or problem in their lives).

This research provides new insights into the potential cost-benefit analysis of gambling. This stream of research that highlights previously considered may be capturing gambling consumption that is beneficial.

⁴³³ Hirschman, Elizabeth, "The Consciousness of Addiction: Toward a General Theory of Compulsive Consumption", *Journal of Consumer Research*, Volume 19, September 1992

⁴³⁴ Jacobs, Durand F, "A General Theory of Addictions: A New Theoretical Model", *Journal of Gambling Behavior*, Volume 2, 1986, pp.15-31

⁴³⁵ Blaszczynski, Alex and N McConaghy, "Anxiety and/or Depression in the Pathogenesis of Addictive Gambling", *International Journal of the Addictions*, Volume 24 1989, pp.337-350

⁴³⁶ Xiuping, Li, Steven Lu and Rohan Miller, "Self-Medication versus Pure Pleasure Seeking Compulsive Consumption", *Association for Consumer Research Annual Conference*, Memphis, Tennessee, 2007

According to analyses in a working paper by Miller and Woodland,⁴³⁷ the best predictor of clinical visits for pathological gambling is comorbidity. The egg and chicken debate about problem gambling and comorbidity remains a topic for debate, although it has been recently suggested by some Harvard researchers that approximately 74 per cent of disorders were more likely to precede problem gambling.⁴³⁸

Qualified support for a segmented approach (in contrast to the pathological progression model) to review negative consumption can be drawn from Blaszczynski and Nower's conceptual pathways model that integrates a "complex array of biological, personality, developmental, cognitive, learning theory and ecological determinants" to interpret pathological gambling.⁴³⁹ DeSarbo and Edwards⁴⁴⁰ also present evidence of two clusters of compulsive buyers in their research, suggesting the adoption of negative consumption behaviours such as gambling is more sophisticated than a pathological progression or 'at risk' model.

8.9.6 Implications for gambling research

The Productivity Commission's 1999 study assumes a causal relationship between gambling and problems. Indeed, in this research the Commission fails to consider the issue that people with pre-existing mental disorders gamble in their item measurement.

The Commission argued that:

Because the National Gambling Survey was a survey on gambling behaviour and these questions was asked only of gamblers, it would be very surprising if someone were to answer 'yes' to this question if gambling were not actually a source of their depression (either ever or in the last 12 months).

One material problem of this position is that data was collected from a randomised survey and was not filtered out for persons with mental or behavioural disorders. Rather, given the levels of mental health problems in the community, it would be surprising if a number of people were not to answer 'yes' to depression independent of any gambling consumption.

Unfortunately the Commission asked a number of questions,⁴⁴¹ as do other researchers, assuming a causal relationship from gambling to mental health or comorbid disorder. However, such a causal relationship has not been empirically established in any published study of which we are aware. The over-simplicity of the Commission's 1999 approach resulted from a mis-specified research model predicated by a false relationship.

8.9.7 An ethical consideration over structure of questions

An ethical question follows from the structure of the mental health questions asked by the Commission, which appears to presume gambling was the cause of the depression.

⁴³⁷ Miller, Rohan and Alan Woodland, "Slot Machines and the Evolution of Problem Gambling: An Empirical Investigation of Clinically Defined Pathological Consumption Associated with Slot Machines" (*Working paper*), University of Sydney, 2008

⁴³⁸ Kessler, RC, I Hwang, R LaBrie, M Petukhova, NA Sampson, KC Winters and HJ Shaffer, "DSM-IV pathological gambling in the National Comorbidity Survey Replication," *Psychological Medicine*, 2008

⁴³⁹ Blaszczynski, Alex and Lia Nower, "A Pathways Model of Problem and Pathological Gambling," *Addiction*, Volume 97, 2002, p. 487

⁴⁴⁰ DeSarbo, S Wayne and Elizabeth A. Edwards, "Typologies of Compulsive Buying Behavior: A Constrained Clusterwise Regression Approach," *Journal of Consumer Psychology*, Volume 5, 1996, pp.231-262

⁴⁴¹ For example: Q3a. Have you ever suffered depression because of your gambling. Similar item design assuming gambling causation is asked about relationships (Q9c), employment (Q4a), suicide (Q13a) etc

It is highly likely that people with mental health issues such as depression were asked questions that placed them in an invidious position about whether gambling caused their depression (or lead to some other comorbid issue):

- Do they answer affirmative to a mental health confound even if they don't gamble;
- Do they answer affirmative to a mental health confound even if they gamble and their mental health issue(s) preceded their gambling;
- Do they answer affirmative to a mental health confound even if they gamble as a way to escape or self-medicate their other issues?

In any of these cases apply, the responses are forced to provide (on the Yes/No SOGS scale) will likely to be incorrect.

The Commission cannot rule out that the measures used to detect gambling related problems may have been misattributed and pertain to issues related to other mental illness or comorbid disorder, rather than to gambling *per se*. This undermines the value of the Commission's research into gambling and invalidates the findings and policy emanating from this research.

8.10 VALUATIONS OF HARM MINIMISATION MEASURES' EFFECTIVENESS

PC: What evaluation, research or trials relating to the effectiveness, or benefits and costs, of harm minimisation measures have been conducted and what do they show? What has been the adequacy of such evaluations against such criteria as validity, reliability, independence and transparency? How have such evaluations informed policy?

As stated earlier in this chapter, many harm minimisation measures have been introduced without trial or even, in some instances, stakeholder consultation before being announced.

One exception to this, as outlined in detail at 8.8, was the NSW research conducted by the University of Sydney and paid for by the industry into the banning of note acceptors, slowed reel spin and reduction of maximum bets.

This was one of the only comprehensive research programs conducted into measures before their introduction, and it returned compelling results.

ClubsAustralia believes this should be considered a model and that all governments should subject proposed measures to a similarly rigorous expert appraisal and testing before their introduction. This is not only because the impact of such measures on clubs' trading can be significant, but also because this is the only way to conduct an objective and scientific investigation without other factors influencing results.

8.10.1 IPART, NSW Government, 2004

IPART conducted a Review into the Effectiveness of Gambling Harm Minimisation Measures in 2004. Although the terms of reference for the review were wider reaching than only harm minimisation, they included assessment of:

- 14 specified harm minimisation measures (*including community services such as counselling services*);
- harm minimisation measures introduced in April 2001; and
- further harm minimisation measures that had been identified.

IPART was required to examine the impact of each harm minimisation measure on the general community, gamblers and problem gamblers, and to consider the direct and indirect impacts of those measures on employment, support for community projects, and recreational and social opportunities.

IPART found that the effectiveness in NSW would be improved by developing a coherent, integrated responsible gambling policy framework. This policy framework should include a more evidence-based approach to evaluating, selecting and modifying the measures implemented under that policy.

The Tribunal recommended the following approach:

- Measures should be repealed or introduced only where there is clear evidence or broad stakeholder consensus that the measure is respectively ineffective or effective in achieving its objectives.
- Measures should be refined where it is clear that the ongoing operation of the measure can be improved or the evidence or stakeholder opinion generally supports such refinements.
- Measures should be prioritised for evaluation where for existing measures, there is evidence or stakeholder consensus questioning the effectiveness of the measure or for proposed measures, there is evidence or stakeholder consensus supporting the measure.
- The government should note industry and community concerns about the operation of measures where these stakeholder concerns are clear and there is not sufficient evidence to support a recommendation for responsible gambling purposes.⁴⁴²

ClubsAustralia supports this recommendation.

8.11 NEW TECHNOLOGIES

PC: What new technologies might enhance or support harm minimisation measures? Are there examples of such technologies being used here or overseas? Are there regulatory impediments to the adoption by the gambling industries of these new technologies? What would be the cost to the industries? What privacy issues might arise? What other impacts would these technologies have? Should the adoption of particular technologies be mandated?

ClubsAustralia has addressed this question earlier in this submission, in the separate chapter on pre-commitment (Chapter 1.4).

8.12 REGULATION OF ACCESS TO GAMING MACHINES

PC: What key developments have there been since 1999 to regulating access to gaming machines in the States and Territories? Have there been any data or studies showing what impacts regulating access to gaming machines has had on problem gambling or on the broader social impacts of gambling? Are there changes in prospect that would increase or decrease access to gaming machines (for example, increasing caps or extending the location of gaming machines)? What changes should be introduced?

⁴⁴² Independent Pricing and Regulatory Tribunal of NSW, *Gambling: Promoting a Culture of Responsibility*, Final Report, June 2004, p.6

In 1999, the Productivity Commission found that overall, the evidence appeared to suggest there was a significant connection between greater access to gaming machines and a higher prevalence of problem gambling.

Based on more recent studies measured via the Canadian Problem Gambling Index (CPGI), it appears that greater access to gaming machines between States does not necessarily translate into a higher incidence of problem gambling.

IPART's 2008 Review of the Registered Clubs Industry in NSW found "a higher incidence of poker machines does not necessarily result in a significantly higher level of per capita expenditure. For example, Queensland operates with around double the number of machines per 1,000 people than Victoria (10 to 6) yet has a lower level of per capita gaming machine expenditure."⁴⁴³

The Tribunal also noted that there was no evidence "that the provision of gaming machines in clubs has led to a higher overall level of gambling or incidence of problem gambling in NSW than in other States."⁴⁴⁴

IPART also stated:

While the provision of gaming machines in NSW clubs may have an influence on where people gamble, the evidence does not show that it necessarily increases the total amount of gambling and problem gambling in the State...

*IPART considers that it may be possible that clubs provide a safer gambling environment because their mutual status encourages a stronger sense of care towards their members.*⁴⁴⁵

8.12.1 Studies conducted since 1999: The need for quality data

Having undertaken a national study in 1998/99, the Productivity Commission now intends on relying on a meta-analysis to garner a more contemporary overview of gambling in Australia.

ClubsAustralia believes that at present any meta-analysis of Australian studies will, by definition, be flawed due to the many problems besetting gambling research in Australia and overseas. As outlined herein, the problems in Australian gambling studies are profound.

Dr Miller's analysis of relevant issues follows:

Clubs (and other stakeholders including policy makers and regulators) are faced with the inaccurate measurement of problem gambling and inappropriately low levels of objective scrutiny about claims made about gambling.

According to Ladoucer et al:

the accuracy with which the prevalence of pathological gambling is estimated has important implications for both empirical research and the wider political debate,

⁴⁴³ Independent Pricing and Regulatory Tribunal of NSW, *Review of the Registered Clubs Industry in NSW*, Final Report, June 2008, p.233

⁴⁴⁴ Independent Pricing and Regulatory Tribunal of NSW, *Review of the Registered Clubs Industry in NSW*, Final Report, June 2008, p.234

⁴⁴⁵ Independent Pricing and Regulatory Tribunal of NSW, *Review of the Registered Clubs Industry in NSW*, Final Report, June 2008, p.62

*concerning the desirability of having more forms of gambling available in society.*⁴⁴⁶

It is in the interests of the broadest group of stakeholders involved in the gambling debate to improve the quality of gambling research in Australia and internationally.

In their 1999 study of gambling in Australia, the Productivity Commission joined the growing chorus acknowledging there is no real 'gold standard' in the measurement of problem gambling.⁴⁴⁷ No measures over the last decade can be considered a 'gold standard'.

A central theme of this submission is to expose many of the issues that fundamentally compromise the quality, reliability and validity of gambling research.

The majority of Australian and international gambling studies pertaining to prevalence are flawed and should be disqualified for use by the Productivity Commission in this Inquiry and the meta-analyses.

This inquiry presents the Commission with the opportunity to acknowledge the poor standards that prevail, and to make recommendations for the future.

8.12.2 Ethics and transparency are required of all

The commentary by Livingstone and Woolley that decision making by government should be "transparent in their reasoning, ethically defensible and subject to revision as reality unfolds" is noted.⁴⁴⁸

Livingstone and Woolley's view is supported by Canada's National Institutes of Health, which express the view that:

*Data should be made as widely and freely available as possible while safeguarding the privacy of participants and protecting confidential and proprietary data.*⁴⁴⁹

Data-sharing and transparency in research should become principal foundations in the evidence base in gaming research. The motivations of researchers, and government bodies who commission gambling research, who do not share data should be seriously questioned.

The Productivity Commission should make available all workings and theory pertaining to the meta-analysis – and a length of time sufficient for ClubsAustralia to investigate the Commission's methods, analysis and results.

The Productivity Commission should only utilise research in the meta-analyses and accept submissions that meet recognised ethical standards. This includes the provision of technical information necessary to assure the validity of the results and the sample sizes are sound for

⁴⁴⁶ Ladouceur, Robert, C Bouchard, N Rheamume, C Jacques, F Ferland, J Leblond and M Walker, "Is the SOGS an Accurate Measure of Pathological Gambling Among Children, Adolescents and Adults," *Journal of Gambling Studies*, Volume 16, 2000, pp.1-24, at p.2

⁴⁴⁷ This has also been noted in Shaffer, Howard J, Matthew N Hall and Joni Vander Bilt, "Estimating the Prevalence of Disordered Gambling Behavior in the United States and Canada: A Research Synthesis", *American Journal of Public Health*, Volume 89, Issue 9, September 1999, pp.1369-1376, among other studies

⁴⁴⁸ Livingstone, Charles and Richard Woolley, "Risky Business: A Few Provocations on the Regulation of Electronic Gaming Machines," *International Gambling Studies*, Volume 7, Issue 3, December 2007, pp.361-367, at p.371

⁴⁴⁹ Cited by McCready, John and Edward Adlaf, *Performance Enhancement of the Canadian Problem Gambling Index (CGPI): Report and Recommendations*, Health Horizons Consulting for Canadian Centre on Substance Abuse, 2006, p.26

high levels of confidence (for example, 99.9 per cent) and low levels of error (for example, 1 per cent), as would be expected in large sample surveys.

To ensure transparency and to guard against publication biases in gambling, the Commission should form a balanced ethics sub-committee, that includes representatives from ClubsAustralia and other industry organisations plus outside experts in market research, in the ethics body to evaluate whether research is ethically appropriate for use.

8.12.3 Confidence and statistical rigour

Additionally the Productivity Commission should reject ‘satisficing solutions’ and only use studies that meet high professional standards of research.

As observed by Dickerson, in the era following the Commission’s 1999 Report:

...the design of screens such as SOGS for use in general population studies is complex and demanding and the methodological requirements of good science have yet to be met. The NRC [National Research Council] (1999) in its review sections dealing with the psychometric requirements of prevalence studies was rightly concerned to set appropriately high standards.

*Validity also relates to sensitivity and specificity: if a net is thrown out, it must have mesh small enough to catch the cases of interest, but large enough to let escape those that do not have the attribute being sought.*⁴⁵⁰

More statistical rigour is required for gambling prevalence studies. In particular:

- The Commission should only incorporate studies that show interval estimates,⁴⁵¹ rather than only point estimates, in order to provide a more reasonable measure of the accuracy of prevalence estimators;
- The Commission should only use gambling studies that provide a point estimate along with an estimate of the margin of error (or confidence interval) in the meta-analyses;
- In addition, if the Commission is to use studies collecting data using the SOGS screen, there is sufficient evidence to support that cut-off levels of 9+ be used, along with confidence intervals as the criteria for probable problem gambling; and
- However, it is then necessary to adjust this estimate for confounding variables such as co-morbidity, and motivation to gamble (these arguments are developed elsewhere).

8.12.4 Recognising and avoiding publication bias

Flaws in gambling research and issues pertaining to ethics and research quality (some of which are discussed in this submission) are exacerbated by a pervasive publication bias in the academic and mass media coverage of gambling.

Unfortunately, this publication bias often undermines the good corporate citizenship and the social capital generated by clubs, as outlined throughout this document and particularly in Chapter 5. The social capital generated by clubs will be of fundamental importance as the impacts of the global financial crisis further take hold. It is imperative in this Inquiry that the Commission takes a holistic approach in its research and fully recognises the constructive

⁴⁵⁰ Dickerson, Mark, “Exploring the limits of ‘responsible gambling’: Harm minimisation or consumer protection?”, Proceedings of the 12th Annual Conference of the National Association for Gambling Studies, Melbourne, 2003, pp.4,47

⁴⁵¹ Interval estimates provide a measure of the degree of confidence that the true prevalence value has been captured by the interval.

benefits (including intangibles such as: social capital, health and well being, infrastructure and role-models in their report that exist only because of clubs).

8.12.5 The challenges of gambling definitions

Without first being able to accurately define an issue means it is extremely difficult to manage and empirically demonstrate constructive improvements.

When multiple and competing definitions exist, and none is regarded as appropriate, which one should be used in the management of gambling issues, or should more than one definition be used (if so, which ones and when)?

A review of the literature reveals that there is no consensus concerning the ideal methods and measures to use to assess gambling related issues in Australia. Moreover the gambling prevalence debate so far has excluded clubs, and other significant and informed stakeholders in the development of a definition for Australia.

If 'problem gambling' is the 'concept' to be investigated by the Productivity Commission in 2009, then how is it to be defined and measured?

It is widely recognised that there is no clear definition or consensus of problem gambling⁴⁵², and especially no uniform agreement of problem gambling in Australia. Indeed, a growing number of commentators argue there is insufficient theoretical and empirical development of the definition of problem gambling in Australia.

Gambling prevalence research reflects choices and assumptions.⁴⁵³ The choices pertain to decision rules such as cut-off points for prevalence screens, time periods (lifetime, 12 months, 6 months) and assumptions relating to our confidence in the validity of the measurement systems used to obtain the estimates.

One readily apparent example reflecting the influence of different methods that are based on different definitions arises from the 2003 Victorian Longitudinal Community Attitudes Survey:

Caution: Comparison of the 2003 Victorian results with the 2001 ACT and 1999 Productivity Commission surveys — which both used the SOGS5+ screen to measure problem gambling prevalence — reveals a lower rate of problem gambling in Victoria in 2003 than in either of the other studies. The survey methodology utilised in this particular study differs in a number of ways from previous Victorian community attitude surveys. Thus direct comparability is problematic. Caution is advised when comparing the results of these different surveys.

According to the Victorian's study's authors, different methodology result in different outcomes and direct comparability is problematic. If this is the case, then it presents issues for the proposed meta-analysis.

This commentary about the 2003 Victorian study presents the obvious issue that gambling screens are not accurate – otherwise, there would be no variance.

⁴⁵² Gambino, Blasé, "Interpreting Prevalence Estimates of Pathological Gambling: Implications for Policy", *Journal of Gambling Issues*, Volume 14, September 2005, p.9

⁴⁵³ Gambino, Blasé, "Interpreting Prevalence Estimates of Pathological Gambling: Implications for Policy", *Journal of Gambling Issues*, Volume 14, September 2005, p.9

The question, then, is which screen – if any – is correct for prevalence studies, and why. Moreover, if the Victorian study was not trying to correct earlier flaws (that is, problems with SOGS), then it seems strange that the methods should be changed.

The issue of the ‘accuracy’ and screen comparability in the Australian context needs investigation and explanation, in all gambling related studies, before data is deemed eligible for the Commission’s proposed meta-analyses.

8.12.6 An Australian definition of gambling problems

A different definition for gambling related problems is suggested for use in Australia than for the Canadian Problem Gambling Index:

Problem gambling is characterised by difficulties in limiting money and/or time spent on gambling which leads to adverse consequences for the gambler, others, or for the community⁴⁵⁴

In contrast, consider some analyses of the Productivity Commission’s earlier attempt to define gambling related problems using SOGS:

1. Only 65 respondents to the Commission’s 1998 survey reported *chasing their losses* (or approximately 0.61 per cent of the 10,609 sample). This suggests that limiting time and money may not be a major problem.
2. Only 141 respondents to the Commission’s 1998 survey reported *they had a problem with their gambling* (or approximately 1.3 per cent of the 10,609 sample).
3. A cross-tabulation of the Productivity Commission’s data for the above two variables shows that only 31 respondents (or approximately 0.29 per cent of the 10,609 sample) both *chase their losses* and *think they have a problem* with their gambling.
4. This provides a reality check in the assumed relationship between chasing or the need to limit money, and self-perceptions of gambling problems.

These statistics reveal that:

- A. Very low numbers (that is, low number of positive scores to SOGS questions) occur on such supposedly important construct in the definitions,
- B. The Australian definition is erroneously based on some of the lower scoring items in SOGS with a very low incidence where chasing and problems occur, and is therefore mis-specified,
- C. If the Australian definition is correct, then SOGS and the CPGI are the *completely wrong tools for Australia*.

As discussed elsewhere in the paper, with numbers of respondents so low (as a percentage of the sample), then it is unclear whether the problem exists at the level suggested.

8.12.7 The Canadian definition

It must be questioned whether the definition developed for another culture can adequately be applied to Australia. The definition underpinning the Canadian Problem Gambling Index is:

⁴⁵⁴ Neal, Paul, P Delfabbro, and M O'Neill, *Problem Gambling and Harm: Towards a National Definition*, The South Australian Centre for Economic Studies and Department of Psychology, The University of Adelaide, 2005

Problem gambling is gambling behavior that creates negative consequences for the gambler, others in his or her social network, or for the community. (Ferris et al., 1999)

If we consider the Productivity Commission's gambling data, then there are adverse implications for the relevance of the CPGI tool, developed within the Canadian definition of problem gambling, for Australia.

Not only are the above statistics relevant, but if the only time-related item in SOGS, lost time from work or study because of gambling can be reviewed. Only 36 respondents answered affirmatively to this item. However, only 10 both lost time and reported chasing losses. Only 15 respondents reported lost time and a problem with their gambling. These numbers are very low, and arguably too low to use in the development of a definition suitable for Australia.

Either arguing for the various definitions of gambling related issues associated with self perceptions of problems, loss of time and chasing losses are not supported empirically, or there are flaws with SOGS or the Commission's methods.

8.12.8 The validation gap in Australian gambling prevalence studies

The measures typically used to undertake gambling prevalence studies in Australia have origins in clinical psychology, and in North America.

However, the situational context between clients seeking treatment at counselling clinics in North America where clients receive interpersonal (face to face) communications and a telephone interview (the data collection method generally pervading Australian gambling prevalence studies) are fundamentally different.

The application of SOGS and other gambling screens specifically designed for use in clinics as prevalence screens is a fundamental misuse of these measures and unless the screen (and the entire survey) is validated, no claims should be made pertaining to "problem gambling". Simply, the scope for error and misattribution, leading to spurious relationships being claimed, is too high.

Moreover, as outlined in previous chapters there is a growing realisation that gambling screens, such as the CPGI, are culture specific, and screens developed in one culture will likely not be appropriate for another culture.

To our knowledge, only the SOGS has been tested or verified against any clinical population in Australia, and that was undertaken by a group of researchers in NSW in the 1990s.

This study found:⁴⁵⁵

In the 1995 New South Wales Study 2, the project team used a descriptive database from the Impulse Disorder Unit of the Department of Psychiatry (University of New South Wales), directed by A/Professor Alex Blaszczynski to support the method of interpreting SOGS scores in the Australian context and in later sections to develop estimates of the nature and extent of harmful impacts (e.g. Page 70 'Evaluation of the Social and Economic Impacts of Gambling Related Problems'). The SOGS scores of this 'Clinic Sample' are shown [in Figure 8.6].

⁴⁵⁵ Dickerson, Mark, C Allcock, A Blaszczynski, B Nicholls, R Williams, and R Maddern, *An Examination of the Socio-economic Effects of Gambling on Individuals, Families and the Community Including Research into the Costs of Problem Gambling in New South Wales*, report prepared for the Casino Community Benefit Fund, NSW Government, 1996, Repeat study p58

Figure 8.6: Distribution of SOGS scores for 82 pathological gamblers (14 women, 68 men)

| SOGS score | % | N |
|------------|------|----|
| 3 | 1.2 | 1 |
| 5 | 1.2 | 1 |
| 7 | 9.8 | 8 |
| 8 | 2.4 | 2 |
| 9 | 7.3 | 6 |
| 10 | 78.1 | 64 |

*These data provide support for the original preference for the cut-off of 10 points or more used in the main Australian studies completed so far. An argument can be made for lowering the cut-off to 7 as 97 per cent of the above sample would be included. The more conservative position is preferred below in the presentation of the data from the survey for New South Wales. The reasons for this are that personal communications with researchers in the USA and New Zealand confirm that scores of 10 or more are associated with an insignificant level of false positives. In other words a respondent scoring 10 or more is very unlikely **not** to be a problem gambler.*

Thus, there is substantial empirical justification for SOGS, if used in Australia, to set limits at 10+ rather than 5+. From a research perspective, this justification should remain in the absence of better tests.

It must be asked why researchers, without any contrary theoretical or empirical evidence, set SOGS cut-off levels at 5+ when they know this will result in unacceptable levels of false positives (and considerable error within the report they subsequently generate).

The following Figure, from page 60 of that same report, identified the accuracy of SOGS scores and underpinned the recommendation to use SOGS10+ rather than 5+.

Figure 8.7: The accuracy with which SOGS scores identify players at risk of significant gambling related problems

| SOGS score | Proportion at risk | % |
|------------|--------------------|-----|
| 5-6 | 1 in 5 | 20 |
| 7-9 | 1 in 2 | 50 |
| ≥10 | 1 in 1 | 100 |

The findings of this research by Dickerson et al. seem to set the standard for how SOGS should have been implemented in Australian studies. It seems many Australian studies using SOGS followed the Productivity Commission's lead; however, the Commission did not retest and revalidate SOGS against a clinical population. All researchers undertaking prevalence

studies using SOGS should have known about this guide and followed it (in the absence of better tests). This may account for the dissatisfaction with the SOGS in the Australian context and the search for more accurate measures.

Disappointingly, the VGS did not go close to matching the processes or framework methods followed by Lesieur and Blume's⁴⁵⁶ 1987 development of the SOGS or Ferris and Wynne's⁴⁵⁷ 2001 development of the CPGL.

The general omission to validate SOGS and other survey tools is profound. There is no justification for policy to be developed that has an adverse effect on a large Australian industry and the backbone of society's social capital, based on research tools that have been empirically shown to be unreliable and generate high levels of false positives at the 5+ level.

8.12.9 Quality of research

Much of the gambling research is focused on new ways to 'sensationalise' old issues and attract new funding. Thus, just as there have been few challenges to gambling's research orthodoxy, there have been few advances in our knowledge about gambling.

8.12.10 Remarks requiring empirical justification or qualifications

The Productivity Commission claimed that "all survey gambling screens are likely to underestimate problem gambling – however they may choose to define it – simply because people have a natural reluctance to reveal the facts about such matters."⁴⁵⁸

This claim has not been substantiated with any evidence. Indeed, as demonstrated elsewhere in this paper, the overwhelming consensus among gambling researchers – and verified by empirically research – is that SOGS will result in high levels of false positives when used as a prevalence screen.

Research reports reveal that it is increasingly difficult to attract respondents to complete prevalence studies. This seems to be because most people have a natural reluctance to respond to telephone surveys about gambling. Low response rates likely lead to biases that further exaggerate levels of problem gambling prevalence. Indeed, it can be observed that higher sample numbers seem to suggest lower levels of gambling prevalence scores.

Indeed, as explained later in this report, what the Productivity Commission were expecting is one form of bias called substantive management bias to dominate other possible distortions. This just is not the case, and there are many factors that combine to cause false positives, especially at the 5+ level.

Further, reporting false positives will emanate from the misuse of gambling screens in prevalence surveys and the influence of the questionnaire environment such as the use of telephone surveys.

⁴⁵⁶ Lesieur, Henry R and Sheila B Blume, "The South Oaks Gambling Screen (SOGS): A New Instrument for the Identification of Pathological Gamblers", *American Journal of Psychiatry*, Volume 144, Issue 9, September 1987, pp.1184-1188

⁴⁵⁷ Ferris, Jackie and Harold Wynne, *The Canadian Problem Gambling Index: Final Report*. Canadian Centre on Substance Abuse, 2001

⁴⁵⁸ Comment attributed to G Banks 2002 in a paper presented to the 12th Annual Conference of the National Association of Problem Gambling Studies, Melbourne, p4 and cited in the Gambling Research Panel, 2003 *Victorian Longitudinal Community Attitudes Survey*, 2004, p.14

In contrast to the evidence, unfortunately the comments pertaining to SOGS understating gambling prevalence have become a gambling folklore that is often cited. This should be corrected in the new Inquiry.

8.12.11 Flaws in Australian gambling research

Australian gambling studies typically demonstrate poor research practices and are unsuitable for evidence-based policy. Reliance on studies such as the ones reviewed below can only result in flawed outcomes and inappropriate public policy. The following case studies, demonstrate the poor quality of gambling research in Australia and are typical of most gambling prevalence studies in Australia.

Case One: Tasmania's 2008 Study

One case examines the June 2008 Social and Economic Impact Study into Gambling in Tasmania⁴⁵⁹. A number of issues have been identified in this research that suggest substantial error, including (but is not restricted to):

- Ethically tenuous claims pertaining to levels of statistical significance without revealing or discussing the analysis;⁴⁶⁰
- Misleading respondents about the length of time the responses would take (another ethical issue) thereby artificially increasing very low rates of response (that probably resulted in respondent bias);
- A lack of transparency about claims made in the study and no co-operation by the Government and researchers to verify the claims (including denying access to data);
- A very limited and poor quality review of the literature that results in the study's conceptual framework being myopic (evidence of publication bias);
- A lack of justification for the conceptualisation, development and testing for validity and reliability of the items used in the Tasmanian report (see Ferris and Wynne's 2001 development of CPGI as a contrast). This is particularly relevant as cultural differences is acknowledged to be of concern with the CPGI and it is clear that Australian and Canadian cultures are different;
- The unexplained and perceptible imbalance in the treatment of submissions (particularly the treatment of industry submissions which were often qualified, whereas submissions from social organisations appear to be accepted without any critical review);
- An assumption of causality between gaming and problems: however this was not established in the study (and no reference was made to any study that has empirically established causality between gambling and problems);
- Failure to account for pre-existing co-morbidity and mental health issues among respondents that would distort the results (this was an obvious issue with submissions made by other stakeholders);
- Unjustified assumptions leading to the inflation of costs in the economic model;
- A poorly conceptualised economic model in which many of the economic test results were not reported and a number of assumptions made in the model not explained adequately, if at all;
- Economic analysis that do not appear to be rigorous, suggesting the regression model is most likely mis-specified;

⁴⁵⁹ The Productivity Commission may contact The Gaming Technologies Association for a full copy of this report by Harvestdata.

⁴⁶⁰ According to the Australian Social and Market Research Code of Conduct: "Researchers must not knowingly allow the dissemination of conclusions from a market research project that are not adequately supported by the data. They must always be prepared to make available the technical information necessary to assess the validity of any published findings."

- Mis-specification and claims that the CPGI was used (when only 9 of the 31 items were used);
- Poor survey design, with the problem gambling items preceded by leading questions (in stark contrast to the published CPGI study) that likely resulted in negative attitudes pertaining to gambling becoming overstated and levels of problems associated with gambling being inflated (a priming effect outlined in later sections);
- The addition of questions that were irrelevant to the terms of reference;
- The likely existence of self selection bias as approximately 60 percent of those contacted for this research refused to co-operate;
- Too small a sample for meaningful policy inferences to be drawn: only 22 problem gamblers are identified by the screening tool used.

Case Two: Australian Institute for Primary Care

The other recent Australian study reviewed was from Australian Institute for Primary Care on behalf of the Independent Gaming Authority of South Australia that was undertaken by Livingstone, Woolley, Zazryn, Bakacs and Shami. In their review of this study, Nower and Blaszczynski observed that:

- The cross-sectional methodology used was insufficient to support the assumptions (including causality) of the authors; moreover, it was not possible to quantify the number or proportion of problem gamblers in a gaming venue and correlate this proportion with gaming machine features;
- The telephone survey (that presents its own limitations) used a very small sample (180 individuals) from a highly skewed cross-sectional convenience sample: that was clearly non-representative;
- Erroneous assumptions were made regarding gaming machine play;
- Issues with the assumptions of expenditure attributed to problem gamblers, and unsupported use of the 'regular' to mean fortnightly; and
- Definitional issues relating to problem gamblers.

Many of flaws identified in these two Australian studies are commonly found in other Australian studies. For example, the 2003 Victorian Longitudinal Community Attitudes Survey not only contained many of the issues described above but was debilitated by multiple and conflicting objectives⁴⁶¹ and poor project planning, which meant budgets were insufficient to generate the number of positive responses required for any meaningful (statistical) interpretation of the data.

Interestingly enough, but relevant to the Productivity Commission's intent to undertake a meta-analysis, the Gambling Research Panel notes that because different methods and measures have been used in various studies to collect prevalence data, only limited comparisons can be made with other studies:

*Comparisons with the Productivity Commission and ACT survey findings are limited because these surveys did not ask questions on many of the correlates investigated in this Victorian survey. Comparisons with the Queensland Household Gambling Survey are also limited because that survey used only the CPGI and different sampling procedures.*⁴⁶²

⁴⁶¹ For example, McMillan and Wenzel's development of the VGS.

⁴⁶² Gambling Research Panel, *2003 Victorian Longitudinal Community Attitudes Survey*, 2004, p.112

However, there are many other issues within this study that undermine the validity and reliability of the Victorian 2003 study. It is also quite interesting to have study titled 'longitudinal' when only one time period is considered.

8.12.12 Statistical test requirements

All survey data-collection is imprecise and comes with a level of error. To help overcome this, the mathematical tool known as *statistical significance* is employed to help determine whether the outcome of the data-collection may be the result of a relationship between specific factors, or due to chance.

Statistical significance is used to reject or accept what is called the *null hypothesis*. A hypothesis is an explanation that a researcher is trying to prove: perhaps that SOGS 5+ gamblers rate enjoyment for one form of gambling more than SOGS <5 gamblers. The null hypothesis holds that the different forms of gambling have no effect on differences in the data. Without statistical testing, it is incorrect to posit or infer a relationship exists between the variables, as there is a possibility that any relationship may occur merely by chance.

Gambling prevalence data-sets are generally drawn from very large samples (such as the Productivity Commission's 1999 study). As statistical significance is a probabilistic statement it is important to set stringent levels of significance for large datasets. Some top blind refereed journals limit reports of significance to 0.001, and at times only allow values of 0.0001 or greater to be reported in order to help avoid overvaluation of small effects that can only be found in large datasets.

As gambling prevalence screens indicate only very small numbers of respondents have high enough scores on screens to be declared at risk or possibly suffering a problem, then it is imperative that high levels of confidence are used in these studies. This is especially the case as policy should not be derived from loose or inaccurate research. To this end, the minimum level of statistical significance should be 99.9 per cent.

It should be a minimum condition that any data suggesting relationships exist between two variables used by the Productivity Commission in the meta-analysis must express that relationship using high levels of statistical significance (ideally at least 99.9 per cent).

It is recommended that failure to publish appropriate statistical tests should exclude studies from the meta-analysis.⁴⁶³

No details of statistical methods

It is unusual to read details of statistical testing methods or levels of statistical significance applied to gambler and non-gambler comparisons, or between respondents with SOGS5+ scores and those without a SOGS rating. Similarly, it is rare to read reports of statistical significance in any study that alleges high SOGS and behavioural variable such as expenditure and frequency of play. By not testing and reporting whether or not differences were significantly different, researchers are not explicitly monitoring whether or not a statistic has occurred by 'chance'.

As 'chance' cannot be ruled out, it is not possible to express any confidence there is any relationship between two variables.

⁴⁶³ According to the Australian Social and Market Research Society Code of Professional Behaviour, available at <http://www.mrsa.com.au/files/Code%20of%20Professional%20Behaviour%20Jan08.pdf>:

"Researchers must not knowingly allow the dissemination of conclusions from a market research project that are not adequately supported by the data. They must always be prepared to make available the technical information necessary to assess the validity of any published findings

Further comment on some of the technical considerations when compiling statistics follow:

Bonferroni adjustments

The absence of statistical reporting and statistical tests is a major omission in most prevalence studies.

A further concern is where several dependent or independent statistical tests are being performed simultaneously on the same data (for example, as in the case of ANOVA). In this situation, a Bonferroni correction should be used as a safeguard against multiple tests of statistical significance on the same data falsely giving the appearance of significance, as 1 out of every 20 hypothesis-tests is expected to be significant at the $\alpha = 0.05$ level purely due to chance. That is, a Bonferroni test can be used to avoid a high number of spurious positives that are expected to emanate.

If the analyses of gambling data progresses to be more sophisticated than presently undertaken, it will be important to use Bonferroni adjustments to manage additional false positives or error.

Self-generated validity and measurement effects

When comments are made that SOGS is likely to under-estimate problem gambling prevalence because people may be reluctant to acknowledge a problem and make themselves look bad to the interviewer,⁴⁶⁴ they are expecting a form of bias called 'substantive management bias' to dominate other possible distortions. This assumption understates the potential perils of psychometric data collection and is unsupported by theory, experts and empirical evidence.

The potential reactivity of measurement is a longstanding issue in psychology. Momentarily activated cognitions are acknowledged to have a disproportionate influence over judgements made. For researchers attempting to model relations among cognitions (for example, cognitions about gambling), the question that must be asked is whether each construct measured exists (or is it spontaneously generated) in *any form* in the absence of the researcher's query.⁴⁶⁵ If not, "the act of measurement changes the phenomenon under study, producing the thought processes predicted by the theory being tested and quite possibly influencing behaviour."⁴⁶⁶

Only some of the beliefs about objects, attitudes and intentions that are typically measured in survey research already exist in some memory storage location. Moreover, as explained by the principle of cognitive economy⁴⁶⁷, only a small subset of those responses stored will be readily accessible at the time of measurement. Indeed, it has been demonstrated⁴⁶⁸ that a researcher's request for a judgement (for example, answering a survey question) can prompt a respondent to create the construct being measured. Moreover, it is only after considerable processing that an individual can conclude measures are in conflict with their belief structure. Consistent with suggestions that gambling consumption will be overstated in

⁴⁶⁴ Comment attributed to G Banks 2002 in a paper presented to the 12th Annual Conference of the National Association of Problem Gambling Studies, Melbourne, p.4 and cited in the Gambling Research Panel, 2003 *Victorian Longitudinal Community Attitudes Survey*, 2004, p.14

Feldman, Jack and John G Lynch, "Self Generated Validity and Other Effects of Measurement on Belief, Attitude, Intention, and Behavior," *Journal of Applied Psychology*, Volume 73, Issue 3, 1988, pp.421-435

⁴⁶⁶ Ibid, p.422

⁴⁶⁷ Wyer, RS and TK Srull, "Human Cognition in its Social Context," *Psychological Review*, Volume 93, 1986, pp.322-359

⁴⁶⁸ Fazio, RH, TM Lenn and EA Effrein, "Spontaneous Attitude Formation," *Social Cognition*, Volume 2, 1984, pp.217-234

the Productivity Commission's gambling research (and other studies), Woodside and Wilson⁴⁶⁹ demonstrate that many consumers do not accurately report their purchases and there are likely to be high levels of reports of purchases that were never made.

Ladouceur et al formally address whether SOGS respondents fully understood and could respond to the SOGS questions utilising the scales provided.⁴⁷⁰ This research finds the significant existence acquiescence bias⁴⁷¹ among multiple groups responding to SOGS (implying false positives). These authors cite Couch and Keniston's 1961 definition that acquiescence bias manifests when respondents attempt to be agreeable in order to avoid the disapprobation of the interviewer, a negative self image, or both.

It is also possible that respondents in SOGS studies, and particularly the Productivity Commission's study, perceive themselves as behaving in such ways as described in the SOGS items, and they have been influenced by earlier questions. Ladouceur et al describe the possible interpretation of the SOGS item 8, "Have people criticised your gambling?" when the question is really about whether the time and money spent by a gambler has become the focus of concern by significant others. These authors then provide the example of a gambler who selects a particular horse during a race meeting only to be criticised. This person will likely respond to item 8 affirmatively. Similar arguments may be made with people who repeatedly purchase lottery tickets (and other forms of gambling) who do not win, and are therefore "criticised for their gambling" and wasting money.

Further, a number of studies have shown priming as a means of influencing judgment processes. That is, other contextual variables can activate concepts or feelings that are then carried over to a target item.⁴⁷²

Prior questions in an attitude survey can have this same priming effect. Specifically where validated survey structures do not appear as recommended (that is, in the same order as published) or are preceded by other questions, then priming may occur and this will likely result in false positives and undefined errors. For example, respondents who are asked a series of questions suggesting gambling has negative effects will be more likely to state beliefs consistent with the idea that gambling has a negative effect on society. Negative perceptions can then spread from these beliefs to related gambling beliefs, making them more accessible to subsequent retrieval efforts. The primed anti gambling beliefs may affect respondents' answers to the target gambling items⁴⁷³.

One of the justifications the Productivity Commission give in adopting a SOGS5+ score is that the R SOGS 10+ measure excludes 81.3 per cent of gambling related depression (that is, 100 – 18.7), 49.1 per cent of cases of obtaining money illegally, and 81.1 per cent of gambling related relationship breakdown. In contrast, the SOGS 5+ measure tends to capture most of these adverse outcomes. However, it now seems apparent that most comorbid disorders precede any issues with gambling and that many persons with disorders gamble to 'self-medicate'.

⁴⁶⁹ Woodside, Arch and EJ Wilson, "Respondent Inaccuracy," *Journal of Advertising Research*, September/October 2002, pp.7-18

⁴⁷⁰ Ladouceur, Robert, C Bouchard, N Rheamume, C Jacques, F Ferland, J Leblond and M Walker, "Is the SOGS and Accurate Measure of Pathological Gambling Among Children, Adolescents and Adults," *Journal of Gambling Studies*, Volume 16, 2000, pp.1-24

⁴⁷¹ Previously described by Krosnick, JA "Survey Research", *Annual Review Psychology*, 1999

⁴⁷² Wyer, R, G Bodenhausen and T Gorman, "Cognitive mediators of reactions to rape" *Journal of Personality and Social Psychology*, Volume 48, 1985, pp.324-338

⁴⁷³ Tourangeau, R, "Attitude measurement: A cognitive perspective" in H Hippler, N Schwarz and S Sudman (Eds), *Social information processing and survey methodology*, New York: Springer-Verlag, 1987, pp.149-162

‘Survey fatigue’

Survey fatigue is clearly apparent in many gambling prevalence studies. This is partially acknowledged by the Productivity Commission in their opinion that to ask the SOGS ‘M’ and ‘R’ versions would be a considerable extra burden on respondents:

*However, to have asked the SOGS in the SOGS-R version as well as in terms of a frequency scale would have imposed too big a burden on respondents and for that reason the SOGS-M was used.*⁴⁷⁴

It remains unclear why dozens of extra questions were asked extraneous to SOGS, especially when there seems very little chance to obtain “real” responses. Moreover, of fatigue and burden are issues, it is unclear why HARM items were included, as were questions about impacts from gambling, and so forth.

It is very interesting that the Productivity Commission cites:

*Indeed, as the NORC study (Gerstein et al. 1999) noted:
“We chose to use these ‘filter’ questions in the national survey after our pretesting indicated that nongamblers and very infrequent gamblers grew impatient with repeated questions about gambling-related problems (p. 19).”*

As gamblers were asked many more questions than non-gamblers, and there are so very few gamblers with problems, it could reasonably be expected that gamblers would also grow impatient with repeated questions about gambling-related problems.⁴⁷⁵ Would this not contribute to acquiescence bias (implying false positives)?

By refusing to administer the SOGS survey to non-gamblers or infrequent gamblers based on a 13-question pre-screen filter⁴⁷⁶ the Productivity Commission is deprived of the opportunity to gain comparisons between non, infrequent and gamblers that may have been insightful in demonstrating statistically significant differences existed between gambling and non or occasional gambling populations.

Moreover, it would have been a great ‘logic’ test of the application of SOGS to consider SOGS scores for non- and infrequent gamblers. More specifically, not applying the SOGS screen to non-gamblers denies the researcher the opportunity to review or compare an expected level of responses implying that non-gamblers may have gambling related problems, as ‘diagnosed’ by the survey methods used.

It would also have been interesting to administer SOGS prior to other questions in order to avoid the measurement effects associated with a large number of preceding questions.

Perhaps the biggest issue with acquiescence bias may have maximum effect is that SOGS consists of items concerned with the problems gambling may cause.⁴⁷⁷ A growing body of quality literature now reveals gambling is often partaken after a person experiences problems or distress elsewhere in life. To this end, refer to the sections of this submission dealing with motivations and comorbidity.

⁴⁷⁴ Productivity Commission of Australia, *Australia’s Gambling Industries 1999*, AusInfo, Canberra, 1999, Volume 3, F14

⁴⁷⁵ Ibid

⁴⁷⁶ Ibid

⁴⁷⁷ Ladouceur, Robert, C Bouchard, N Rheamume, C Jacques, F Ferland, J Leblond and M Walker, “Is the SOGS and Accurate Measure of Pathological Gambling Among Children, Adolescents and Adults,” *Journal of Gambling Studies*, Volume 16, 2000, pp.1-24

To conclude this section, published research presents strong empirical evidence that:

*false positives generated by SOGS in the studies reported here could have massive repercussions for prevalence estimates of pathological gambling worldwide...it would seem imperative that more attention is given to constructing screening tests where response bias is minimised by using balanced question designs and that interview procedures be constructed where the possibility of misinterpreting meaning is reduced.*⁴⁷⁸

There are lessons for the Productivity Commission to learn from a new wave of gambling research. As an independent commentator it is important the Productivity Commission be prudent with future comments relating to sample screens, methods and results, and to restrict comments to evidence. There are examples where comments made are misused⁴⁷⁹ and some comments made by the Productivity Commission are not supported by evidence.

What is really being measured in Australia?

It must be acknowledged that the Productivity Commission, or the GRP, or most gambling research does not adhere to the method claimed being used as intended. For example, the Productivity Commission reported using the SOGS in their 1998/1999 research. The published SOGS study asks 20 items. The Productivity Commission asked many more questions than 20, and the SOGS questions were not the first asked. Therefore, this battery of measures will be subject to a range of other influences that will influence and distort responses (and respondent recall of memory). These influences are detailed elsewhere in this submission and it suffices to comment here that the other questions asked will undermine the validity and accuracy of the original screen.

It is not only the Productivity Commission that has fallen into this error. As outlined herein, every investigation into gambling prevalence in Australia has made this fundamental error.

8.13 Regulation of access and impact on problem gambling

PC: What key developments have there been since 1999 to regulating access to gaming machines in the States and Territories? Have there been any data or studies showing what impacts regulating access to gaming machines has had on problem gambling or on the broader social impacts of gambling? Are there changes in prospect that would increase or decrease access to gaming machines (for example, increasing caps or extending the location of gaming machines)? What changes should be introduced?

ClubsAustralia believes there is no evidence supporting the concept of a nexus between access to gaming machines and problem gambling rates. Indeed, as outlined in Chapter 4.2.2, the rate of problem gambling in Queensland has decreased at the same time as gaming machine access and expenditure have grown. The nexus has been rejected in NSW, where legislation capping gaming machine numbers in clubs at a maximum of 450 has

⁴⁷⁸ Ibid

⁴⁷⁹ For example, the Gambling Research Panel, *2003 Victorian Longitudinal Community Attitudes Survey*, 2004 (p.88) uses Mr. Banks' comments to suggest prevalence studies understate estimates of gambling related problems, when all evidence suggests that this just is not the case: "We emphasise, however, that the application of such screens in population surveys can only provide a broad tentative indication of the prevalence of gambling problems in the community. As noted by the Chairman of the Productivity Commission: 'all survey gambling screens are likely to underestimate the extent of problem gambling — however they may choose to define it — simply because people have a natural reluctance to reveal the facts about such matters'"

recently been reversed. While there is no longer a venue cap in NSW, venues must be able to justify an increase in machine numbers by showing the Local Government Area has low relative machine numbers and high socio-economic status.

However, a number of 'harm minimisation' measures proposed and already introduced seem far more geared toward minimising access to gaming machines for the entire community rather than targeting those with a problem.

In its 2008 Report on the NSW Club Industry, IPART noted:

Despite the strong contribution by gaming machines to gambling expenditure, a greater incidence of gaming machines in a State does not necessarily lead to a higher level of per-capita gaming machine expenditure... While NSW leads the country in gaming machine expenditure per capita, a higher incidence of gaming machines does not necessarily result in a significantly higher level of per-capita expenditure. Queensland operates with around double the number of machines per 1,000 people than Victoria (10 compared to six), yet has a lower level of per-capita gaming machine expenditure (\$585 compared with \$635).

...In 1999, the Productivity Commission found that, overall, the evidence appeared to suggest there was a significant connection between greater access to gaming machines and a greater prevalence of problem gambling. Based on more recent studies measured by the Canadian Problem Gambling Index (CPGI), it appears that greater access to gaming machines between States does not necessarily translate into a higher incidence of problem gambling.

...When considering only the problem gambling group, NSW has a similar incidence to Victoria and Tasmania, which both operate with less than half the incidence of gaming machines than NSW.⁴⁸⁰

As stated elsewhere in this submission, ClubsAustralia also believes that the Internet and mobile gambling are the new growth markets for problem gamblers due to their inherent appeal to at-risk personality types and circumstances, the basic lack of supervision in a home setting, and the lack of regulatory intercession into their aggressive advertising practices.

8.14 NEW GAMBLING TECHNOLOGIES

PC: What trends are likely in relation to Internet gambling and other platforms such as mobile phones and digital TV?

PC: Which community groups are affected most by Internet gambling? How does Internet gambling affect problem gamblers and those at risk of problem gambling?

PC: How might other forms of gambling, such as wagering services provided by TABs, be affected?

PC: What possible consumer and commercial benefits may be derived from new gambling platforms and what do these benefits suggest for appropriate regulatory arrangements?

PC: What have been the rationales, benefits and costs of the Interactive Gambling Act and any other regulation applying to Internet gambling?

PC: Is the regulation of Internet gambling justified?

⁴⁸⁰ Independent Pricing and Regulatory Tribunal of NSW, *Review of the Registered Clubs Industry in NSW*, Final Report, July 2008, Appendix G – "Gambling expenditure and problem gambling in Australia", pp.233, 235, 236

PC: What evidence is there of the impact of this regulation on problem gambling and those at risk of problem gambling? What other impacts of the regulation have there been?

PC: How has the Act affected other gambling forms, particularly those not reliant on the Internet to deliver services?

PC: What has been the extent of compliance with and enforcement of the Interactive Gambling Act?

PC: Is the lack of reach of the Act to offshore Internet gambling a concern?

PC: What impacts have the recent High Court Betfair decision had on the capacity of State and Territory governments to regulate Internet gambling?

PC: What changes should be introduced to the regulation of Internet gambling within Australia? What has been the experience of regulating Internet gambling overseas?

PC: What does the overseas experience reveal about the consequences of stringent or lax regulatory regimes?

PC: To what extent do the developments in new gambling platforms reflect broader global trends in e-commerce, with their parallel regulatory challenges?

ClubsAustralia has sought to answer these questions in a stand-alone paper on internet gambling. It can be found in this submission at Chapter 1.4.