



Independent Pricing and Regulatory Tribunal

Review of the Registered Clubs Industry in NSW

Final Report

Other Industries— Final Report

June 2008



Independent Pricing and Regulatory Tribunal

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Other Industries — Final Report
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Executive Summary

Registered clubs¹ provide lifestyle and community-focused goods and services to their members and the community at large. These are provided through a democratic, not-for-profit business model where gaming machine revenue typically cross-subsidises other club activities.

Social, demographic and commercial changes over the last 10 years have affected the registered clubs industry in many ways. In light of the varying ability of individual clubs to deal with these changes while remaining financially viable, the Premier of NSW asked the Independent Pricing and Regulatory Tribunal (IPART) to conduct a review of the registered clubs industry in NSW.

The terms of reference for the review are very supportive of the clubs industry. The opening statements outline the NSW Government's intention to facilitate a sustainable industry and also acknowledge the valuable social and economic contribution made by registered clubs to the state's social infrastructure and services.

IPART notes that clubs do attract some favourable treatment from the NSW Government (for example, lower rates of taxation on gaming machine profits² compared to hotels and higher numbers of gaming machines permitted per venue). In addition, clubs can impose costs on communities, for example through the harm that gambling within these clubs can cause. The case for government support of the clubs industry rests principally upon the social benefits clubs provide and the assumption that these outweigh any costs they impose on their local communities.

For these reasons, IPART considered it necessary to consider both the benefits and the costs associated with the registered clubs industry in NSW. IPART considers government's role in supporting the industry should be commensurate with its assessment of the extent to which society benefits from the existence of the industry.

¹ At present, a registered club is a club which has successfully applied for registration under the *Registered Clubs Act 1976* (Registered Clubs Act). From 1 July 2008, a registered club will be defined as a holder of a club licence under the *Liquor Act 2007*. Clubs will still have to meet the requirements of the Registered Clubs Act, but registration will be replaced by licensing under the *Liquor Act 2007*.

² The *Gaming Machine Tax Act 2001* defines 'gaming machine profits' as the excess of revenue from machines over outgoings from machines. It should be noted that ClubsNSW, individual clubs and standard accounting practice is to use the term 'gaming machine revenue' when referring to the excess of revenue from machines over outgoings from machines. For consistency, the term 'gaming machine revenue' is applied throughout this report, although it should be noted that IPART's issues paper generally used 'gaming machine profits'.

IPART examined the types of social contribution that clubs make, and clubs' contribution to employment and economic opportunities. However, other businesses also provide similar services: the hospitality industry provides bar and food services, private golf clubs provide golf courses, councils provide swimming pools, sporting grounds and meeting facilities and of course other industries contribute to employment and economic opportunities. Therefore, as a means of assessing the difference that clubs make to social well-being in NSW, IPART compared the provision of sporting facilities and other community services in NSW with other states where clubs have historically been much less significant. IPART found that clubs in NSW have a small positive impact on participation rates in sports, make significant contributions to charity compared to their interstate counterparts and are utilised by many more social members than clubs in other states.

Clubs also provide considerable intangible social benefits that are impossible to quantify but should not be ignored. These include the sense of belonging that some club members feel and the greater social cohesion a community might experience as a result of having a club where people can meet and mix.

There are also social costs associated with some of the activities of clubs, chiefly from problem gambling and irresponsible consumption of alcohol. IPART reviewed studies of interstate gambling expenditure and problem gambling rates to help it assess what impact, if any, clubs have on gambling and problem gambling rates. It found that rates of problem gambling and per capita expenditure on gambling are slightly higher in NSW but still comparable with those in states where clubs do not operate gaming machines. IPART concluded that clubs do not significantly affect the total amount of gambling in NSW, but may influence the form of gambling and where it occurs.

On balance, IPART concluded that the industry's social contribution is positive. On this basis, it considers that it is appropriate that the NSW Government provide support to the industry, through the kinds of initiatives recommended by this review, to help ensure that it remains financially viable so that clubs can continue to contribute to positive social outcomes in the state.

Of course, the fortunes of individual clubs are likely to wax and wane over time. IPART does not consider it appropriate or realistic to expect that all existing clubs will survive and flourish over the coming 10 to 15 years. However, it has identified a range of steps that can be taken to enhance the clubs industry's financial viability.

Understanding clubs' social contributions

The terms of reference asked IPART to measure the value of clubs' contribution to social infrastructure (not to undertake a cost-benefit analysis of clubs' social contribution). IPART considered various methodologies and decided that a calculation based on the sum of clubs' direct cash and in-kind contributions was the most appropriate method. IPART undertook a calculation based on data from a survey conducted by the Allen Consulting Group on behalf of ClubsNSW and

estimated the value of clubs' contribution to social infrastructure in 2007 was \$811 million.³ This figure does not include the indirect or intangible contributions made by clubs which are difficult to quantify consistently and reliably. Nor does it take into account the costs associated with problem gambling or problem drinking in clubs.

One conduit for clubs' social contributions is the Community Development and Support Expenditure (CDSE) Scheme. The Scheme provides a gaming machine tax rebate of up to 1.5 per cent to clubs that make eligible community contributions in accordance with the Scheme's guidelines. In the year to August 2007, clubs received a total rebate of \$40.2 million and were recognised for making eligible contributions worth \$71.5 million.

IPART reviewed the existing and proposed statutory requirements related to the CDSE Scheme and found them to be reasonable and effective. However, there is a lack of awareness in the community about registered clubs' social contributions via the Scheme and the clarity of some parts of the Scheme guidelines could be improved. IPART recommends a range of actions to address these matters.

Improving clubs' financial viability

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.

Despite this, IPART notes that 13 per cent of clubs have no gaming machines. IPART found that these clubs operate on a quite different business model. Where they are financially viable, this is largely a result of their high use of volunteer labour and high level of member involvement. IPART considers that these clubs make an important social contribution by their very existence, and are often the custodians of significant community assets.

IPART found that the financial viability of individual registered clubs across NSW varies greatly. Some are financially strong while others are struggling, for a variety of reasons including a lack of understanding of their own financial position, demographic changes, the level of competition from other venues in their communities, and the financial management skills of their boards and managers.

³ This figure has been revised downwards from \$893 million in IPART's draft report. For further details on this revision see Chapter 4.

Based on its examination of the potential for strengthening the performance of the industry, IPART has recommended a coordinated response that requires action from individual clubs, government agencies such as the NSW Office of Liquor, Gaming and Racing and industry peak bodies such as ClubsNSW. Although approximately 10 per cent of clubs are not members of ClubsNSW, IPART considers it is the most appropriate body to implement several of this review's proposed cross-industry initiatives. ClubsNSW has previously shown that it is capable of and willing to implement such measures. For example, it helped to develop and will distribute the pre-nomination pack for members wishing to nominate for election as directors.

IPART has also recommended that a new body, the Club Viability Panel, be established to oversee, coordinate and advise on many of its recommendations for improving clubs' financial viability.

IPART's recommendations involve a strategy of providing clubs with the tools to identify when their financial performance is declining and offering assistance to clubs and their management to adapt and change. However, even with this assistance, IPART does recognise that there are some clubs for which no amount of improved financial and other management will ensure their individual survival and that these clubs may need assistance in exploring options such as amalgamation.

IPART has recommended initiatives across seven areas to improve clubs' financial viability, including:

- ▼ improving clubs' financial reporting and benchmarking their performance
- ▼ establishing a Club Viability Panel to assist clubs to identify the early signs of financial distress and to advise on potential responses
- ▼ improving clubs' corporate governance, including through training and development for their boards and managers
- ▼ helping clubs better understand the risks and benefits of diversifying their operations
- ▼ making it easier for clubs that are unlikely to be able to improve their financial viability to amalgamate
- ▼ making it easier for new clubs to be established in response to changes in demographics and interests
- ▼ removing unnecessary regulatory restrictions on clubs.

Improving clubs' financial reporting and benchmarking their performance

Detailed financial reporting, coupled with relevant analysis in a timely and ongoing manner, will assist clubs in identifying where their financial performance can improve, when their financial performance is declining, and whether they are financially viable in the long term. Once a club is able to understand and interpret its financial performance, the next step is to address any issues revealed by this analysis. Clubs may also require assistance with this step.

Therefore, IPART has recommended the adoption of a mandatory system for financial reporting and performance benchmarking for clubs with annual gaming machine revenue of less than \$5 million (approximately 90 per cent of all clubs). This system will help clubs better monitor and understand their financial performance. It includes a requirement to use a standardised reporting format for financial management accounts. This format may vary, so that clubs with annual gaming machine revenue of less than \$1 million use a simpler version than those with annual gaming machine revenue between \$1 million and \$5 million a year.

While mandatory benchmarking would apply only to clubs with gaming revenue less than \$5 million per annum, IPART has recommended that all clubs calculate and submit to the Club Viability Panel a single initial indicator of their financial viability (Earnings Before Interest, Tax, Depreciation, Amortisation, Rent and Donations (EBITDARD) as a percentage of revenue). It has also recommended that the Club Viability Panel use this indicator to identify clubs at risk of being in financial distress, and then inform those clubs of its findings and offer to help them further investigate their financial viability.

Establishing the Club Viability Panel

IPART has recommended the establishment of a Club Viability Panel, with up to seven members drawn from government, industry peak bodies, individual clubs and independent advisers, to advise the clubs industry about financial viability issues. Specifically, the Club Viability Panel would:

- ▼ assist in the process of moving most clubs to a standardised reporting format for financial management accounts
- ▼ produce and communicate industry benchmarks to the clubs industry on an annual basis
- ▼ based on examination of an initial financial viability indicator, EBITDARD as a percentage of revenue, identify clubs that are at risk of being in financial distress
- ▼ inform these clubs of its findings, and offer to provide further investigation, advice and support to assist the club to assess and if necessary improve its financial position.

Strengthening corporate governance

Stakeholders were generally satisfied with the corporate governance provisions in the *Registered Clubs Act 1976*, particularly in light of the recent amendments aimed at reducing the cost of complying with them. These provisions mainly focus on ensuring club boards and management are accountable to their members, through requiring them to disclose certain information to members.

The main area of concern related to club boards, with stakeholders indicating that corporate governance in clubs could be improved if boards operated more effectively. The key challenges to board effectiveness identified were:

- ▼ deficiencies in director skill sets
- ▼ difficulties in attracting directors
- ▼ difficulties in electing directors.

IPART has recommended several initiatives to address these challenges, including:

- ▼ compulsory core professional development training for directors (with recognition of prior learning)
- ▼ encouraging the removal of constitutional restrictions on board membership and voting eligibility or, where this does not occur, allowing directors to appoint up to three directors (provided this represents a minority of board members)
- ▼ encouraging boards to undertake performance assessments of their directors and the board as a whole
- ▼ encouraging boards to have a formal succession planning policy in place
- ▼ ClubsNSW more extensively promoting examples of effective corporate governance and providing further guidance to clubs on best practice.

In addition, IPART has recommended that ClubsNSW examine the feasibility of employing a pool of compliance officers to assist smaller clubs meet their compliance obligations under the Registered Clubs Act. These officers would be available on request to clubs with gaming machine revenue of \$1 million or less a year.

IPART has also recommended initiatives to improve the existing club-specific training available to directors and managers, such as offering accredited training for directors, offering more flexible delivery options for director training, and increasing the promotion of the training options available.

Helping clubs better understand the risks and benefits of diversifying their operations

IPART found that diversification is unproven as a means of significantly reducing clubs' reliance on gaming machine revenue, and the contribution this revenue makes to clubs' provision of facilities and services and ultimately their long term viability. The main reasons for this are:

- ▼ While not without risk, relative to other club department operations and other business segments, gaming machine operations are a simple business with defined gross returns in percentage terms (after gaming tax and return to player).
- ▼ Gaming machines can generate a much higher volume return per square metre of floor space with relatively low staffing requirements compared to other club departments or any other business segment a club might diversify into.

However, IPART also found there still may be merit in clubs adopting diversification strategies. In specific circumstances, diversification can be an effective means of expanding a club's revenue base, broadening its market appeal, and maintaining its relevance through the provision of additional services to its members and the local community. IPART has recommended that industry stakeholders provide education about the risks associated with diversification and advice on how to make an informed judgement on the relative merits of any proposed diversification strategy.

Making it easier for clubs to amalgamate

IPART found that there are some clubs for which no amount of improved financial management can ensure their individual survival. In some cases, closure of a club might be the only appropriate outcome. However, given that clubs are custodians of community assets, amalgamation with another club may present a positive alternative that is able to protect and preserve those assets and their benefits to the community.

IPART examined the current amalgamation process and found a number of barriers to effective amalgamation, including:

- ▼ the complexity of the process and the involvement of various government bodies and professionals make it quite a daunting and costly project, especially for smaller clubs with fewer resources
- ▼ cultural barriers to amalgamation, including club reluctance to consider amalgamation as an option until it may be too late to undertake one that effectively preserves the club's assets and services.

IPART has recommended the development and dissemination of information about amalgamation to clubs, both to help clubs to navigate the complexity of the process and to overcome clubs' reluctance to consider amalgamation.

Making it easier for clubs to be established

In recent times only a handful of clubs have been registered. This can be attributed to changes including:

- ▼ structural changes like demographic movements and industry maturity
- ▼ increased competition through greater leisure and entertainment choices
- ▼ legislative developments, like regulatory requirements and alternatives to club registration.

While another boom in the number of new registered clubs, such as there was during the 1950s, is unlikely to occur, this does not mean that establishment of registered clubs is not expected at all. IPART has made recommendations in three key areas to help make it easier for clubs to be set up in areas that need them, including:

- ▼ providing greater guidance to groups wishing to establish a registered club

- ▼ including an allowance for land that is suitable for the establishment of a registered club when planning new developments
- ▼ continuing to provide new clubs with access to 10 free gaming machine entitlements until alternative measures to assist them are in place.

Removing unnecessary regulatory restrictions on clubs

IPART examined four regulatory restrictions that ClubsNSW submitted create an unnecessary burden on the clubs industry: limitations on club membership size, club sign-in procedures and the 'five kilometre rule', restrictions on contract caterers serving alcohol, and the prohibition on clubs providing off-site catering. IPART concluded that:

- ▼ limitations on club membership size should be removed
- ▼ sign-in provisions and the 'five kilometre rule' should be retained, but more flexible provisions for extended temporary memberships should be introduced
- ▼ OLGR should clarify the circumstances under which contract caterers can serve alcohol on club premises
- ▼ The prohibition on clubs providing off-site catering should be removed.

Framework for a management plan

IPART has developed a framework to assist stakeholders in the industry to develop a detailed industry management plan. This framework maps out the principles, processes and issues that should be considered.

The management plan will build on the existing cooperative relationship between the registered clubs industry and the Government by formalising an agreed set of principles and actions for facilitating a sustainable clubs industry over the next 10 to 15 years. The plan is intended to provide a blueprint for a sustainable clubs industry that continues to provide substantial and effectively targeted community support, without attempting to ensure the future of every individual club in its current form.

The management plan will include a Clubs Charter, which will outline the broad obligations that apply to clubs in conducting their operations and to the Government in regulating clubs. The plan is also a means to draw together all of IPART's recommendations for action from this review in a coordinated manner.

IPART has recommended that the Club Industry Working Group be asked to prepare the management plan, in consultation with stakeholders. This body was established in 2006 to pursue a number of reform initiatives that had been under discussion between the clubs industry and the NSW Government and has representatives from both club organisations and government.

List of Recommendations

Chapter 3 Understanding the social contributions of the registered clubs industry

IPART has examined the social, employment and other economic opportunities afforded by the registered clubs industry and ways that these contributions can be enhanced. IPART recommends:

- 1 That clubs seek to increase the training opportunities they provide for people in their local area, and increase the promotion of these opportunities, especially in regional and rural locations. 64
- 2 That ClubsNSW increase awareness of the employment opportunities that clubs provide, particularly in the tertiary graduate and over age 55 segments of the labour market. This should be achieved through better targeting and improved advertising of employment opportunities in the broader labour market. 64
- 3 That the registered clubs industry continue to measure and report on the employment and other economic opportunities it provides, for example through ClubsNSW's four-yearly industry survey. To better understand these contributions, this information should be provided by club size, type and location. 64
- 4 That ClubsNSW improve industry awareness of programs targeting regional and state development, by providing information on their existence and assistance to clubs to gain access to these programs. 65

Chapter 4 Measuring and reporting on club contributions

IPART has considered various methodologies for measuring and reporting on the social contributions made by the industry. IPART recommends:

- 5 That IPART's preferred approach for the measurement of club-provided social infrastructure and services be adopted. Under this approach, the direct social contribution of clubs is calculated via the sum of cash contributions, volunteer labour and the market value of in-kind provision and maintenance of community and sporting facilities, less total revenue received for this provision. 78
- 6 That ClubsNSW assume responsibility for conducting future valuations of the clubs industry's social contributions to the NSW community on a four-yearly basis. If it chooses to use a different valuation methodology from IPART's preferred approach, ClubsNSW should be transparent and open about its methodology and results. 78

Chapter 5 Refining the Community Development and Support Expenditure (CDSE) Scheme

IPART has examined options for improving the CDSE Scheme. IPART recommends:

- 7 That local government and clubs enhance their promotion of the Community Development and Support Expenditure (CDSE) Scheme on council and club

websites, including publicising CDSE-funded projects on club websites and in annual reports.	80
8 That ClubsNSW encourage smaller clubs below the CDSE threshold to participate in a CDSE local committee process.	80
9 That the Office of Liquor, Gaming and Racing (OLGR) provide greater support for local CDSE committees through an annual conference for committees and provision of support materials on issues such as priority-setting, decision-making and conflict resolution procedures, and information to clubs on valuing in-kind contributions.	81
10 That the CDSE Scheme guidelines be amended to:	83
– advise that a market value approach should be used to value the provision of in-kind CDSE	83
– include a more comprehensive explanation of in-kind valuation.	83
11 That ClubsNSW encourage clubs to measure, record and report on their social contributions to their members and to ClubsNSW, by developing a Best Practice Guideline on reporting social contributions.	84

Chapter 6 Strengthening the financial viability of the registered clubs industry

IPART recommends:

12 That any future changes in Government policy affecting the revenue stream from gaming machines be preceded by consultation with the clubs industry to determine the likely impact of the proposed changes.	89
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Chapter 7 Improving clubs' financial reporting and performance benchmarking

IPART recommends the following to improve financial reporting and benchmarking in the registered clubs industry:

13 That a standardised reporting format or formats for financial management accounts be prescribed in the <i>Registered Clubs Regulation 1996</i> for clubs with annual gaming machine revenue of less than \$5 million and that:	112
– Clubs be granted an exemption from this requirement only if they can show that their existing reporting format for financial management accounts can produce the necessary business efficiency and financial viability measures to submit to the Club Viability Panel.	112
– The standardised format may vary, with different requirements for clubs with annual gaming machine revenue less than \$1 million and those with annual gaming machine revenue between \$1 million and \$5 million.	112
14 That the Club Viability Panel (see Recommendation 26) be asked to develop and recommend the standardised reporting format(s) to the Minister for Gaming and Racing.	112

15	Once the standardised reporting format(s) have been approved by the Minister, that:	112
	– Clubs with annual gaming machine revenue of less than \$5 million be required to submit one set of financial management accounts in their current format to the Club Viability Panel.	112
	– The Club Viability Panel undertake a high-level review of these financial management accounts to determine whether the club already complies or is exempt from the requirement to use the standardised reporting format on the grounds that its existing format can produce the necessary business efficiency and financial viability measures.	112
16	Where clubs are required to adopt the standardised reporting format, that those with annual gaming machine revenue of less than \$1 million be given two years to comply, and those with annual gaming machine revenue between \$1 million and \$5 million be given 18 months to comply.	112
17	That clubs which have difficulty complying with the requirement to adopt the standardised reporting format due to resource constraints be eligible to apply for funding via the Club Viability Panel to make the necessary changes.	112
18	That all clubs monitor the following business efficiency measures:	116
	– Gaming revenue as a percentage of total club trading revenue.	116
	– Wages as a percentage of total gaming revenue.	116
	– Net contribution as a percentage of total gaming revenue.	116
	– Revenue per gaming machine.	116
	– Departmental revenue as a percentage of total trading revenue.	116
	– Departmental gross profit as a percentage of departmental revenue.	116
	– Departmental wages as a percentage of departmental revenue.	116
	– Departmental net contribution as a percentage of total departmental revenue.	116
	– Total club wages as a percentage of total trading revenue.	116
19	That all clubs measure the following financial viability measures:	116
	– EBITDARD %.	116
	– Working capital surplus/(deficiency).	116
	– Operating cash flows/working capital deficiency.	116
	– Operating cash flows/borrowings.	116
	– Capital expenditure/operating cash flows.	116
20	That the Club Viability Panel be asked to develop and recommend to the Minister for Gaming and Racing a suite of business efficiency and financial viability measures appropriate for clubs with annual gaming machine revenue of less than \$5 million, using the measures outlined in Recommendations 18 and 19 as a starting point.	121

21	Once these measures are approved, that the Registered Clubs Regulation be amended to require:	121
	– Clubs with annual gaming machine revenue of between \$1 million and \$5 million to calculate the full suite of measures on an annual basis.	121
	– Clubs with annual gaming machine revenue of less than \$1 million to calculate only the ‘whole of business’ measures on an annual basis.	121
	– Clubs to provide data on the relevant measures to the Club Viability Panel by the date and in the format specified by the Regulation.	121
22	That the Club Viability Panel use the data provided by clubs to calculate industry-wide benchmarks for each measure, and segment these benchmarks by club size, type and location to allow clubs to compare their performance with ‘like’ clubs.	121
23	That the Registered Clubs Regulation be amended to require all clubs to calculate their EBITDARD% on an annual basis, and submit this data to the Club Viability Panel.	125
24	That the Club Viability Panel analyse this data on an annual basis, and use a threshold for EBITDARD% of 15 per cent to identify clubs at risk of being in financial distress.	125
25	That clubs which do not comply with the financial reporting and benchmarking requirements recommended for inclusion in the Registered Clubs Regulation be penalised, and that these penalties be the same as those for breaches of section 47H of the Regulation (ie, maximum penalty 50 penalty units). An offence should also be a penalty notice offence listed in Schedule 3 of the Regulation.	125

Chapter 8 Establishing a Club Viability Panel

The proposed Club Viability Panel will have a key ongoing role in strengthening the financial viability of the registered clubs industry. Specifically, IPART recommends:

26	That a Club Viability Panel (the Panel) be established to:	127
	– assist clubs in transitioning to a standardised reporting format for financial management accounts	127
	– produce and publish industry benchmarks	127
	– identify and inform clubs that are at risk of being in financial distress	127
	– assist financially distressed clubs to develop and implement strategies to become financially viable.	127
27	That the Panel be advisory (not supervisory) in nature, with a club’s board maintaining control over the future of the club.	128
28	That the Panel comprise up to seven members, drawn from ClubsNSW, other industry associations, individual clubs’ management and boards, OLGR and independent industry advisers, to provide a balanced mix of relevant skills and experience.	129

29 That ClubsNSW provide secretariat support to the Panel.	130
30 When the Panel identifies that a club is at risk of being in financial distress, that the Panel formally advise the club's board of this finding, and that the club is eligible for a more detailed, comprehensive review of its financial position to determine whether its viability is threatened and, if so, to identify the options for improving its financial position.	134
31 That a club which receives formal advice from the Panel that it is at risk of being in financial distress and is eligible for a more detailed review of its financial position be required to inform its members and the Panel if it chooses not to take up the offer of a more detailed review, and the reason for this decision, within three months of receiving the advice.	135
32 When a club accepts the Panel's offer of a more detailed, comprehensive review of its financial position, that this review be undertaken by the Panel's secretariat or an approved consultant. That the review provide the club with a detailed assessment of its financial viability and information about options to address identified weaknesses.	136
33 That a club found to be in financial distress by the detailed review should be eligible to apply for funding (administered by the Panel) up to a maximum of \$50,000 to develop and implement strategies to improve its financial position.	137
34 That the Panel periodically follow up and review the progress of a club identified as being in financial distress.	137
35 That the ClubBIZ scheme be discontinued and the funding from this program be redirected to the Panel.	138
36 That the Panel and its funding scheme should be funded initially by residual funds in the ClubBIZ Trust Fund and by further monies from unclaimed Keno prizes.	138
37 That the Panel be reviewed after three years to assess its effectiveness.	139

Chapter 9 Improving corporate governance

IPART recommends the following to improve corporate governance as well as director and management skills:

38 That directors be required to complete two core training modules (unless exempt on the basis of their prior learning) within 12 months of being elected to a club's board. The core training modules should cover understanding financial statements and directors' duties.	150
This requirement should be appropriately scaled according to club size, so that:	150
– for clubs with annual gaming machine revenue of greater than \$1 million, all directors need to complete the core training modules	150
– for clubs below this threshold, the board needs to ensure that at least two of its directors complete the core training modules.	150

39 That ClubsNSW encourage clubs to report any ongoing training undertaken by board directors in their annual reports.	150
40 That ClubsNSW encourage club boards to undertake performance assessments of individual directors and the board as a whole on an annual basis, by revising its Best Practice Guideline for Board Operations, and including a best practice recommendation.	151
41 That clubs be encouraged to remove constitutional restrictions on board membership and voting eligibility by:	153
– Not including any such restrictions in the model club constitution template to be developed by ClubsNSW (see Recommendation 61).	153
– The Government including a provision in the Registered Clubs Act that defines the core features of the various types of clubs.	153
42 That OLGR review the effectiveness of the actions outlined in Recommendation 41 in facilitating the removal of constitutional restrictions on board membership and voting eligibility three years after their implementation.	153
43 That a club’s board be permitted to appoint up to three directors if:	154
– the club has board membership or voting eligibility restrictions in its constitution, and	154
– the club’s members vote not to adopt the model constitution developed by ClubsNSW or apply the ‘core club features’ provision of the Registered Clubs Act once effective.	154
Safeguards to manage the risk of this option being abused should include:	154
– limited terms for board-appointed directors of between one and three years	154
– a requirement that members vote to ratify the appointment of a director by the board and that director’s term at the next annual general meeting	154
– a requirement that the board disclose its reasons for appointing a director in its annual report	154
– a requirement that board-appointed directors should not comprise a majority of a club’s board.	154
44 That ClubsNSW encourage club boards to prepare a formal succession policy that sets out how they intend to renew their membership over time, to achieve a balance between keeping existing expertise and bringing in new ideas and skills, by revising its Best Practice Guideline for Board Operations and including a best practice recommendation on succession planning.	155
45 That ClubsNSW encourage clubs to better utilise the opportunities created by casual board vacancies and committees to attract and train people with appropriate skills for future board positions by revising its Best Practice Guideline for Board Operations.	155

46 That ClubsNSW encourage clubs to improve their practices regarding recruitment and performance assessment of management by developing a Best Practice Guideline covering recruitment, revising its Best Practice Guideline for Remuneration of Club Executives and including a best practice recommendation on performance assessment.	157
47 That ClubsNSW encourage clubs to develop board charters that provide greater clarity about the respective roles of the board and management by developing a pro-forma board charter, revising its Best Practice Guideline on Board Operations and including a best practice recommendation on board charters.	158
48 That ClubsNSW more extensively promote examples of effective corporate governance in clubs.	158
49 That ClubsNSW continue to develop its Code of Practice and Best Practice Guidelines as new corporate governance issues arise. In particular, ClubsNSW should develop a Best Practice Guideline encouraging boards to move to three-year rolling elections.	159
50 That ClubsNSW introduce best practice recommendations into its Best Practice Guidelines, and revise its Code of Practice to require a club which does not follow a best practice recommendation to disclose its reasons in its annual report.	161
51 That ClubsNSW examine the feasibility of employing a pool of compliance officers to assist smaller clubs meet their compliance obligations under the Registered Clubs Act. These officers would be available on request to clubs with gaming machine revenue of \$1 million or less a year. ClubsNSW would be able to charge clubs a fee for using this compliance service, determined on a cost recovery basis.	162
52 That improvements be made to the existing club-specific training available to club directors and managers by ClubsNSW:	164
– offering accredited training for directors, ideally under the Australian Qualifications Framework	164
– offering more flexible delivery options for director training	164
– with other providers of club-specific training, increasing their promotion of the programs that they offer.	164

Chapter 10 Helping clubs better understand the risks and benefits of diversifying their operations

IPART recommends the following to assist registered clubs to diversify effectively:

53 That ClubsNSW develop and deliver material to assist clubs (particularly small to medium-sized clubs) in understanding and managing the benefits and risks associated with pursuing diversification, including:	173
– Providing guidance with respect to the measures usually adopted to identify and mitigate diversification risks, such as due diligence and planning procedures to objectively assess the relative merits of a particular diversification strategy.	173

- Advising clubs on the merits (and risks) associated with joint ventures with third party business operators in order to obtain management expertise and share operational and financial risks that arise from diversification. 173
- Assisting clubs to recognise and leverage their collective strengths when thinking of diversification. These include the size and loyalty of membership bases, underutilised landholdings in strategic locations and extensive geographic reach of the industry. 173

Chapter 11 Making it easier for clubs to amalgamate

IPART recommends the following to assist registered clubs with the complexity of the amalgamation process and to overcome clubs' reluctance to consider amalgamation:

- 54 That OLGR, in consultation with the industry, the Panel and the public, develop a comprehensive guide to amalgamation. It should be a comprehensive guide written in plain English that includes (but is not restricted to): 183
- information on ways to approach an amalgamation 183
 - details on the legal requirements of amalgamation, how they should be carried out and in what order 183
 - a list of the major issues to consider when amalgamating, including financial, due diligence, operational and strategic planning matters. 183
- 55 That the NSW Government write to the Commonwealth Government requesting an amendment to the *Corporations Act 2001* to allow for a simple majority vote for liquidation in the case of a registered club that has already voted to amalgamate. 185
- 56 That OLGR and the Casino, Liquor and Gambling Control Authority develop pro-formas for documents that are required to be lodged with the application for amalgamation, where appropriate. These pro-formas should be easily accessible to clubs. For example, the OLGR should develop a pro-forma MOU which clubs can access from OLGR's website and that of the peak bodies. The pro-forma MOU should include the minimum legal requirements but provide flexibility for clubs to add their particular requirements. 187
- 57 That peak bodies provide more education to club members and directors on amalgamation. This education should provide a balanced view of amalgamation, covering issues such as the pros and cons of amalgamation, the process, and alternative amalgamation models. 189
- 58 That the management and board of a club be required to inform its members, within 30 business days, after a board decision regarding a formal amalgamation offer has been made. The disclosure to members should include information on the reasons for its decision. 190
- 59 That clubs explore the use of management agreements in their approaches to seeking amalgamation. Information relating to management agreements should be included in the guide to amalgamation (see Recommendation 54). 195

- 60 That OLGR develop a pro-forma management agreement contract that clubs can access easily, to facilitate clubs seeking to enter into management agreements. The pro-forma should include information about the legal requirements to be met to ensure the agreement does not contravene the Registered Clubs Act. 195

Chapter 12 Making it easier for new clubs to be established

IPART recommends the following to make it easier for clubs to be set up in the areas that need them:

- 61 That ClubsNSW develop a model club constitution template to assist and guide clubs to draft their club constitution so that it complies with both the Registered Clubs Act and the Corporations Act. 202
- 62 That OLGR develop a comprehensive guide, in consultation with peak bodies, to assist groups seeking to establish a club. This guide should include the important facets of becoming a registered club, including the areas of: 202
- Who should become a registered club? 202
 - Preparation for the process to apply for a club licence. 202
 - Time and cost involved in becoming a registered club. 202
 - Resources and contacts for assistance and information. 202
- 63 That councils, in purchasing land for community facilities, make allowance for the establishment of a registered club. Important aspects of this recommendation are that: 204
- The land is not provided on a first come first served basis. When an organisation approaches a local council to establish a registered club on that particular piece of land, this should trigger a tender process where all local groups and clubs are invited to bid for the rights to establish a registered club on that land. 204
 - The winning tender for that piece of land would need to be determined on a merits basis, including financial viability, how well services and facilities meet demands of the community, and any potential negative impacts that may result. 204
 - The parcel of land should contain a sunset date whereby if after, say, 15 years, no group has applied for the rights to develop a registered club on that piece of land, then council should be able to develop it for other purposes. 204
- 64 That access to 10 free gaming machine entitlements for new registered clubs be maintained, until suitable alternative measures are developed and in place to assist new clubs. 206

Chapter 13 Removing unnecessary regulatory restrictions on clubs

IPART recommends:

- 65 That the Registered Clubs Act be amended to remove the provision restricting membership numbers in clubs. 208

- 66 That the Registered Clubs Act be amended to allow clubs to issue seven day temporary memberships. 209
- 67 That, in order to clarify that contract caterers in clubs are not prohibited from serving alcohol, OLGR develop and publish enforcement guidelines that clarify what measures and/or arrangements would, if implemented by a club, constitute an adequate retention of "control" by a club upon whose premises a third party caterer sells liquor, for the purposes of s17(1AA)(a)(v) of the Registered Clubs Act. Similar measures should be developed for hotels to ensure competitive neutrality. 210
- 68 That the Registered Clubs Act be amended to remove the prohibition on clubs providing off-site catering. 211

Chapter 14 A framework for a management plan

IPART recommends a framework for a management plan to support and guide a sustainable registered clubs industry for the next 10 to 15 years:

- 69 That the Club Industry Working Group develop a draft industry management plan by the end of June 2009. The Club Industry Working Group should consult widely with stakeholders in developing the plan. 217

1 Introduction

Over the last 10 years, social, demographic and commercial changes have affected the registered clubs industry in many ways. While some clubs have been able to adjust to these changes, others have struggled to maintain their financial viability and provide services that meet the demands of their members and the community. Given this variation in the ability of clubs to deal with these changes, the Premier of NSW asked the Independent Pricing and Regulatory Tribunal (IPART) to conduct a review of the registered clubs industry in NSW for the purpose of facilitating a sustainable industry in the future.

The sections below outline IPART's approach to this review, including the key elements of the terms of reference, explain the impact of two other reviews affecting registered clubs, and provide an overview of the structure of this report.

1.1 IPART's approach to this review

The terms of reference for this review indicate that its main product is to be a framework for a management plan that will support and guide a sustainable registered clubs industry for the next 10 to 15 years. As part of developing the framework, IPART was asked to make recommendations on many individual aspects of the industry, including its social contribution, financial performance measures, corporate governance, amalgamations and club establishment.

IPART considers that each aspect on which it has been requested to make recommendations falls into one of two areas:

- ▼ Examining the role of clubs in the community and better defining and recording the value of the social contribution made by the industry. This area is discussed in Chapters 3 to 5.
- ▼ Identifying threats to the financial viability of the clubs industry and developing measures to assist clubs in addressing these. This area is discussed in Chapters 6 to 13.

IPART also considers that it is important that stakeholders note four key aspects of this review. These are that:

- ▼ the terms of reference are very supportive of the industry
- ▼ the terms of reference ask IPART to consider the diversity of constituents in the industry, in particular the varying ability of clubs of different size, type and location to provide services that meet the needs of members and the community, while continuing to be financially viable
- ▼ the review's focus is on the industry as a whole
- ▼ the review is not revisiting government policy in certain areas.

The following sections discuss each of these aspects in more detail. The terms of reference for this review are provided in full in Appendix A.

1.1.1 Terms of reference are very supportive of the registered clubs industry

The opening statements of the terms of reference outline the NSW Government's intention to facilitate a sustainable industry and also acknowledge the valuable social and economic contribution registered clubs make to NSW's social infrastructure and services.

However, not all stakeholders share this positive view of the contributions made by registered clubs in NSW. A number of submissions argued that the review needed to take into account the social harm caused by problem gambling.⁴

IPART also notes that clubs do attract some favourable treatment from the Government (for example, lower rates of taxation on gaming machine revenue compared with hotels and higher numbers of gaming machines permitted per venue). The case for government support of the clubs industry rests principally upon the social benefits clubs provide, and the assumption that these benefits outweigh any costs they impose on their local communities.

For this reason, IPART considered it necessary to examine both the benefits and the costs associated with the registered clubs industry in NSW in developing recommendations that will assist the industry to flourish. IPART considers the Government's role in supporting the industry should be commensurate with its assessment of the extent to which the state benefits from the existence of the industry. This issue is explored in greater detail in Chapter 3.

⁴ Responsible Gambling Fund Trustees submission, 27 July 2007, p 3; Wesley Community Legal Service submission, 27 July 2007, p 1; Council of Social Service of NSW (NCOSS) submission, 27 July 2007, p 9; Gambling Impact Society (NSW) Inc (GIS) submissions, 21 July 2007, p 2, 31 March 2008, p 1.

1.1.2 Review's focus is on the industry as a whole

The terms of reference for this review focus on the sustainability of the clubs industry as a whole, not on that of individual clubs. Throughout the course of the review, stakeholders have generally accepted that consolidation of the industry is inevitable. IPART also notes that all industries wax and wane to some extent in response to changes in demand, demographics and competition.

Therefore, IPART considers that the purpose of the review is not to ensure the survival of every club currently in operation but to make recommendations that will assist the industry as a whole to flourish. The issue of industry consolidation is discussed in further detail in Chapters 6 and 11.

1.1.3 Terms of reference ask IPART to recognise the diversity of clubs and other constituents in the industry

The terms of reference note that the ability of individual clubs to provide services that meet the needs of members and the community, while continuing to be financially viable, differs based on location, size and many other factors.

To take into account the diversity of the industry, IPART has engaged in an extensive review, including a high degree of stakeholder consultation (see Box 1.1). As is its usual practice, IPART called for and received submissions, which it has reviewed and taken into account in making the recommendations in this report. IPART and its Secretariat have also had many discussions with stakeholders, who have provided valuable information about the registered clubs industry and the issues it is facing. IPART is grateful for the assistance provided by all who took part in this review and contributed their ideas for encouraging a sustainable registered clubs industry.

In addition to its usual practice of releasing an issues paper for comment and conducting public roundtables, IPART undertook a series of case studies of 16 clubs of varying size, type and location. The case study clubs provided information and participated in interviews on a confidential basis to assist IPART to understand the issues faced by different clubs across the state. Where information from case study clubs has been used to illustrate issues in this report, the clubs' permission has been obtained to publish that information. The case study clubs' contribution was invaluable to this review. IPART would like to thank all of them for their important involvement.

1.1.4 Review is not revisiting government policy on smoking bans, gaming machine tax rates or gambling harm minimisation

IPART has also made it clear that this review is not revisiting government policy on smoking bans in clubs, gaming machine tax rates or gambling harm minimisation. IPART considers these areas as part of the environment within which clubs and their competitors must operate. IPART also previously undertook a review of responsible gambling in 2004 and was concerned not to traverse the same territory again.⁵

Box 1.1 IPART's review process

IPART undertook this review in accordance with section 9(1)b of the *Independent Pricing and Regulatory Tribunal Act 1992* and its terms of reference.

As part of this process, IPART:

- ▼ Published an issues paper on 29 May 2007.
- ▼ Advertised the review on 29 May 2007 and invited interested parties to provide submissions detailing their responses to the issues raised in the issues paper and any other matters relevant to the review. Forty-two responses were received, of which seven were confidential in their entirety. The non-confidential submissions were published on IPART's website. A list of respondents is provided in Appendix C.
- ▼ Held roundtable discussions with invited stakeholders in Sydney, Wagga Wagga, Armidale and Dubbo in August, September and October 2007 to discuss the key issues of the review. Transcripts of the roundtables were published on IPART's website. A list of participants is provided in Appendix C.
- ▼ Undertook sixteen case studies of clubs of different type, size and location (see Appendix C for a full list of clubs). As part of this process, IPART:
 - Collected information on clubs' existing financial and management reports and information (for example, annual reports, club constitution, strategic plan, board reports and board meeting minutes).
 - Collected information on clubs' demographics, management and corporate governance, social contributions and general operations.
 - Interviewed management and/or boards of these clubs face-to-face.
- ▼ Published a draft report on 29 February 2008 and invited interested parties to provide submissions detailing their responses to the IPART's draft findings and recommendations. 17 responses were received of which 2 were confidential in their entirety. A list of respondents is provided in Appendix C.
- ▼ Held a further roundtable in Sydney in May 2008 to discuss key issues in response to IPART's draft findings and recommendations. A list of participants is provided in Appendix C.
- ▼ Held face-to-face and telephone interviews with many stakeholders.

IPART then considered all comments and contributions made by stakeholders, and each matter in the terms of reference. Appendix B lists where in this report each matter is discussed.

⁵ IPART, *Gambling: Promoting a Culture of Responsibility*, 2004.

1.2 Other reviews and impending changes to the clubs industry's regulatory environment

IPART has been conscious of two other reviews by the Office of Liquor, Gaming and Racing (OLGR) that have been happening concurrently, including:

- ▼ the five-year statutory review of the *Gaming Machines Act 2001*
- ▼ The Review of the Community Development and Support Expenditure (CDSE) Scheme Guidelines.

In addition, it was aware that changes to the regulatory environment for clubs are imminent as a result of the passage of the *Liquor Act 2007* and other associated legislation.

IPART advised stakeholders over the course of its review that where matters are properly dealt with through these other processes, it will try to avoid trespassing on others' responsibilities. The following sections outline IPART's approach to areas that could overlap with these reviews.

1.2.1 Five-year statutory review of the *Gaming Machines Act 2001*

On 7 December 2007 the Minister for Gaming and Racing tabled a report on the five-year statutory review of the *Gaming Machines Act 2001* in the NSW Parliament which recommended various changes to the Gaming Machines Act. Given that the statutory review was concurrent with IPART's review, IPART's review has generally not examined issues concerning the operation and movement of gaming machine entitlements. However, there are two areas where gaming machine entitlement issues have been raised that are relevant to the terms of reference of IPART's review:

- ▼ provisions relating to the transfer of gaming machine entitlements between premises (eg, when two clubs amalgamate)
- ▼ provisions relating to the number of entitlements available to new clubs.

Stakeholders raised both of these issues as barriers to club amalgamation and establishment.

The report on the review of the Gaming Machines Act recommends changes to both of these provisions. These changes and their implications for club amalgamation and establishment are discussed in greater detail in Chapters 11 and 12.

1.2.2 Review of the CDSE Scheme Guidelines

The CDSE Scheme is a state-wide initiative that provides a capped dollar-for-dollar tax offset to registered clubs that are liable to pay tax on gaming machine revenue, against their social contributions in line with the Scheme's requirements. In October 2007, after an extensive review and consultation process, the Minister for Gaming and Racing announced new CDSE Scheme guidelines.

Given the level of industry consultation that has occurred in developing the new guidelines⁶, IPART has focused its analysis on other areas of the CDSE Scheme. These considerations and IPART's recommendations are discussed in greater detail in Chapter 5.

1.2.3 Changes to the regulatory environment for clubs as a result of the passage of the *Liquor Act 2007* and associated legislation

IPART notes that the key provisions of the *Liquor Act 2007*, *Casino, Liquor and Gaming Control Authority Act 2007* and the *Miscellaneous Acts (Casino, Liquor and Gaming) Amendment Act 2007*, will commence on 1 July 2008, and this will change the regulatory environment for clubs.

IPART's review has taken place in the current regulatory environment, and this report reflects that. Where changes that will occur as a result of the new legislation directly affect IPART's recommendations, these have been considered and noted.

ClubsNSW also raised two specific issues in relation to issues carried over to the new liquor legislation (restrictions on contract caterers within clubs serving alcohol and the prohibition on clubs providing catering services off-premises). These are dealt with in sections 13.4 and 13.5 below respectively.

⁶ The principal changes to the guidelines were:

- ▼ A limit has been introduced on in-kind expenditure. The in-kind amounts are limited to no more than 20 per cent of the maximum rebatable amount for Category 1 and 2 combined. Clubs are able to apply for exemptions to this requirement.
- ▼ The Office of Liquor, Gaming and Racing (OLGR) now publishes an annual estimate of Category 1 CDSE funds available for each local government area in NSW where a local committee is established.
- ▼ It is now mandatory for clubs participating in the CDSE Scheme to enter into formal arrangements with recipients of CDSE funding when the amount exceeds \$10,000.

1.3 The structure of this report

This report presents and explains IPART's findings and recommendations:

- ▼ Chapter 2 presents some background information on the registered clubs industry.
- ▼ Chapters 3 to 5 examine the role of clubs in the community and ways of better defining and recording the value of the social contribution made by the industry. Specifically:
 - Chapter 3 discusses IPART's key findings on clubs' social and economic contributions, including a discussion of social costs as well as benefits of clubs
 - Chapter 4 presents IPART's methodology for estimating the size of clubs' social contributions, and a value for that contribution
 - Chapter 5 describes IPART's proposals for enhancing the CDSE Scheme.
- ▼ Chapters 6 to 13 discuss threats to the financial viability of the clubs industry and measures to assist clubs in addressing these. Specifically:
 - Chapter 6 discusses IPART's key findings on the financial viability of the clubs industry and summarises its proposals to enhance clubs' financial viability
 - Chapter 7 discusses IPART's recommendations for improving financial reporting and performance benchmarking in the clubs industry
 - Chapter 8 presents IPART's recommendations to establish a Club Viability Panel to assist clubs to enhance their financial viability
 - Chapter 9 focuses on IPART's recommendations for strengthening clubs' corporate governance
 - Chapters 10, 11 and 12 discuss IPART's recommendations for making it easier for clubs to diversify their operations, to amalgamate and to be established
 - Chapter 13 discusses IPART's recommendations for removing unnecessary regulatory restrictions on clubs.
- ▼ Chapter 14 outlines IPART's proposed framework for developing a detailed management plan for the clubs industry.

2 The registered clubs industry in NSW

The interests covered by registered clubs are broad, and the size of individual clubs ranges from those with a handful of members to others with widely diversified operations and tens of thousands of members.

IPART has found that, despite these differences, all registered clubs provide lifestyle and community-focused goods and services to their members and the community at large. These are provided through a democratic, not-for-profit business model where gaming machine revenue typically cross-subsidises other club activities. There is, however, an important role for smaller clubs that may get little or no revenue from gaming machines. These clubs typically contribute to the community by providing important facilities for their members to pursue their common social purpose.

The sections below provide a profile of the registered clubs industry in NSW by outlining:

- ▼ the historical development of the industry
- ▼ the registered clubs industry and its peak bodies
- ▼ the regulatory framework governing the industry
- ▼ some key features of registered clubs (size, location and type)
- ▼ the wide range of services offered by the industry
- ▼ why some clubs in NSW are not registered clubs.

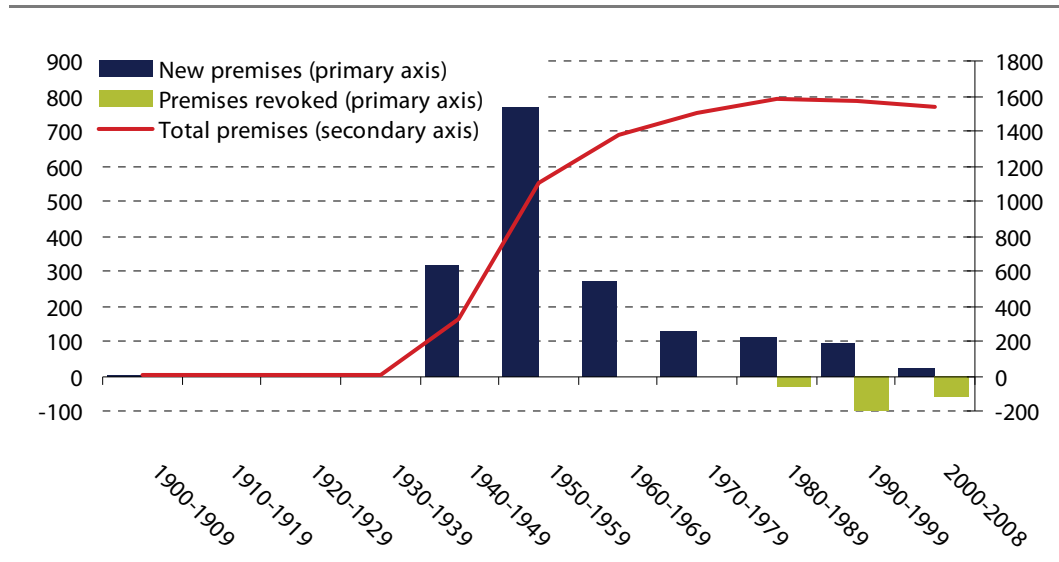
2.1 Historical development of the registered clubs industry

The origins of registered clubs can be traced back to 1905, when the *NSW Liquor Act 1905* licensed clubs for trading. The number of registered clubs was capped at 85 and as a result these groups mainly consisted of small, exclusive sporting and business clubs.

Most of the growth in the industry occurred from 1946-1956, with legislative changes reflecting an increase in demand for clubs (see Figure 2.1). In 1946, the Liquor Act was amended to allow the creation of registered clubs above the existing cap of 85. By 1950, mainly in response to the needs of returned servicemen, the number of registered clubs increased to 350. Following the results of the Royal Commission into Liquor Law in NSW, 1951-54, the Licensing Court was given the power to grant licences above the existing cap of 350 clubs, provided that applicants could convince

the Court of the need for the club and that appropriate amenities were available. By 1956, the number of registered clubs had increased to 932.

Figure 2.1 New and de-registered clubs 1900–2008



Data source: OLGR data and IPART's analysis.

Before 1956, the operation of gaming machines had occurred in some premises but it was not until May of 1956 that their operation was legalised following considerable community debate. It has been argued that clubs' not-for-profit status, membership requirements and social aims led to them being granted this privilege.⁷

Over the next 40 years, the industry experienced constant growth, with the number of club premises increasing consistently at approximately 2 per cent a year. During this time, various changes to regulation concerning liquor and gaming affected the industry. Stakeholders have identified the introduction of random breath testing and the introduction of gaming machines into hotels⁸ as two important changes during this time.

In more recent years, the number of club members has continued to grow (at approximately 3 per cent a year between 2003 and 2007)⁹ but growth in the number of clubs has stalled.

⁷ Hing, N., *Changing Fortunes: Past, Present and Future Perspectives on the Management of Problem Gambling by New South Wales Registered Clubs*, 2000.

⁸ Between 1984 and 1997, hotels in NSW were permitted to operate up to 10 "approved amusement devices" that differed from gaming machines operated by clubs in their functionality and appeal. In 1996, hotels were permitted to operate, from 1 April 1997, up to 15, and later up to 30, of the same type of gaming machines operated by clubs. It should also be noted that gaming machines include what are commonly referred to as poker machines as well as approved amusement devices.

⁹ Allen Consulting Group (ACG), *Socio-Economic Impact Study of Clubs in NSW (2007)*, 2008.

Since 1998, 105 clubs have amalgamated and 184 clubs have ceased to trade, while only 35 new club premises have been established. In 2007, there were 1,375 registered clubs operating across 1,532 premises in NSW.¹⁰

Since 2000, regulatory changes that have affected the performance of clubs include:

- ▼ The introduction of new responsible gambling measures, such as restrictions on gaming machine operating hours, caps on the number of gaming machines, and stricter requirements on applications for new entitlements as well as on transferring existing entitlements to other club premises.
- ▼ The phased introduction of smoking restrictions in enclosed public areas of hotels, registered clubs, nightclubs and most parts of the Star City Casino. All enclosed areas of these types of venue became totally smoke-free from 2 July 2007.
- ▼ The phased introduction of increased rates of tax on gaming machine revenue over the last three years. A Memorandum of Understanding is currently in place between the Government and the industry that outlines the rates of tax on gaming machine revenue until 2011/12.

2.2 The registered clubs industry and its peak bodies

The registered clubs industry in NSW includes a variety of clubs that offer different services to cater to different interest groups. The most common club categories, by interest group, are:

- ▼ Returned & Services League (RSL) and services clubs
- ▼ bowling
- ▼ golf
- ▼ leagues and football
- ▼ other sports and recreation
- ▼ community and workers
- ▼ religious and cultural
- ▼ other.

As outlined in Table 2.1, around half of the club premises in NSW are either bowling or RSL/services facilities (50 per cent). The next largest group of club premises is golf and other sport/recreation facilities (29 per cent). Club premises in the 'Others' category include those catering to less common interests, such as automobile, musician, aero and country clubs.

¹⁰ With regard to registered clubs, a distinction needs to be made between the registered club on the certificate of registration and the club premises. A registered club in NSW can operate from more than one club premise. This can be the result of amalgamating with other clubs, or simply through growth and expansion of the club's facilities over time.

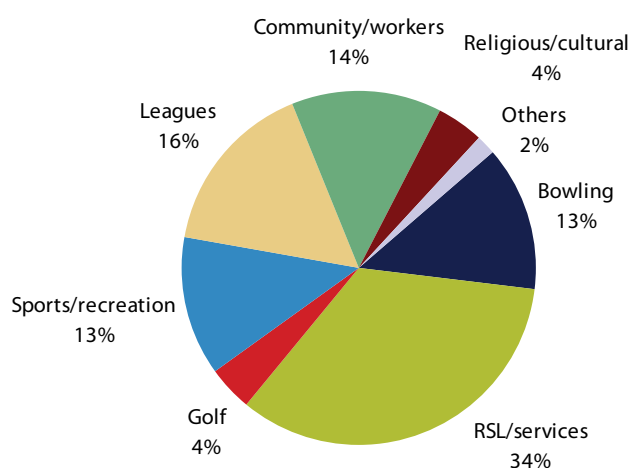
As shown in Figure 2.2, RSL/services clubs have the most members (34 per cent of all club members), followed by leagues/football clubs (16 per cent), and bowling clubs (13 per cent).

Table 2.1 NSW registered clubs by type and region (2007)

Premise type	Numbers of club premises		
	Metropolitan	Regional	Total
Bowling	274	194	468
RSL/services	175	125	300
Golf	113	128	241
Sports/recreation	137	62	199
Leagues	60	21	81
Community/workers	41	12	53
Religious/cultural	62	2	64
Others	66	60	126
Total (numbers)	928	604	1,532
Total (%)	61	39	100
Population shares (%)	78	22	100

Source: ABS publications 3218.0 Regional Population Growth 2005. Information provided by OLGR and IPART's analysis.

Figure 2.2 NSW club membership by club type



Data source: Allen Consulting Group, *Socio-Economic Impact Study of Clubs in NSW (2007)*, 2008, p 10.

2.2.1 Geographic dispersion

Registered clubs operate in all areas of NSW. However, most registered club premises (around 61 per cent) are located in metropolitan NSW (Table 2.1), where approximately 78 per cent of the NSW population lives. The difference between these proportions may indicate that clubs play a more important role in regional NSW than in the metropolitan area. It would be interesting to compare club membership levels in the different regions, but these data were not available to IPART.

A number of registered clubs in NSW operate on or close to its borders with other states and territories (in particular Victoria, Queensland and ACT). When assessing the community development and social contributions these clubs make to NSW communities, IPART recognises that surrounding communities on both sides of the border enjoy the benefits provided by these clubs.

IPART has been conscious of the geographic dispersion of the industry. This is reflected in the fact that it has held industry roundtables in Wagga Wagga, Armidale and Dubbo, as well as consulting with various clubs in both metropolitan and regional locations.

2.2.2 Size classification

While comparisons are useful when analysing an industry, comparing the performance of clubs can be problematic due to the wide variety of clubs and the differences in their areas of interest, location and demographics. A common method, used by OLGR and ClubsNSW, is to categorise clubs by the amount of revenue they earn from gaming machines.

Newly registered clubs may currently apply for up to 10 free gaming machine entitlements.¹¹ Each club decides the number of gaming machines they will install within this entitlement. A club may choose not to operate any gaming machines or may apply to the Liquor Administration Board to increase its entitlement up to a maximum of 450 machines at each of its premises.¹² About 87 per cent of club premises do operate gaming machines.

As at 31 May 2007, registered clubs in NSW operated 73,421 gaming machines.¹³ Table 2.2 shows the number of registered club premises in NSW in 2007 by the amount of their annual gaming machine revenue.

¹¹ The report on the review of the Gaming Machines Act has proposed removing this entitlement. For further information see Chapter 12.

¹² Changes to the regulatory environment governing registered clubs are scheduled to take effect on 1 July 2008. As part of these changes, clubs will now apply to the Casino, Liquor and Gaming Control Authority if they wish to operate gaming machines. See section 2.3 for more information.

¹³ *Liquor Administration Board Annual Report 2006-07*, p 43.

Table 2.2 NSW club premises categorised by annual gaming machine revenue

Gaming machine revenue	No. of club premises	% of club premises
Nil	202	13
0-\$200,000	382	25
>\$200,000 - \$1 million	403	26
>\$1 million - \$5 million	381	25
>\$5 million - \$10 million	83	5
>\$10 million	81	5
Total	1,532	100

Note: Rows may not add due to rounding.

Source: Information provided by OLGR and IPART's analysis.

2.2.3 The peak bodies of the registered clubs industry

The clubs industry is represented by several peak bodies, many of which made submissions to this review. These bodies and their roles are outlined below.

The Registered Clubs Association of NSW (ClubsNSW)

ClubsNSW is the leading peak body of the registered clubs industry in NSW. It provides a wide range of services for nearly 1,400 member clubs, including workplace relations, government relations, a member enquiry centre, Club Directors' Institute, Clubs Consulting, ClubsNSW Financial Services, media relations, industry marketing and communications campaigns, conferences, trade exhibitions, seminars, information services and responsible gambling services through the ClubSAFE program.¹⁴

RSL and Services Clubs Association Limited (RSL & Services Clubs Association)

The RSL & Services Clubs Association is a not-for-profit industry association and is the leading advocate representing the interests of the estimated 315 registered RSL, Ex-Services, Memorial, Legion or like clubs in NSW. Among its main objectives are the protection and promotion of the ideals of the ANZAC spirit and heritage of member clubs.

The RSL & Services Clubs Association is a separate entity to the NSW State Branch of the Returned and Services League (State Branch). The State Branch is the welfare organisation dedicated to the well-being, care, compensation and commemoration of serving and ex-service Defence Force members in NSW. The State Branch is made up of approximately 420 sub-branches throughout NSW with a current membership of approximately 65,000.¹⁵

¹⁴ ClubsNSW, About Us, available from: www.clubsnsw.com.au/default.jsp?xcid=54.

¹⁵ RSL & Services Clubs Association submission, 27 July 2007, p 3.

Royal NSW Bowling Association Incorporated (Bowls NSW)

Bowls NSW is the peak body for 609 affiliated bowling clubs in NSW.

The Leagues Clubs' Association of NSW (Leagues Clubs' Association)

The Leagues Clubs' Association is the peak body that represents, informs, supports and assist the interests of 84 registered leagues clubs in NSW.¹⁶

NSW Golf Association Limited (NSW Golf)

NSW Golf is the peak body representing 394 golf clubs in NSW.¹⁷ Its main activities concern the promotion of the efficiency, progress, general control and development of the game of golf in NSW.

Federation of Community, Sporting and Workers' Clubs Limited

The Federation of Community, Sporting and Workers' Clubs Limited is the peak body representing 61 community, sporting and workers clubs in NSW.¹⁸

2.3 Regulatory framework governing the industry

Registered clubs currently operate within a regulatory framework that involves four main acts and four main regulatory bodies. IPART notes that on 1 July 2008 changes to the regulatory environment shall take effect as a result of a package of reforms contained in the *Liquor Act 2007*, *Casino, Liquor and Gaming Control Authority Act 2007* and the *Miscellaneous Acts (Casino, Liquor and Gaming) Amendment Act 2007*.

Among these reforms will be the creation of a new Casino Liquor and Gaming Control Authority that shall take over the functions of the Licensing Court and the Liquor Administration Board under the *Registered Clubs Act 1976* and the *Gaming Machines Act 2001* and shall also replace the Casino Control Authority as the licensing and regulatory authority for the purposes of the *Casino Control Act 1992*.

IPART's review has taken place in the pre -1 July 2008 regulatory environment, and this report largely reflects that. The relevant legislation and roles of the regulatory bodies both pre and post 1 July 2008 are outlined below.

¹⁶ Leagues Clubs' Association, About Us, available from: www.lcansw.com/default.aspx?id=2.

¹⁷ NSW Golf Association Annual Report 2006, available from: [www.nswga.com.au/files/2JBRSJ4V2/NSWGA Annual Report 2006.pdf](http://www.nswga.com.au/files/2JBRSJ4V2/NSWGA%20Annual%20Report%202006.pdf).

¹⁸ Federation of Community, Sporting and Workers' Clubs Limited, About Us, available from: www.fcswcfamilyholidays.com.au/affiliated_clubs.htm.

2.3.1 Applicable legislation

From 1 July 2008, the main pieces of legislation that specifically concern the operation of registered clubs in NSW include the:

- ▼ *Registered Clubs Act 1976*
- ▼ *Registered Clubs Regulation 1996*
- ▼ *Liquor Act 2007* (to replace the *Liquor Act 1982* from 1 July 2008)
- ▼ *Gaming Machines Act 2001*
- ▼ *Casino, Liquor and Gaming Control Authority Act 2007*.

The Liquor and Registered Clubs Acts (and their supporting Regulations) contain most of the statutory requirements applicable during the lifespan of a registered club - from the process of establishing a club, to the regulation of its day-to-day affairs and provisions on amalgamating or winding up a club.¹⁹

Under the current law, registration confers various benefits upon a club. First, it permits a registered club to sell liquor on its premises. However, with that benefit comes responsibility: clubs must have due regard to the need to minimise harm associated with misuse and abuse of liquor (including harm arising from violence and other anti-social behaviour); encourage responsible attitudes and practices towards the promotion, sale, supply, service and consumption of liquor; and ensure that the sale, supply and consumption of liquor contributes to, and does not detract from, the amenity of community life.

Second, a registered club is allowed to operate gaming machines within its premises. However, as with the supply of alcohol, clubs are subject to strict regulation regarding the operation of these machines. In NSW, the Gaming Machines Act regulates the keeping and operation of 'approved gaming machines' by registered clubs (and hotels). Its main objectives are harm minimisation and fostering responsible conduct in relation to gambling. The *Gaming Machine Tax Act 2001* regulates the tax payable on profits earned from 'approved gaming machines'.

Registered clubs also operate as incorporated companies, maintain premises and trade in goods and services. Thus, in addition to the specific legislation above, they must also comply with more general areas of NSW and Commonwealth legislation and regulation that concern trading companies, in particular the *Commonwealth Corporations Act 2001*.

¹⁹ IPART notes that a small number of amendments to the Registered Clubs Act that were made by the *Registered Clubs Amendment Act 2006* have yet to commence.

2.3.2 Oversight bodies

From 1 July 2008, four main bodies will oversee the clubs industry, including the:

- ▼ NSW Minister for Gaming and Racing (the Minister)
- ▼ NSW Office of Liquor, Gaming and Racing (OLGR), within the NSW Department of the Arts, Sport and Recreation (the Department)
- ▼ Director of Liquor and Gaming established under the *Liquor Act 2007*
- ▼ Casino, Liquor and Gaming Control Authority (CLGCA).

The Minister, the Department and the CLGCA are responsible for administering the specific legislation related to registered clubs. OLGR, located within the Department, implements policy and education initiatives for liquor, gaming, charity and racing industries. It also conducts enforcement and compliance activities, and (along with the NSW Police Force) prosecutes criminal offences under the relevant legislation.

The CLGCA, established under the Casino, Liquor and Gaming Control Authority Act, has state-wide jurisdiction and deals with a multitude of applications under the Liquor and Registered Clubs Acts. These include applications for the grant of new liquor and gaming licences (including liquor licences for registered clubs), the transfer of licences and club amalgamations, changes of a club secretary, the removal of licences to different premises and changes to licence conditions. The CLGCA also deals with disciplinary proceedings against licensees and clubs.

Complaints about undue disturbance of the quiet and good order of the neighbourhood of registered clubs, along with some matters affecting the conditions and operation of club licences, are dealt with by the Director of Liquor and Gaming under the *Liquor Act 2007*.

Offences under the *Liquor Act 2007*, the Registered Clubs Act, the Gaming Machines Act and the Gaming Machine Tax Act are dealt with by the Local Court.

Until recently, key liquor and gaming regulation responsibilities resided with the Licensing Court of NSW (Licensing Court) and the NSW Liquor Administration Board (LAB). Changes enacted via the new liquor licensing regime have essentially seen the powers and responsibilities of the Licensing Court and the LAB transferred to the CLGCA, the Director of Liquor and Gaming, and the Local Court.

Other functions and powers conferred upon the CLGCA and the Director of Liquor and Gaming include:

- ▼ declaration of devices as approved poker machines or approved amusement devices
- ▼ authorisation of gaming machines in registered clubs and hotels
- ▼ determination of Gaming Social Impact Assessments for additional gaming machines in registered clubs and hotels as well as the relocation of existing machines

- ▼ allocation of poker machine entitlements
- ▼ determination of claims under section 17 of the Gaming Machine Tax Act and the provision of advice on proposed expenditure for deductibility under the Minister's Guidelines
- ▼ approval of training courses and training providers for the responsible service of alcohol
- ▼ approval of training courses and training providers for the promotion of responsible practices in relation to approved gaming machines
- ▼ suspension or cancellation of an authorisation to keep gaming machines for non-payment of monitoring fees or gaming machine duty.²⁰

After 1 July 2008, registered clubs will be required to hold club liquor licences issued under the *Liquor Act 2007* in order to serve alcohol. Once the CLGCA approves an application for a club liquor licence, the club must adhere to the provisions of the Liquor and Registered Clubs Acts and Regulations. A registered club's ongoing compliance is supervised by the NSW Police and OLGR, and enforced by the courts and the CLGCA.

2.4 What are the main features of a registered club?

Registered clubs provide lifestyle and community-focused goods and services to their members and the community at large. These are provided through a democratic, not-for-profit business model where gaming machine revenue typically cross-subsidises other club activities. However, there is an important role for smaller clubs that may have little or no revenue from gaming machines. These clubs typically contribute to the community through their very existence, providing important facilities for their members to pursue their common social purpose. The following sections explore these elements in more detail.

2.4.1 Elements of club registration

There are thousands of clubs in NSW, whose members have joined to pursue a common interest, which may be sporting, political, religious, social or cultural. There is no requirement for a club to become registered, but once it is registered, a club:

- ▼ can sell and supply liquor on club premises to club members and their guests
- ▼ can operate gaming machines, subject to strict requirements relating to integrity and the responsible conduct of gambling
- ▼ must comply with certain corporate governance, accountability, membership, mutuality and club entry requirements as outlined in the Registered Clubs Act.

²⁰ Liquor Administration Board submission, 16 July 2007, p 3.

These elements reflect, in part, the historical development of the clubs industry, as discussed in section 2.1.

IPART notes that the extent to which clubs pursue these functions has contributed to a wide range of clubs operating within the industry. At one end of the spectrum are small, volunteer-run clubs, with little or no revenue from gaming machines. These clubs are often centred on specifically pursuing a particular social purpose, such as providing sporting facilities or a meeting place for members sharing a common cultural link. At the other end are large, more commercially-run enterprises, with a large number of gaming machines, many members and a significant number of visitors, as well as diversified business segments. While these clubs still exist to pursue social outcomes, differentiation from for-profit commercial businesses is more difficult.

IPART notes the argument made by ClubsNSW that registering a club provides a means of entrenching the essential rules that underpin the democratic, not-for-profit operation of clubs and also the strict probity requirement that ensures member interests are protected.²¹ These rules are captured through the requirements in section 10 of the Registered Clubs Act and must be met before the certificate of registration is issued and also on an ongoing basis to ensure that the club is not de-registered or another penalty imposed. The following elements serve these purposes:

- ▼ The club must be conducted in good faith as a club. It must demonstrate, typically through its articles of association/club constitution, that it is a body or association of persons that pursue a common purpose (social, literary, political, sporting or athletic purposes or for any other lawful purposes).
- ▼ Clubs must be incorporated under the Corporations Act.
- ▼ No member of the club is permitted to receive any profit, benefit or advantage from the club that is not offered fully to every other member of the club.
- ▼ While the club is allowed to provide liquor to its members, this must be done in a safe, controlled environment. Additionally, no employee or director of the club is allowed to receive payment based on the amount of liquor sold or by any reference to the operation of gaming machines by the club.
- ▼ The club must keep correct accounts and books in respect of the financial affairs of the club. These must be available to members such that they can monitor the performance of the club in a similar way to that of shareholders in a publicly listed company.
- ▼ Senior employees and directors of clubs must comply with a strict set of accountability requirements. These requirements ensure that the club is operated with the best interests of the club members in mind.
- ▼ The club must have premises of which it is the bona fide occupier for the purposes of the club and which are provided and maintained from the funds of the club.

²¹ ClubsNSW submission, 31 July 2007, p 21.

Further information on the process for establishing a registered club is contained in Chapter 12.

2.4.2 Democratic entities

Another distinguishing feature of registered clubs is their democratic nature. Registered clubs are controlled by a Board of Directors that sets the strategy and direction of the club. These directors are elected from the members and, under the Corporations Act, have duties of care, diligence and good faith to act in the best interests of their club. In many clubs the directors may also seek advice on matters of club operation from specific committees and sub-committees. These committees often include representatives from many sub-clubs that operate within the broader club (for example, a bowls, tennis or golf sub-club within a sporting club).

2.4.3 Not-for-profit mutual entities

Registered clubs operate as not-for-profit mutual entities. Under the mutuality principle, members contribute to a common fund created and controlled by them for a common purpose. As these contributing members are essentially the same as those who participate in the fund, the member contributions and receipts from member dealings are not treated as taxable income.²² This principle effectively exempts membership subscriptions and other revenues derived from dealings with members from a club's taxable income. In addition, some clubs are classified as exempt institutions under the *Income Tax Assessment Act 1997* as their main purpose is to encourage sport, music, literature, a game (for example chess, bridge) or art.

Interestingly, while 81 per cent of people are aware that clubs contribute revenue to local community projects, 37 per cent were not aware that they operate as not-for-profit entities.²³

In addition to their income tax status, registered clubs enjoy certain advantages over their competitors by virtue of statutes such as the Registered Clubs Act and the Gaming Machines Act. These include the ability to operate more gaming machines per premise and lower rates of taxation on gaming machines compared to hotels.

Other features of registered clubs that differentiate them from for-profit businesses include:

- ▼ Registered clubs are not focused on maximising profit in the same way as a commercial enterprise. Club members only benefit from the profitability of the club to the extent that ongoing profitability contributes to the continuation of the club as a going concern and improvement of facilities, goods and services offered by the club to its members.

²² Australian Taxation Office; available from: www.law.ato.gov.au.

²³ ClubsNSW submission, 31 July 2007, p 25.

- ▼ Club members have a relatively lower capital stake in their club than shareholders do in the companies in which they invest. In the case of a club being unable to meet its losses, club members are typically limited to a loss equal to the size of their membership fee, which is often only a nominal amount. While shareholders are not responsible for a company's losses, a collapse in share value would almost always lead to a loss for a shareholder of an amount greater than the price of a club membership.
- ▼ Clubs are not able to raise capital in the same way as commercial enterprises. While a public company is able to raise capital through issuing shares, clubs raise capital from membership fees (and other forms of operating revenue) and debt.
- ▼ The members of a club do not have any claim to the club's assets. In the case of a club winding up, any excess funds remaining after meeting the liabilities of the club cannot be distributed to members. Most constitutions generally describe how any excess funds will be used in the case of a club winding up and generally would be directed to an activity of a similar purpose to which the club was set up (for example, a bowling club that is winding up might transfer its assets to a nearby bowling club).

2.4.4 The importance of clubs' common purpose

All registered clubs form as a result of a group of people coming together to pursue a common purpose. This common purpose is fundamental to clubs of all sizes and types. In the case of smaller clubs with little or no revenue from gaming machines, IPART notes that the strength of the common purpose is generally the prime driver for their financial viability. These clubs also contribute to the community through their very existence, providing important facilities for their members to pursue their common purpose.

2.5 Clubs offer a wide range of services to members and the wider community

Registered clubs provide goods and services to both members and the community at large. In 2006, 69 per cent of adults in NSW were members of a registered club and 92 per cent had visited a club during the previous 12 months.²⁴ While the reach of clubs is widespread, the extent of the uptake of club goods and services is more pronounced within certain sections of the community. Clubs appear to play a more important part in the lives of older people. On average, around half of club membership in NSW consists of people aged 55 and over. This was also observed by IPART through its case studies of clubs with people aged 51 and over constituting on average between 42 and 56 per cent of the membership of case study clubs.

²⁴ ClubsNSW submission, 31 July 2007, p 12.

Many submissions detailed the nature of club contributions and activities, ranging from the standard offerings of food, bar, gaming and sporting facilities (such as bowling greens and golf courses), to fitness and leisure centres, meeting rooms and conference facilities. Social welfare services to members, such as visiting sick members and assisting them with shopping, transport and medical equipment, were also common.

Contributions to the community beyond the clubs' own members include donations to schools, charities, sporting teams and community organisations, provision of free or subsidised club services such as meeting rooms, and involvement in community outreach programs through both cash and in-kind contributions.

There has also been a strong emphasis on clubs' role as part of the communities in which they operate. IPART notes that many stakeholders have pointed out the significant intangible benefits associated with community members, who might otherwise be quite socially isolated, being able to attend club activities and feel like part of a community. NCOSS also referred to clubs as organisations that build social capital, especially in small rural communities.²⁵

Other contributions, based on data from a survey conducted by the Allen Consulting Group (ACG) on behalf of ClubsNSW,²⁶ include:

- ▼ The clubs industry employed approximately 43,000 people in full-time, part-time, casual, apprentice and training positions in 2007. ACG estimated that the industry made wage payments of \$1.3 billion in 2007.
- ▼ Registered clubs generate employment opportunities through their use of contractors. In 2007, the industry made contractor payments of \$235 million.
- ▼ Registered clubs make an economic contribution to NSW through the involvement of club volunteers. ACG estimated that in 2007 there were approximately 44,000 volunteers in the industry.
- ▼ Registered clubs provide training opportunities through structured courses, seminars and on-the-job training. ACG estimated that in 2007 the industry spent \$24.7 million on training.

In its issues paper, IPART also pointed out that where many clubs rely heavily on volunteers or provide assets that would be uneconomic in a commercial setting (for example the provision of bowling greens on high value land), the production of goods or services may not be recreated viably in a private market.

A more detailed discussion of the social contributions made by registered clubs is contained in Chapter 3.

²⁵ NCOSS, Sydney roundtable, 27 August 2007, p 6.

²⁶ ACG, *Socio-Economic Impact Study of Clubs in NSW* (2007), 2008.

2.6 Some clubs are not registered – why not?

As noted in section 2.4.1, there is no requirement for a club to become registered, and many clubs in NSW remain unregistered.

IPART found that unregistered clubs tend to be more limited in their focus and the range of facilities provided to members. They also either do not provide liquor to their members, or provide liquor to their members through an alternative licence type rather than becoming a registered club. For example, some clubs currently provide liquor to their members through a permanent on-licence (function), which allows the club to hold up to 26 functions a year (no more than one a week) where alcohol can be served. Clubs can also apply to increase the number of functions and frequency under this licence.²⁷ Under the *Liquor Act 2007*, this licence will be replaced by a limited licence which will confer similar benefits and responsibilities on unregistered clubs wanting to provide liquor to their members.

ClubsNSW argued that in some cases amateur sporting clubs have limited ability to provide for new facilities and their use of publicly owned and club-owned facilities places additional pressure on this infrastructure.²⁸

IPART also notes that many sporting clubs receive support from registered clubs, either through donations or provision of facilities at discounted rates.

²⁷ The Department of Gaming and Racing, *Fact Sheet 9: Permanent Function Licences*, April 1999.

²⁸ ClubsNSW submission, 31 July 2007, p 22.

3 Understanding the social contributions of the registered clubs industry

In line with its terms of reference, IPART examined the contributions the registered clubs industry makes to social infrastructure and services, and to employment and economic opportunities in NSW. However, 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 also considered the broader question of whether the clubs industry makes a net positive social contribution that justifies it receiving government support.

To answer this question, IPART compared the provision of sporting facilities and other community services in NSW with that in other states where clubs have historically been much less significant. Its findings suggest that NSW clubs have a small positive impact on participation rates in sports, make larger contributions to charity, and are used by many more social members than clubs in other states. NSW clubs also provide considerable intangible social benefits that are difficult to quantify in a consistent and reliable way but should not be ignored.

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.

On balance, IPART concluded that the registered clubs industry's net social contribution is positive. On this basis, IPART considers it appropriate for the NSW 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.

The sections below discuss IPART's:

- ▼ analysis and findings on the nature of clubs' social and economic contributions
- ▼ analysis and findings on the social benefits and costs associated with the registered clubs industry in NSW
- ▼ recommendations for enhancing clubs' social and economic contributions.

3.1 The nature of clubs' social contributions

Registered clubs make a wide range of social contributions to their members. For example, most provide members with access to a range of facilities, including restaurants, bars, gaming rooms, sporting facilities (such as bowling greens and golf courses), fitness and leisure centres, meeting rooms and conference facilities. Many also provide social welfare services, such as visiting sick members and assisting them with shopping, transport and medical equipment.

Clubs also make social contributions to their local communities, including donations to schools, charities, sporting teams and community organisations, provision of free or subsidised club services (such as meeting rooms), and participation in community outreach programs through both cash and in-kind contributions.

Clubs do not have difficulty in listing the goods and services they provide, but most do not attempt to measure and record the value of these goods and services in a consistent, robust manner. Chapter 4 explains IPART's recommended methodology for measuring this value in detail. The following sections outline its general views on classifying the nature of clubs' social contributions and measuring the value of these contributions, and make some additional observations on the nature of clubs' social contributions.

3.1.1 Classifying the nature and beneficiaries of clubs' social contributions

IPART considers that the social contributions registered 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.

Figure 3.1 illustrates these categories. Table 3.1 provides a breakdown of the types of group that received external contributions in the form of cash payments from registered clubs in 2007.

Figure 3.1 Categorisation of registered clubs’ social contributions

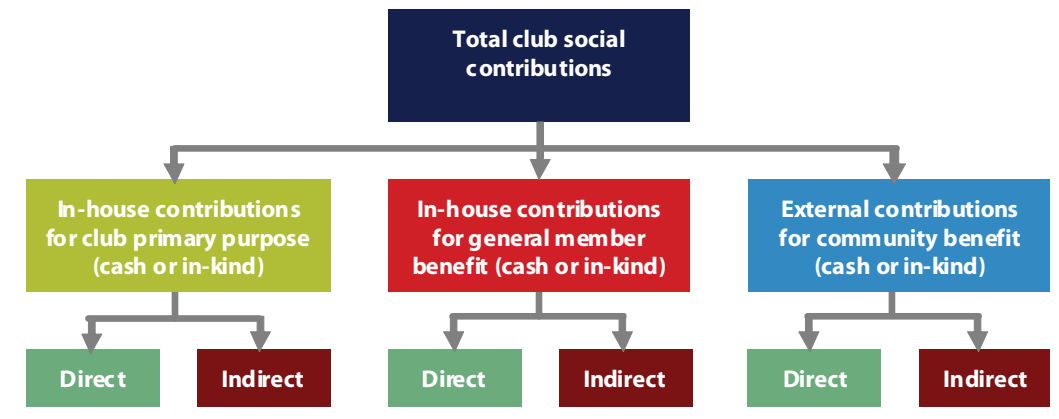


Table 3.1 Organisations that received cash payments from clubs (2007)

Type of organisation	Percentage of total club cash payments
Professional sport	28
Non-professional sport	30
Health and social services	15
Education	6
Emergency services	3
Other	18

Source: Allen Consulting Group, *Socio-Economic Impact Study of Clubs in NSW (2007)*, 2008, p 48.

As Figure 3.1 indicates, all three categories of social contribution can be broken down into further categories. First, the contributions in each category can be either a direct contribution or an indirect contribution:

- ▼ 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.

Second, 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).

A typical RSL/services club demonstrates how this classification framework can be applied. This type of club usually provides:

- ▼ a venue for ex-service personnel to socialise (which is an in-house contribution for club primary purpose)
- ▼ welfare services provided by club volunteers, such as hospital visits to and transport assistance for unwell and elderly members (an in-house contribution for club primary purpose)
- ▼ bowling, snooker and bingo activities (an in-house contribution for general member benefit)
- ▼ a community gymnasium (an external contribution for community benefit)
- ▼ funding to local counselling and child protection services (external cash contributions for community benefit).

3.1.2 Measuring clubs' social contributions

While IPART received extensive submissions on what clubs do in their local communities, few clubs indicated that they measure and record these social contributions in a systematic way. IPART considers that such measurement is important, given that clubs receive support from government primarily on the basis of these social contributions. Therefore, it has recommended that the clubs industry adopt a common approach to measuring and reporting on clubs' social contributions. In particular, IPART has recommended that a combination of qualitative and quantitative measurement and reporting mechanisms be used to capture the contributions made by clubs in NSW.

IPART has recommended that clubs' direct cash and in-kind contributions be measured and recorded by the industry. While cash contributions are easily identified and aggregated, in-kind contributions, such as the provision of sporting and community infrastructure, are more difficult to measure. Therefore, IPART has recommended a market-value approach to valuing these in-kind contributions, as outlined in its issues paper and draft report. In IPART's view, ClubsNSW should measure and record the value of the clubs industry's direct contributions every four years as part of its regular survey of the industry.

In addition, IPART has recommended that clubs' indirect contributions be qualitatively described by individual clubs. These contributions are very difficult to quantify, but are nevertheless an important part of clubs' social contribution. Therefore, clubs should be encouraged to identify and describe these contributions as part of their annual reporting to members.

IPART's recommendations on measuring and recording clubs' social contributions, and its findings of the current value of clubs' direct contributions, are discussed in detail in Chapter 4.

3.1.3 Further observations on clubs' social contributions

IPART has made several additional observations about clubs' social contributions, including that:

- ▼ clubs in regional areas play a more important role in providing community infrastructure than those in Sydney
- ▼ clubs' level of social contributions vary according to their size and financial capacity
- ▼ clubs often work in partnership with other organisations to deliver community programs and services
- ▼ clubs have traditionally played an important role in providing a place for people meet and socialise, but the growing emphasis on gaming activities may be changing this.

Clubs in regional areas play a more important role in providing community infrastructure

In a submission, ClubsNSW noted:

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.²⁹

IPART's case studies of 16 individual clubs of different sizes located throughout the state bore out this observation. For example, Tathra Beach Country Club demonstrates the important role of regional clubs in the provision of community infrastructure. This club is located in a small community with a population of around 2,000 people (within a 5 kilometre radius of the club), of which over 1,000 are members of the club. The club identified the need for a second sporting oval in its town, as the existing oval could not accommodate the community's current demand. The club funded the development as well as the ongoing maintenance of a second oval, which is now well-used by local primary and high school students.

Clubs' level of social contributions varies according to their size and financial capacity

IPART observed that the amount a club contributes to its community depends on its size, its financial capacity and its willingness to make community contributions beyond the level required for it to receive the maximum tax rebate available under the Community Development and Support Expenditure (CDSE) Scheme.³⁰

Of IPART's case study clubs, all but one of those eligible to participate in the CDSE Scheme made explicit cash contributions above this level (ie, above their 'CDSE liability'), and many contributed significantly more than this level. For example, Mounties - a larger, more commercially-run club in the Sydney suburb of Mount Pritchard - makes total cash contributions equivalent to around 34 per cent of its net profit. At the other end of the spectrum, Petersham Bowling Club, a small club in the inner west of Sydney which is not eligible to participate in the CDSE Scheme and has made only a small net profit in recent years, makes no explicit cash contributions. However, it sees its facilities and services as community resources, and offers in-kind contributions to its community. For example, it runs classic film nights that might not otherwise be provided commercially.

²⁹ ClubsNSW submission, 31 July 2007, p 37.

³⁰ Clubs with gaming machine revenue greater than \$1 million per annum are eligible to participate in the CDSE Scheme, which provides for them to receive a gaming machine tax rebate for eligible community contributions that is worth up to 1.5 per cent of their revenue over \$1 million. Although the scheme is voluntary (clubs may instead just pay the tax), the maximum rebate for which a club is eligible is called a club's 'CDSE liability'. For example, a club with gaming machine revenue of \$1.5m million would have a CDSE liability of \$7,500. Eligible community contributions may be cash or in-kind.

Clubs often work in partnership with other organisations

In submissions, ClubsNSW and the Leagues Clubs' Association highlighted the increasingly common practice of club partnership with other organisations to both fund and deliver community projects.³¹ For example, the youth outreach program 'Panthers on the Prowl' involves staff from the Penrith Panthers club, football players from the associated NRL team, and personnel and resources from local government and community organisations in the delivery of literacy and education support services to local school children.

ClubsNSW submitted that local councils are commonly partners in such arrangements. A council survey commissioned by ClubsNSW found 33 per cent of councils were aware of arrangements with local clubs to develop sporting facilities within their respective communities.³²

IPART also observed this practice within its case study clubs, where some of the larger metropolitan clubs³³ had partnered with local councils and other groups to deliver strategic community services. For example, the Riverstone-Schofields Memorial Club works in partnership with a community welfare organisation and local businesses to run a 'breakfast club' program, which provides breakfast (and nutrition education) one day a week for disadvantaged children at the local school. The club solicits food donations from local businesses, provides funds, and staffs the program with club volunteers.

Clubs play an important role in providing places to meet and socialise

A number of individual submissions highlighted the importance of clubs as a place to meet and socialise (in particular for the elderly).³⁴ ClubsNSW stated that:

Clubs play a particularly important part in the life of older people with more than half of those aged 60 or older visiting clubs at least once a week. For this group, a club environment is safer and offers a sense of 'community', with recreational opportunities geared to their stage of life.³⁵

However, another stakeholder noted that gaming activities were replacing the social activities traditionally provided by clubs, and identified the need for clubs to dedicate more resources to non-gaming activities.³⁶ Another stakeholder went further, stating that the gaming activities of clubs could be considered anti-social.³⁷

³¹ ClubsNSW submission, 31 July 2007, pp 41-42; Leagues Clubs' Association submission, 27 July 2007, p 12.

³² ClubsNSW submission, 31 July 2007, p 41.

³³ For example, Mounties and Riverstone-Schofields Memorial Club.

³⁴ T. Hormann submission, 14 June 2007 and D & E McDonald submission, 12 June 2007.

³⁵ ClubsNSW submission, 31 July 2007, p 16.

³⁶ E. Goldberg submission, 11 July 2007, p 1.

³⁷ Wayne Sampson submission, 30 July 2007, p 12.

The Gambling Impact Society of NSW (GIS) voiced similar concerns. It expressed unease about the growing reliance some clubs have on gambling activities (also a key finding of this review; see Chapter 6). It also noted that this reliance could grow if clubs faced increasing financial difficulty.

3.2 The nature of clubs' economic contributions

Registered clubs also contribute to employment and other economic opportunities in NSW. Clubs employ people in full-time, part-time, casual, apprentice and trainee positions. These positions involve a variety of roles within a range of industries, including hospitality, retail, sporting and professional services. Clubs also make contributions to the economy through the involvement of club volunteers.

3.2.1 Size and nature of clubs' contribution to employment

In 2003, registered clubs employed a total of 51,749 people, which represented 26,874 full-time equivalent (FTE) positions.³⁸ In 2007, the total number of people employed by clubs decreased by 16 per cent to 43,318 people, while the number of FTE positions grew by 30 per cent to 34,812.³⁹

Figure 3.2 shows the total employment in registered clubs in NSW by employment category for 2007. The figure indicates that casual positions represent 39 per cent of this employment, which is higher than the average in all Australian industries (25 per cent).⁴⁰ However, it is broadly consistent with the level of casual positions in industries operating in similar sectors to clubs, such as the arts and recreation services industry (49 per cent), and the accommodation and food services industry (63 per cent).⁴¹

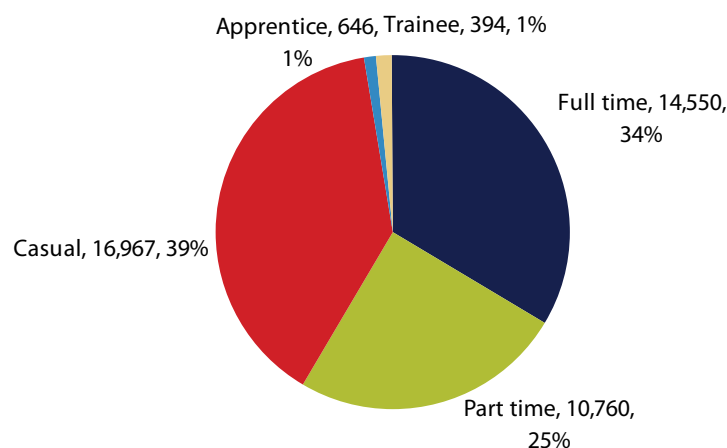
³⁸ ACG, *Socio-Economic Impact Study of Clubs in NSW (2004)*, 2004.

³⁹ ACG, *Socio-Economic Impact Study of Clubs in NSW (2007)*, 2008 and ACG, Unpublished data from *Socio-Economic Impact Study of Clubs in NSW (2007)*, 2008

⁴⁰ ABS Forms of Employment 6359.0 Nov 2006 (Reissue), p 28.

⁴¹ ABS Forms of Employment 6359.0 Nov 2006 (Reissue), p 28.

Figure 3.2 Total employment in registered clubs in NSW by employment category, 2007



Data source: Allen Consulting Group, 2008. *Socio-Economic Impact of Clubs in NSW (2007)*, p 34.

As ClubsNSW highlighted in a submission, the clubs industry offers employment opportunities in a diverse range of roles and industries. As an example, ClubsNSW noted that the Revesby Workers Club offers positions in finance and administration, beverage and catering, gaming, functions, operations, gym, human resources marketing, maintenance and store operations.⁴² It also noted that:

- ▼ The clubs industry is an important provider of employment opportunities for disabled people (in particular RSL and services clubs).
- ▼ Clubs also make use of contractors in areas such as catering, maintenance, green keeping, trades and security. In 2007, clubs paid approximately \$236 million to contractors, down from \$265 million in 2003.
- ▼ Clubs are well-suited to attracting employees aged 55 years and over, especially in full-time and casual positions. Segments of the industry are already predisposed to greater use of employees aged 55 years and over, aligning their workforce with a significant proportion of their patrons.

However, ClubsNSW also highlighted that the clubs industry currently faces several challenges in attracting and retaining appropriate people to fill the employment positions it offers. For instance, many clubs are having difficulty attracting and retaining staff in the current labour market, especially in the liquor and food industries. As ClubsNSW noted, this is likely to be a result of skill shortages being experienced across the food, hospitality and tourism industry. ClubsNSW also suggested that these shortages are having a greater impact on regional clubs, given their inability to access local training for potential employees.⁴³

⁴² ClubsNSW submission, 31 July 2007, p 74.

⁴³ ClubsNSW submission, 31 July 2007, pp 75-76.

In addition, while clubs play a useful role in employing tertiary students on a casual or part-time basis, they have difficulty in attracting graduates to long-term careers in areas such as financial management, business development, marketing, event management, communications and human resources.

3.2.2 Contribution of club volunteers

Registered clubs also make an economic contribution to NSW through the involvement of club volunteers. In its recent report on the socio-economic impact of clubs, the Allen Consulting Group (ACG) estimated that 43,957 volunteers were involved in registered clubs, and contributed over 6.3 million hours in 2007.⁴⁴ While the number of volunteers has declined by 17 per cent since 2003 (down from 52,682), the number of volunteer hours has increased by 13 per cent over the same time (up from 5.6 million hours).

IPART considers that the involvement of volunteers is a defining feature of all registered clubs. Volunteers are involved in a variety of roles, including club directors, sporting team coaches and maintainers of sporting equipment and venues. Table 3.2 shows the number of volunteer hours contributed by the members of different sized clubs in different roles in 2007. The table indicates that, across all clubs, most volunteers contributed in sporting roles (more than 26,000, or around 60 per cent of the total volunteers), followed by club director roles (nearly 11,000 or 25 per cent).

Table 3.2 Number of volunteers by role and club size (2007)

Club size (by gaming machine revenue)	Directors	Trading	Sport	Other	Total
\$0-200,000	3,412	1,351	4,743	1,142	10,648
>\$200,000 - \$1 million	3,193	325	3,027	990	7,535
>\$1-\$5 million	2,943	187	11,464	762	15,356
>\$5-\$10 million	659	35	2,000	518	3,212
>\$10 million	740	0	5,510	956	7,206
Total	10,947	1,898	26,744	4368	43,957

Source: Allen Consulting Group, *Socio-Economic Impact Study of Clubs in NSW (2007)*, 2008, p 52.

⁴⁴ ACG, *Socio-Economic Impact Study of Clubs in NSW (2007)*, 2008, pp 51-52.

In a submission, ClubsNSW noted that volunteers play an essential role in small clubs, and suggested that many small clubs would not be able to operate without the contribution of volunteers.⁴⁵ This view is supported by ACG's analysis, which shows that smaller clubs rely more heavily on the work of volunteers to function day-to-day. Table 3.3 shows that, overall, registered clubs have approximately one volunteer for every employee. However, the smallest clubs – those with gaming machine revenue of less than \$200,000 – rely on an average of 2.9 volunteers for every employee, or 5.4 volunteers for every full-time equivalent (FTE) employee.

Table 3.3 Ratio of club volunteers to employees by club size (2007)

Club size (by gaming machine revenue)	Volunteers per employee	Volunteer per FTE employee
\$0-200,000	2.9	5.4
>\$200,000 - \$1 million	1.3	2.7
>\$1-\$5 million	1.3	0.9
>\$5-\$10 million	0.5	0.9
>\$10 million	0.5	0.9
Total	1.0	1.3

Source: Allen Consulting Group, *Socio-Economic Impact of Clubs in NSW (2007)*, 2008, p 52.

IPART's case studies of clubs also indicated the importance of volunteers in smaller registered clubs. While all these clubs relied on volunteer labour (at a minimum through the volunteer labour of directors), the smaller clubs and those in regional locations made greater use of these volunteers for activities such as maintenance of club facilities and bar work.⁴⁶

IPART considers that it is important that the methodology for measuring and recording the social contribution of clubs recognises the contribution of volunteers (see Chapter 4).

3.2.3 Training opportunities provided by the registered clubs industry

Registered clubs also contribute to the economy of NSW by providing training opportunities to their employees and volunteers. These opportunities include formal training, such as structured courses or seminars, and informal training, such as on-the-job training. Table 3.4 details the NSW registered clubs industry's expenditure on training in 2007.

⁴⁵ ClubsNSW submission, 31 July 2007, p 77.

⁴⁶ For example, Tathra Beach Country Club, Bingara Sporting Club and Hamrun Association (NSW) Incorporated.

Table 3.4 NSW registered clubs industry training expenditure (2007)

Club size (by gaming machines profit)	Formal training (\$ million)	Informal training (\$ million)	Total (\$ million)
\$0-200k	0.7	0.5	1.3
\$200k-1m	1.2	1.5	2.7
\$1-5m	3.1	2.5	5.6
\$5-10m	1.9	1.8	3.8
\$10m+	6.0	5.5	11.4
Total	12.9	11.8	24.7

Note: Rows/columns may not add due to rounding.

Source: Allen Consulting Group,, Socio-Economic Impact of Clubs in NSW (2007), 2008, p 38.

In a submission, ClubsNSW indicated that clubs provide training opportunities targeted at three levels:

- ▼ Directors: basic director training courses as well as courses through the Club Directors Institute (CDI).
- ▼ Executive Managers (Secretary Managers): training courses provided through the Club Managers Association of Australia (CMAA) as well as Southern Cross University's (SCU) centre for Professional Development in Club & Gaming Management.
- ▼ General staff: mainly hospitality industry training.⁴⁷

The training opportunities provided for directors and managers are considered in more detail in Chapter 9.

3.2.4 Other economic opportunities

IPART found that registered clubs also generate other economic opportunities, particularly in regional or non-metropolitan areas, where clubs and club facilities are a focus for tourism, which generates further economic activity and opportunities. For example, in a submission, ClubsNSW noted that the Twin Town Services Club provides conferencing and entertainment facilities for its region, as well as resort facilities including pools, spa and gymnasium. Dubbo RSL operates a health and aquatic centre, as well as conference centre facilities and a motel.⁴⁸ The ability of clubs such as these to attract conferences and other events provides an important flow-on effect for economic activity in these regions.

⁴⁷ ClubsNSW submission, 31 July 2007, pp 79-81.

⁴⁸ ClubsNSW submission, 31 July 2007, pp 86-87.

ClubsNSW also suggested that clubs make further economic contributions through the:

- ▼ Revenue generated by clubs. In 2007, clubs earned around \$5.4 billion in total revenue from gaming, bar and food services, membership fees and ancillary business activities.
- ▼ Taxation paid by clubs. In 2007, clubs paid approximately \$1.26 billion in Commonwealth, state and local government taxes.
- ▼ Capital expended by clubs on renovating or maintaining their facilities, purchasing capital items and additional businesses or facilities. In 2007, this expenditure amounted to \$858 million.⁴⁹

IPART acknowledges these contributions, but notes that other businesses, such as hotels, restaurants and other private entities, also generate similar economic opportunities. Registered clubs also enjoy advantages in relation to their rates of gaming machine taxation compared with hotels, and many are exempted from corporate income tax.

3.3 Social benefits and costs associated with the registered clubs industry

While the registered clubs industry makes important social and economic contributions to NSW communities, other businesses also provide some of the services and opportunities offered by clubs. For example, the hospitality industry provides bar and food services, private golf clubs provide golf courses, councils provide swimming pools, and of course other industries create employment and economic opportunities. In addition, clubs can impose social costs on communities. In particular, while the revenue clubs earn from gaming machines helps them to remain financially viable and make a variety of social contributions, gaming also brings with it the harm associated with problem gambling.⁵⁰

Given this, IPART considered whether registered clubs make a net positive social contribution that justifies ongoing government support. This involved assessing:

- ▼ whether clubs make a positive difference in NSW by comparing the provision of sporting facilities, the rates of participation in sporting and physical activities, the rates of RSL sub-branch membership, and clubs' contributions to charity revenues in NSW with that in other states where clubs have historically been much less significant

⁴⁹ ClubsNSW submission, 4 April 2008, pp 4-7.

⁵⁰ Gaming machines are one form of gambling available in NSW. Gambling involves staking money on uncertain events driven by chance. The two broad categories of gambling are: gaming, which involves playing games of chance for money and broadly includes all non-wagering gambling; and wagering, which involves placing a bet on the outcome of a racing or other event (usually a sporting event). The main forms of gambling available in NSW are gaming machines (available in registered clubs, hotels and the Star City Casino), lottery products, casino gaming and wagering.

- ▼ whether clubs make a negative difference in NSW by comparing data on total gambling expenditure, the incidence of problem gambling and gaming machine expenditure in NSW and other states.

IPART found that the clubs industry appears to play a role in contributing to higher levels of participation in two sports (golf and lawn bowls) in NSW, and in providing a broader range of facilities than are available in other states. In addition, registered clubs provide some services that might otherwise be provided by government or by the private sector. Furthermore, while the clubs industry is a significant contributor to the operation of gaming machines in NSW, the evidence does not show that this leads to a higher incidence of problem gambling in this state, compared with states where the operation of gaming machines is on a significantly lower scale. IPART's view is that, on balance, clubs make a positive contribution to the community that is sufficient to justify the level of support the industry receives from government.

3.3.1 Do registered clubs make a positive difference in NSW?

Anecdotal evidence from IPART's roundtable discussions indicated that the registered clubs industry in NSW makes a more significant contribution to the provision of sporting facilities in this state than clubs in other states. Specifically, one participant⁵¹ commented that clubs in Victoria focus on contributing to the provision of facilities related to their core purpose (for example, football) but do not assist with the provision of other sporting infrastructure, such as bowling greens and golf courses.

In Australia, sporting infrastructure is typically provided through a combination of funding sources:

- ▼ government funding at a federal, state and local government level
- ▼ private enterprise (for example, commercially-operated fitness centres and golf courses)
- ▼ amateur sporting clubs and, in the case of NSW, registered clubs.

Ideally, IPART would have liked to examine the sources of funding for sporting facilities by state to establish the relative contribution made by the clubs industry in NSW. However, data with this level of disaggregation are not currently available.

Therefore, IPART held discussions with national and state peak bodies and obtained what data it could to help it understand whether clubs make a positive difference in NSW. In particular, IPART compared the incidence of bowling and golf clubs, the rates of participation in sporting and physical activities, the rates of RSL club membership, and golf clubs' contributions to charity revenues in NSW with that in other states where clubs have historically been much less significant. IPART found that clubs in NSW have a small positive impact on the rates of participation in sporting and physical activities, and make more significant contributions to charity,

⁵¹ Moama Bowling Club, Wagga Wagga roundtable, 14 September 2007, p 7.

and have higher levels of social membership than clubs in other states. These findings are discussed in more detail below.

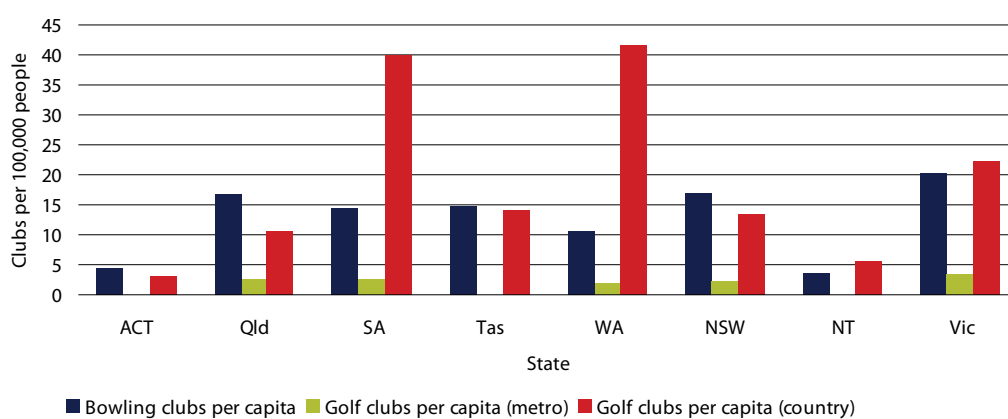
Incidence of golf and bowling clubs

Registered clubs in NSW provide a wide variety of sporting facilities. They provide physical infrastructure such as golf courses, bowling greens and tennis courts, and organise various sporting and recreation clubs, such as fishing. To help assess whether clubs' contributions in this area lead to improved availability of sporting facilities in NSW, IPART examined the golf and bowling club segments of the industry across the country.

IPART notes that the national approach for assessing each of these segments is relatively new, and therefore the data for comparing the segments in different states are limited. It also notes that differences between states may be due to non-club factors, such as differences in population distributions and climate, as well as to the different contributions of clubs.

IPART found that the incidence of bowling and golf clubs does not appear to be greater in NSW than in other states (see Figure 3.3). While NSW has the second-highest incidence of bowling clubs, all states except WA have more metropolitan golf courses per capita than NSW, and WA, SA and Victoria have more country golf courses per capita.

Figure 3.3 Incidence of bowling and golf clubs by state



Note: Year sources for clubs differ.

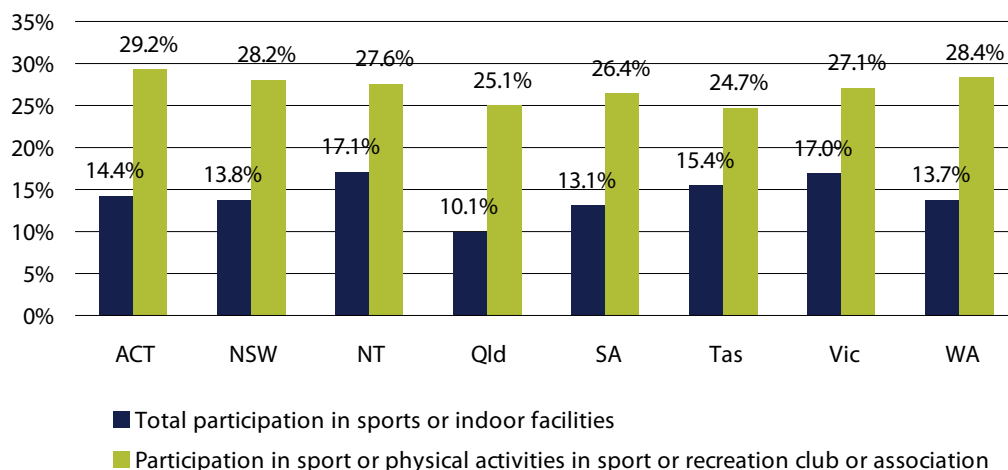
Data source: Australian Golf Industry Report 2002 and Bowls Australia Annual Report 2006.

Rates of participation in sporting and physical activities

IPART looked at the total rates of participation in sports and indoor recreational activities and the rates of participation in sports or physical activities through a sport or recreation club or association in NSW and other states. It found that the participation rates in NSW are similar to those in other states (Figure 3.4). IPART

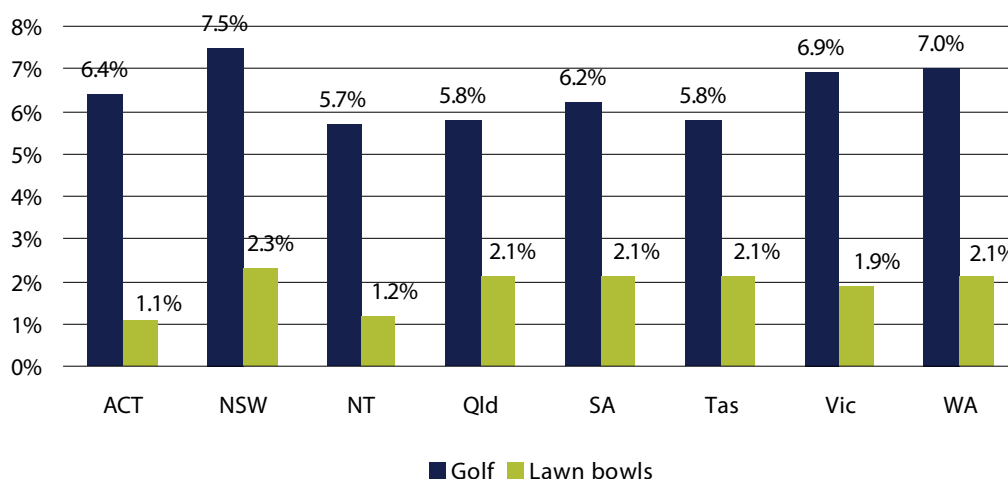
also looked at the participation rates in golf and lawn bowls – two sports in which the registered clubs industry makes a significant contribution to the provision of sporting facilities. It found that NSW has the highest levels of participation in both these sports (Figure 3.5).

Figure 3.4 Total participation rates by state (2006)



Data source: Australian Sports Commission Participation in Exercise Sport and Recreation Annual Report 2006.

Figure 3.5 Participation rates for golf and lawn bowls by state (2006)



Data source: Australian Sports Commission Participation in Exercise Sport and Recreation Annual Report 2006.

In addition, a 2002 report into the golf industry in Australia by Ernst & Young found that golf clubs in NSW have a significantly larger proportion of non-golf-playing members than clubs in other states, which reflects the wider range of activities available at many metropolitan golf clubs in NSW.⁵²

Rates of RSL sub-branch membership

IPART looked at RSL sub-branch membership across Australia, and found that the rates of membership in NSW are not disproportionately high. The membership distribution by state is broadly in line with the population distribution by state (Table 3.5).

Table 3.5 RSL Sub-branch membership by state 2006

State	% National Population	Total Membership Affiliates	% of RSL for 2006
NSW	33.7	60,567	31.2
Vic	24.9	60,173	31.0
Qld	18.7	40,379	20.7
SA/NT	8.8	14,280	7.3
WA	9.9	12,343	6.3
Tas	2.4	5,036	2.6
ACT	1.6	1,647	0.9
Total	100.0	194,425	100.0

Source: RSL Association Annual Report 2006.

Golf clubs' contributions to charity revenues

The 2002 Ernst & Young report cited above found that NSW golf clubs make a significantly greater contribution to charity revenues than golf clubs in many other states (Table 3.6). NSW has the second-highest level of average funds raised by club and contributed over half of the total annual revenues raised.

⁵² Ernst & Young, *Australia Golf Industry Report 2002*.

Table 3.6 Charity revenues raised by golf clubs by state 2002

State	Average funds raised per club	No. of course-based clubs	Estimated revenue raised
Victoria	7,100	364	2,584,400
NSW	17,100	398	6,805,800
Queensland	8,500	254	2,159,000
South Australia	4,000	167	668,000
Western Australia	2,200	211	464,200
Tasmania	4,600	65	299,000
ACT	26,000	10	260,000
NT	5,600	11	61,600
Total	9,000	1480	13,302,000

Source: Australian Golf Industry Report 2002.

Other differences between clubs across states

IPART has also consulted with the peak bodies representing bowling clubs and RSL clubs across the country. These consultations identified a number of differences between these clubs in NSW and those in other states. In particular:

- ▼ NSW and Queensland have more large bowling clubs that offer a broader range of facilities beyond bowling (although it is estimated that these represent only about 10 per cent of clubs in each state).
- ▼ Clubs in states that do not have a registered clubs industry are more likely to depend on volunteering and government grants to maintain their operations. In NSW, clubs are more autonomous and are more likely to direct funds into the wider community.
- ▼ NSW clubs tend to have higher levels of ‘social’ membership due to the broader range of facilities, goods and services they offer.
- ▼ It is difficult to say whether NSW clubs provide higher levels of community support, as clubs in all states tend to act as a hub within their communities, especially those in regional areas.

3.3.2 Do clubs make a negative difference in NSW?

IPART considers that, when assessing the registered clubs industry’s social contribution, both positive and negative contributions need to be taken into account. While the revenue clubs earn from gaming machines helps them to be financially viable and make a variety of social contributions, the provision of these machines also contributes to the harm associated with problem gambling.

As noted in Chapter 2, the clubs industry in NSW has had a strong association with gaming machines over the last 50 years. A range of stakeholders provided information on the costs associated with the operation of gaming machines by clubs. In its submission, the Responsible Gambling Fund argued that, given 87 per cent of registered clubs in NSW operate gaming machines, the industry needs to give greater priority to harm minimisation measures targeted at problem gambling.⁵³ It also noted that 95 per cent of problem gamblers and 87 per cent of moderate risk gamblers indicate that gaming machines are their preferred form of gambling.⁵⁴ In addition, it argued that in assessing the economic flow-on effects of the industry, attention must be given to negative economic flow-on effects from excessive or problem gambling.⁵⁵

The Wesley Community Legal Service commented that some clubs appear to be 'mini-casinos' with a large central and prominent gaming area surrounded by a ring of satellite activities, such as bars, restaurants and TABs, and that gaming machines facilitate the transfer of money from gaming machine players to gaming machine venues.⁵⁶ It also argued that many economic studies have tended to underestimate the costs to the community of problem gambling and overstate the benefits (for example, the Productivity Commission's 1999 estimates).

NCOSS argued that any management plan for the clubs industry must incorporate a stronger, more strategic focus on harm minimisation and effective regulation that protects communities and is proportionate to the significant profits that the clubs industry reaps from gaming.⁵⁷

GIS argued that while IPART will review the social and employment contributions of clubs, there is a significant absence in this review of the social costs of clubs due to the negative effects of problem gambling.⁵⁸

Australia Street Company (ASC) presented the results of various studies into the relationship between the density of gaming machines and per capita expenditure on gaming machines. ASC argued that these studies show a direct and positive relationship between the density of gaming machines and the level of gaming machine expenditure in local government areas. It also noted that while there is not evidence to show a direct correlation between access to gaming machines and the incidence of problem gambling, this does not necessarily mean that there is not one.⁵⁹

⁵³ Responsible Gambling Fund submission, 27 July 2007, p 3.

⁵⁴ Responsible Gambling Fund submission, 27 July 2007, p 2.

⁵⁵ Responsible Gambling Fund submission, 27 July 2007, p 3.

⁵⁶ Wesley Community Legal Service submission, 27 July 2007, p 1.

⁵⁷ NCOSS submission, 27 July 2007, pp 7-9.

⁵⁸ GIS submission, 21 July 2007, p 2.

⁵⁹ Australia Street Company submission, 2 April 2008, p 4.

ASC also presented data from recent Social Impact Assessments (SIA) in Fairfield and Campbelltown. ASC argued that this data showed that over time, in areas with a high density of gaming machines, gaming profits have increased more than the number of adults in the population or the number of gaming machines in the area.⁶⁰ IPART notes it is uncertain whether higher levels of gaming machines in an area lead to higher per capita levels of expenditure on gaming machines or the other way around. ASC's finding should be considered within the context of the current regulatory environment for the operation of gaming machines which places strict requirements on venues seeking additional gaming machines (see Box 11.3 in Chapter 11 for further information).

In addition to considering stakeholder views, IPART attempted to assess the impacts of gambling in clubs by considering the following questions:

- ▼ What are the benefits and costs of gambling?
- ▼ Does gambling in clubs lead to a net increase in gambling in society?
- ▼ Is gambling in clubs any more or less likely to lead to problem gambling in society than gambling elsewhere?

What are the benefits and costs of gambling?

The Government's policy approach has been to seek a balance between the benefits for the majority of those in the community who participate in gambling as an enjoyable and harmless pastime and the costs for those for whom gambling causes significant problems.⁶¹ The clubs industry can play an important role in supporting this approach.

As IPART's 2004 report *Gambling: Promoting a Culture of Responsibility* discussed, many people in NSW regard gambling as an enjoyable social or recreational activity. For example, they may see it as a way to pass the time in a pleasant social environment, a source of excitement or a way to relax. The gambling industry in NSW also employs a sizeable number of people, and makes a significant contribution to NSW Government revenue. As discussed in Chapter 6, it is also an important source of revenue that supports many other contributions made by clubs. However, when people spend more time and money on gambling than they can afford, it can result in harm to them, their families and the wider community. All Australian jurisdictions have adopted the following definition of problem gambling:

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 community.⁶²

⁶⁰ Australia Street Company submission, 2 April 2008, p 5.

⁶¹ *Gambling Legislation Amendment (Responsible Gambling) Bill 1999* – second reading speech.

⁶² Gambling Research Australia, *Problem Gambling and Harm: Towards a National Definition*, 2005.

OLGR recently completed its five-year statutory review of the Gaming Machines Act. This review has reinforced the Government's commitment to the policy approach noted above. The review found that reducing the harm that can be associated with gambling on gaming machines and the enforcement of the responsible conduct of gambling across the industry remain appropriate objectives for the Gaming Machines Act. IPART notes the following measures that address these objectives:

- ▼ The Gaming Machines Act places limits on the number of gaming machines in NSW. It caps the number of approved gaming machines in hotels and clubs at 104,000 (25,980 of which can be in hotels and 78,020 in registered clubs). It also sets venue-level caps on gaming machine numbers (30 for hotels and 450 for most registered clubs). A club must also forfeit one gaming machine entitlement for every two or three gaming machine entitlements it sells or transfers between premises. The review recommends that given the reduction over time in the overall number of gaming machines in NSW⁶³, the state-wide cap should be reduced to the current level of entitlements (99,000) and the legislation should be amended to allow for a mechanism for the automatic reduction of the cap over time.
- ▼ Hotels and registered clubs seeking additional gaming machines, or seeking to install gaming machines in a new hotel or new club, must submit a local impact assessment (LIA). These assessments are necessary to assess the impact of additional gaming machines on communities. Some venues seeking to increase their gaming machine numbers significantly may also be required to enter into a community contract to provide for amenities required by the local community, such as sporting, educational or cultural facilities.
- ▼ Through the Responsible Gambling Fund, the Government is providing \$31 million over the next four years for a state-wide network of 50-plus counselling and support services.⁶⁴

Given the implementation of these measures, IPART considers that government support intended to facilitate a sustainable clubs industry, which may include encouraging the establishment of new clubs, should not lead to an overall increase in the community's access to gaming machines. Although there are costs associated with the operation of gaming machines, the Government's integrated policy framework seeks to ensure that these costs do not exceed the benefits provided by the industry.

Nevertheless, given IPART's finding on the reliance of clubs on gaming machine revenue (see Chapter 6), IPART considers it important to consider the costs associated with this form of revenue.

⁶³ A total of 3,860 entitlements have been forfeited since the commencement of the Gaming Machines Act in April 2002; see OLGR, *Report on the Five-Year Statutory Review of the Gaming Machines Act 2001*, December 2007, p 16.

⁶⁴ OLGR, *Report on the Five-Year Statutory Review of the Gaming Machines Act 2001*, December 2007, p 26.

Does gambling in clubs lead to a net increase in gambling in NSW?

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 in NSW than in other states.

IPART examined interstate levels of expenditure on gambling and rates of problem gambling to help it assess what, if any, impact the provision of gaming machines in clubs has on gambling and problem gambling rates in NSW. It also noted the results of various studies at an LGA level that show an association between gaming machine density and the level of gambling expenditure and problem gambling. Appendix D contains a detailed examination of these studies.

IPART found that rates of problem gambling and per capita expenditure on gambling in NSW are slightly higher but comparable with other states where there are significantly fewer gaming machines. 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.

As discussed above, the Gaming Machines Act places a cap on the number of gaming machines in NSW and in clubs. In addition, IPART notes that the LIA process prevents increases in the number of gaming machines in local areas where this is not in the public interest. This process takes into account the characteristics of the local area, including the current gaming machine density, expenditure on gambling and socio-economic indexes in the area.

However, IPART supports the continuation of a collaborative approach between the clubs industry, Government and the community to better understand all factors that lead to increases in gambling and the harm that can be associated with it. In particular, IPART considers that registered clubs should continue to work with the Government to meet their statutory obligations in relation to gambling harm minimisation, and to better understand the impacts of their gambling-related activities. As Chapter 14 will discuss, IPART considers that this collaborative approach should be included in the clubs charter that it has recommended as part of the framework for a management plan to support and guide the registered clubs industry over the next 10 to 15 years.

Is gambling in clubs any more or less likely to lead to problem gambling?

In the past, ClubsNSW has asserted that registered clubs provide a safer environment for gaming (in the sense that gaming in clubs is less likely to lead to problem gambling than gaming in other venues).⁶⁵ IPART found no firm evidence to support this claim. But it also found no evidence to show that clubs are a less safe environment.

⁶⁵ For example, ClubsNSW in its submission to the *Statutory Review of the Gaming Machines Act 2001*, p 10.

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. However, IPART has been unable to locate any specific research into the impact of particular types of venues on problem gambling.⁶⁶

3.4 Recommendations for enhancing clubs' social and economic contributions

IPART has identified several approaches to enhancing clubs' current social and economic contributions, including:

- ▼ increasing community awareness of training, employment and other economic opportunities that clubs provide
- ▼ aligning clubs' key social contributions with the priorities of the NSW State Plan.

The sections below discuss each of these approaches and set out IPART's recommendations. IPART has also identified several refinements to the CDSE Scheme which it believes will enhance clubs' social contributions. These refinements are discussed in Chapter 5.

3.4.1 Increasing community awareness of training, employment and other economic opportunities that clubs provide

IPART has identified several opportunities to further enhance the significant training, employment and other economic opportunities that clubs provide. It notes that labour shortages are being experienced in many industries across the country, including the clubs industry. However, it considers that the clubs industry should take advantage of clubs' strong community presence to expand the employment opportunities they provide. IPART considers that clubs can achieve this by providing greater access to training and increasing awareness of the training, employment and other economic opportunities that they provide.

Clubs are well placed to provide local employee training, particularly in regional locations. They have the necessary facilities and community presence and should encourage their employees to pursue ongoing training related to their roles (for example, hospitality and tourism). Clubs should also try to give greater exposure to the employment opportunities they offer to the over age 55 and tertiary graduate labour markets.

⁶⁶ Gambling Research Australia has recently commissioned a study on the influence of venue characteristics to determine whether certain features of different types of premises are more or less likely to attract and/or maintain problem gamblers.

Recommendations

- 1 That clubs seek to increase the training opportunities they provide for people in their local area, and increase the promotion of these opportunities, especially in regional and rural locations.
- 2 That ClubsNSW increase awareness of the employment opportunities that clubs provide, particularly in the tertiary graduate and over age 55 segments of the labour market. This should be achieved through better targeting and improved advertising of employment opportunities in the broader labour market.

Given the important role that volunteers play in the clubs industry, IPART considers it essential that clubs continue to involve and retain volunteers. In a submission, ClubsNSW argued that, like other organisations that use volunteer labour, clubs face barriers to involving volunteers. It highlighted a recent survey by Volunteers Australia that found that 51 per cent of organisations experience barriers to involving volunteers, including difficulty in attracting and retaining volunteers with suitable skills and training, and the costs and administration associated with complying with legislative and procedural requirements.⁶⁷

During its review, IPART observed that these barriers are particularly apparent in relation to club directors. All club directors are volunteers and play an important role in maintaining the financial viability of registered clubs. This issue is discussed further in Chapters 6 and 9.

IPART acknowledges that clubs make a significant contribution by providing employment and other economic opportunities, including their payments to contractors, use of volunteers, provision of training, contributions to tourism and taxation revenue. While these contributions are not unique to the clubs industry, IPART considers that the industry should continue to measure and report on these contributions, for example through ClubsNSW's regular (usually every four years) industry survey.

Recommendation

- 3 That the registered clubs industry continue to measure and report on the employment and other economic opportunities it provides, for example through ClubsNSW's four-yearly industry survey. To better understand these contributions, this information should be provided by club size, type and location.

In a submission, ClubsNSW suggested that the economic opportunities provided by registered clubs in regional areas could be enhanced by improving clubs' access to existing NSW Government development programs such as:

- ▼ The Payroll Tax Incentive Scheme.
- ▼ Regional Business Development Scheme.
- ▼ Regional Economic Transition Scheme.

⁶⁷ Volunteering Australia, *National Survey of Volunteering Issues*, 2007.

- ▼ New Market Expansion Program for Regional Enterprise.
- ▼ Developing Regional Resources Program.
- ▼ Main Street/Small Towns Program.⁶⁸

IPART acknowledges this suggestion, and notes that while there are many assistance schemes available, many clubs are unaware that they could be eligible. Therefore, IPART recommends that ClubsNSW improves industry awareness of these programs by providing regular updates to its members on existing programs and any new programs as they become available.

Recommendation

- 4 That ClubsNSW improve industry awareness of programs targeting regional and state development, by providing information on their existence and assistance to clubs to gain access to these programs.

3.4.2 Aligning clubs' contributions with the priorities of the State Plan

The *State Plan – a new direction for NSW* was released in November 2006. It focuses on five areas of activity of the NSW Government:

- ▼ Rights, Respect and Responsibility – the justice system and services that promote community involvement and citizenship.
- ▼ Delivering Better Services – key services to the whole population including health, education and transport.
- ▼ Fairness and Opportunity – services that promote social justice and reduce disadvantage.
- ▼ Growing Prosperity Across NSW – activities that promote productivity and economic growth, particularly in rural and regional NSW.
- ▼ Environment for Living – planning for housing and jobs, environmental protection, arts and recreation.

The State Plan sets out the goals the community wants the NSW Government to work towards. It identifies priorities for government action that will help achieve each of these goals over the next 10 years.

IPART has examined what role registered clubs might play in advancing the NSW Government's priorities as set out in the State Plan. It found that some club activities already help to advance these priorities, but that clubs could do more in the future.

⁶⁸ ClubsNSW submission, 31 July 2007, pp 88-89.

What clubs are already doing to advance the priorities in the State Plan

The State Plan is essentially about the Government's actions, rather than the actions of other parties such as clubs. Nevertheless, ClubsNSW's submission listed a number of ways in which clubs already assist in advancing the Government's priorities, through their measures to control risk drinking, combat under-age drinking and drink-driving (many clubs provide courtesy buses or subsidised taxi services), and to promote environmental sustainability. There is some evidence to suggest that effective partnerships have already been developed between the clubs industry and government agencies.

Clubs, particularly smaller clubs which rely heavily on volunteer contributions from their members, are also a potential mechanism for increasing the proportion of the community involved in volunteering or group sporting or recreational opportunities, another of the State Plan's targets.

The CDSE Scheme model of local committees consisting of club, local and state government representatives is also an effective way of directing club activities towards community priorities that could also respond to priorities in the State Plan. Participants at the Wagga Wagga roundtable (Wagga Wagga City Council and the Leagues Clubs' Association) noted that CDSE committees represent a powerful partnership between clubs and government, and that State Plan priorities can be fed into that process by the State Government representatives.

However, whether or not CDSE committees actually do factor in State Plan priorities is an open question. For example, Penrith City Council's submission to the issues paper suggests that its CDSE committee does not currently consider State Plan priorities and would require additional funding to do so. (This suggests a misunderstanding of the nature of the State Plan, which is about setting priorities for existing funding.)

Some larger clubs, such as the Panthers Entertainment Group and Mounties, are already working directly in partnership with local and/or the NSW government outside the CDSE framework and are aware of the State Plan priorities in that way. For example, the Panthers Entertainment Group representative at the Sydney roundtable spoke of his club's 'Panthers on the Prowl' community youth outreach program as a direct partnership with three levels of government that responds to State Plan priorities.

What clubs might do in future to advance the priorities in the State Plan

Clubs are referred to explicitly only once in the State Plan, under Priority E8, in an initiative described as "working with hotels and clubs to more effectively support arts, cultural and sporting activities, especially in rural and regional areas". A working group has been established to develop two pilot "sport accords" involving clubs, schools and the local council in two local government areas. The process of developing an accord involves liaising with the community to identify the most

pressing issues that affect or limit sport participation in a particularly. Once these issues are identified, the accord becomes the community's plan for addressing them.

For example, the working group might identify that a lack of facilities is a key factor limiting sport participation. Through an accord process, a registered club might undertake to upgrade and maintain a school's oval in return for the school making the oval available to the wider community on weekends. This is consistent with what has already happened with some clubs and local councils – for example, Mounties maintains council sporting grounds in Liverpool as a community contribution, and Tathra Beach Country Club built and maintains an oval for community use.

IPART considers that the accords' activities could be extended, so that a similar approach is taken to improving access to other community recreational and cultural facilities, such as meeting rooms and exhibition spaces. In addition, given the conflicting evidence about whether or not CDSE committees are considering State Plan priorities, there is scope to give additional advice to the committees that they should be doing so. IPART's recommendations for improving the operations of CDSE committees are discussed in Chapter 5.

4 | Measuring and reporting on club contributions

IPART's terms of reference ask it to recommend a methodology for identifying and recording the value of the registered clubs industry's social contributions, specifically its provision of social infrastructure and services. IPART has developed this methodology, and used it to estimate that the value of clubs' direct social contributions in 2007 was \$811 million.⁶⁹ This estimate includes the value of cash donations, in-kind provision of sporting and community facilities, and volunteer labour. It does 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.

IPART notes that a recent study by ACG estimated that the benefit the NSW community derives from club-provided goods and services is between \$59 million and \$224 million a year. This study used a 'choice modelling' technique to estimate the extent to which consumers are willing to pay more for club-provided goods and services than the price at which clubs provide them. This is a very different approach to the one IPART used to develop its estimate of the value of clubs' direct social contributions. As a consequence, its results are not comparable with IPART's estimate. (ACG's choice modelling approach is further described in Appendix F.)

The sections below discuss in more detail:

- ▼ IPART's preferred approach for measuring the value of the registered clubs industry's social contribution.
- ▼ IPART's estimate of this value for 2007, which it calculated using its preferred approach.
- ▼ IPART's recommendations in relation to identifying and recording the value of the clubs industry's social contributions.

⁶⁹ This estimate has been revised downwards since the release of IPART's draft report due to an adjustment in the value of volunteer labour. In preparing its draft report, IPART had access to preliminary data on the total levels of volunteer labour for the industry. Disaggregated data have since become available, enabling IPART to make adjustments in line with the intent of its draft recommendations.

4.1 IPART's preferred approach for measuring clubs' social contributions

During IPART's consultation process, stakeholders made few comments on the methodology for identifying and recording the value of the clubs industry's social contributions – probably because of the complexity and difficulty of this issue.

Some submissions suggested that clubs' social contributions should be measured in terms of their 'net contribution', in recognition of the fact that clubs impose costs on communities as well as benefits.⁷⁰ However, IPART's terms of reference ask it to identify **the value** of the clubs industry's provision of social infrastructure and services. This means that the methodology needs to involve a valuation exercise, rather than a cost benefit analysis. Nevertheless, IPART has not ignored the costs imposed by the clubs industry – as Chapter 3 discussed, it examined these costs in assessing whether the net social contributions of the industry justify ongoing government support.

IPART considers that the total value of clubs' provision of social infrastructure and services should be calculated as the sum of the following components:

- ▼ The value of **direct, cash** contributions made to charities, community and sporting-related activities.
- ▼ The estimated value of **direct, in-kind** provision and maintenance of community and sporting facilities and infrastructure (including bowling greens, gyms and tennis courts, as well as meeting rooms and other venues), calculated using a market value approach.
- ▼ The estimated value of **club volunteer labour** not already included in the estimate of direct, in-kind contributions.

IPART considers that **indirect** social contributions are much harder to identify and value quantitatively. Therefore, these contributions should be identified and recorded using a qualitative approach.

The following sections discuss each of these components in more detail, and explain how IPART applied its preferred approach in estimating the value of the clubs industry's direct social contributions for 2007.

⁷⁰ Wayne Sampson submission, 30 July 2007, p 5; Responsible Gaming Fund Trustees submission, 27 July 2007, p 3.

4.1.1 Direct cash and in-kind contributions

Direct social contributions are a result of purposeful, specific action from a club and always involve club inputs, in the form of cash or in-kind support. The value of direct cash contributions can be easily and accurately calculated. However, the value of clubs' direct, in-kind provision and maintenance of community and sporting facilities and infrastructure needs to be estimated. IPART's issues paper suggested four options for estimating this value:

1. surplus revenue funding
2. willingness to pay
3. avoidable cost
4. market value.

Option 1, surplus revenue funding, estimates the value of direct in-kind contributions by quantifying the revenue transferred from profitable to non-profitable club activities. Options 2, 3 and 4 assign an economic value to a club-provided product and compare the assigned economic value to the observable sale price charged by the club.

Few stakeholders expressed a view on these options. However, ClubsNSW supported option 2, willingness to pay. Two other stakeholders - Mr Wayne Sampson and Catalina Country Club - supported option 4, market value. Mr Sampson preferred option 4 on the basis that it is a more reliably quantified measure (as market values and club sale prices are easily observed) that eliminates any difficulty associated with quantifying what proportion of club pricing surplus can be considered a social contribution. The Catalina Country Club also preferred option 4 due to the ease it offers in identifying the necessary components for calculation.

IPART notes that certain measurement issues exist no matter what valuation methodology is used. These issues relate to the limitations of the information and data available on the clubs industry. For example:

- ▼ As not-for-profit, mutual entities, clubs have little incentive to record, measure or report their social contributions, except where they are required to by the CDSE Scheme.
- ▼ It is difficult to compile a comprehensive and complete list of club goods and identify the quantities consumed.
- ▼ The diversity of clubs in varying geographical locations means the goods and services provided throughout the industry are extremely varied, and so will have different values.

After considering each of the options and stakeholders' responses, IPART found that market value is the most appropriate approach for estimating the value of direct, in-kind provision of community and sporting facilities and infrastructure because:

- ▼ it is a comparatively more reliably quantified measure (as market values and club sale prices are more easily observed)
- ▼ it does not attempt to estimate the consumer's willingness to pay and so does not require estimates or assumptions about the price elasticity of demand for these facilities and infrastructure
- ▼ it can identify and record a value for either an individual club's or the clubs industry's aggregate in-kind provision of community and sporting facilities and infrastructure.

4.1.2 Club volunteer labour

IPART considers it appropriate to incorporate the estimated value of volunteer labour that contributes to the provision of club-provided social infrastructure and services. As Chapter 3 discussed, volunteers are involved in clubs in a variety of roles including assisting with sporting activities and bar trading, as well as acting as directors.

IPART notes that when incorporating a value for volunteer labour, it is important to ensure there is no 'double counting'. IPART's preferred approach to estimating the value of clubs' direct in-kind provision of community and sporting facilities and infrastructure implicitly incorporates a value for volunteer labour involved in providing and maintaining these facilities. Therefore, the value of this labour should not also be included in estimating the value of club volunteer labour. However, the estimated value of the labour provided by club directors and volunteers involved in other club activities should be included.

4.1.3 Indirect social contributions

Indirect social contributions are much harder to identify and measure quantitatively than direct contributions. These contributions are not the result of purposeful, specific action by a club, but rather are an indirect outcome of the existence, operation and activities of a club. In addition, the benefits they create are likely to be intangible, and to be valued differently by different members of the community, which means they are also hard to quantify with any accuracy.

Because of these difficulties, IPART considers that these contributions are best identified and recorded through a qualitative statement that describes the nature of the indirect social contributions a registered club makes, and the benefits the club believes local communities derive them. IPART also considers that such qualitative statements should be relatively easy for clubs to produce, given their knowledge of their own activities and their local communities.

ClubsNSW argued that clubs' indirect (or intangible) contributions should be measured quantitatively through a 'willingness to pay' approach rather than qualitatively. It put the view that this approach (which would involve a choice modelling exercise) can accurately capture the value of club-provided indirect benefits as well as highlight the club services that are most highly valued by the community.⁷¹

However, IPART considers that qualitative statements are more appropriate for identifying and recording this component of clubs' social contribution. IPART acknowledges that a choice modelling exercise might be useful for estimating the economic **benefit** communities derive from club-provided community services. But IPART considers that this approach is not appropriate for estimating the **value** of clubs' indirect social contributions, as its terms of reference ask it to do. In particular, IPART considers that:

- ▼ Calculating the value of something requires a different approach to calculating the benefit derived from something. In economics, the calculation of a benefit involves estimating the consumer and producer surplus for a good or service. But the calculation of a value requires a valuation, which usually involves some form of market- or cost-based approach.
- ▼ To use the choice modelling technique to measure the indirect contributions of clubs you would need to be able to measure consumers' willingness to pay for different levels of outcomes that are difficult for them to identify (such as safe environments for families and quality of life for the elderly). Unlike choices between specific products, it is unclear what is meant by increasing these outcomes by, say, 10 per cent.
- ▼ Using the choice modelling technique would also implicitly assume that clubs are best placed to deliver these outcomes (as opposed to the Government or the private sector), which may not necessarily be the case. The community may be willing to pay for these indirect, intangible benefits, regardless of how they are delivered. (Further information about the choice modelling approach is provided in Appendix F.)

⁷¹ ClubsNSW submission, 4 April 2008, p 14.

4.1.4 How IPART applied its preferred approach in calculating the value of the direct social contributions in 2007

Under IPART's preferred approach for identifying and recording the value of the clubs industry's direct social contributions, this value is calculated according to the following expression:

Total value of direct social contribution = Total value of direct cash contributions

plus

Total estimated value of direct in-kind provision and maintenance of community and sporting facilities and infrastructure

plus

Total estimated value of volunteer labour

The calculation uses data underlying the four-yearly socio-economic impact study (SEIS) published by ClubsNSW. This study is based on information provided by registered clubs through a comprehensive industry survey undertaken by ACG.

As indicated above, the total estimated value of direct in-kind contributions through the provision of community and sporting facilities and infrastructure is calculated using a market-based approach. This approach focuses on the revenue that a club forgoes through its provision of the contributions. It calculates the difference between the commercial or market value of the product (eg, use of a sporting oval), less the price charged by the club, to determine the club's direct social contribution. Where a club provides the product at no charge, the commercial or market value represents the total direct social contribution.

The equation below illustrates how market value is applied:

$$MV_X - SP_X = SC_X$$

where:

MV_X represents the market value of product X

SP_X is the club sale price for product X

SC_X represents the measure of social contribution for the provision of product X.

As noted above, this approach implicitly incorporates a value for the volunteer labour associated with the provision of certain club facilities. For example, a club may make use of volunteers to maintain its golf course. As a result of this volunteer involvement, the club can reduce its greenkeeping expenses and is then able to charge a lower sale price than would otherwise be required if commercial labour were used. Therefore, in calculating the estimated value of volunteer labour, only volunteer labour that is not associated with the provision and maintenance of community and sporting facilities and infrastructure already valued through the market value-based approach is included.

IPART's methodology uses available commercial prices for comparable goods and services and deducts the payment made by members and non-members for use of these facilities. It does not include the consumer surplus that individual members and other users may enjoy or the community-wide (or public) benefits generated on top of the value of CDSE and other similar contributions.

IPART encountered several difficulties in applying this methodology, using the data made available by ClubsNSW. In particular:

- ▼ Market values cannot be estimated for all club-provided facilities. IPART attempted to value the majority of club-provided facilities. For products where no market value can be estimated (mainly due to the absence of an active market for these products or significant heterogeneity in the types of facilities provided), IPART treated the contributions associated with these products as indirect contributions (ie, it did not attempt to quantify them, but considered they should be identified and recorded through qualitative statements). These products include memorials, playgrounds, libraries, carpet bowls, boat/ski facilities and other (sporting and non-sporting) facilities.
- ▼ Market values for products differ based on factors such as location, type and quality. Given this, IPART adopted a range of market values where appropriate for metropolitan and country/regional facilities. These ranges reflect IPART's assessment of the market values of typical low and high value facilities.
- ▼ Club sale prices and annual sale quantities are not currently collected as part of ACG's survey. Therefore, IPART adopted an alternative approach for calculating the market value of direct in-kind social contributions.

Table 4.1 summarises IPART's approach for estimating market values for different types of club-provided facilities.

Table 4.1 IPART's approach for estimating market values for different types of club-provided facilities

Club-provided facility	IPART's approach
Bowling greens, golf courses, tennis courts, squash courts and swimming pools	Market values were estimated using the ABS NSW sport participation and frequency rate, the market value for annual participation and the number of facilities in NSW. The estimated market value represents the annual sum of revenue generated using market values for participation.
Gymnasiums	A market value was estimated by multiplying the average gym membership with the market value for annual participation. The estimated market value represents the annual sum of revenue generated per gymnasium.
Billiard tables	A market value was estimated based on a usage assumption multiplied by an hourly market rate. The estimated market value is equivalent to the annual sum of revenue generated.
Meeting rooms/entertainment halls and accommodation	Market values were estimated by multiplying the ABS room occupancy rate by an estimate of the room rate market value.
Memorials, carpet bowls, boat/ski facilities, playgrounds and libraries	Treated as indirect contributions and recorded by clubs through a qualitative approach.

More detail on how IPART applied its preferred approach using data from the ClubsNSW/ACG industry survey is provided in Appendix E.

4.2 IPART's estimate of the value of the clubs industry's social contributions

IPART estimates the value of the clubs industry's total direct social contributions at approximately \$811 million in 2007. This estimate is based on the mid-point of the valuation ranges applied and comprises a market value of in-kind contributions, cash and volunteer hours of \$1,379 million less revenue received for provision of facilities of \$568 million.⁷² Table 4.2 shows the components of the estimate.

⁷² Excludes revenue from gaming machines.

Table 4.2 IPART's estimate of the value of the clubs industry's direct social contributions (2007)

Industry values	\$ million
Direct cash contributions	91
Direct in-kind contributions	
Market value of facilities	1,244
Less revenue received by clubs for their facilities	568
Volunteer hours	44
Total value of social contribution	811

This estimated value has been revised downwards since the release of IPART's draft report. In preparing the draft report, IPART only had access to preliminary data on the total levels of volunteer labour for the industry. Disaggregated data have since become available, and IPART has adjusted its estimated value accordingly. Specifically, volunteer hours in IPART's draft report included \$82 million in volunteer hours spent in the provision of sporting facilities and community facilities (eg, bar, restaurant and conference facilities). These hours are accounted for in the estimated value of direct in-kind contributions and thus have been excluded from the estimated value of volunteer labour. The value of volunteer labour does include the hours contributed by club directors and other volunteers in the industry.

The estimated value of the clubs industry's direct social contributions for 2007 should be considered in the context of the following:

- ▼ The registered clubs industry's gaming machine income in the 2007 gaming machine tax year was \$2.8 billion.⁷³ As Chapter 6 will discuss, gaming machine revenue typically subsidises club activities such as bar and restaurant operations, as well as the provision of community facilities (including sporting fields, bowling greens, golf courses and meeting rooms). This enables clubs to provide facilities and services at prices below the market rate (as recognised through the value of direct in-kind contributions of \$676 million, or \$1,244 million less \$568 million), as well as make direct cash contributions to their communities.
- ▼ The gaming machine revenue tax rates for registered clubs are around half of those that apply for NSW hotels. In effect, this provides the clubs industry with a tax concession of approximately \$484 million for 2007/08.

IPART notes that, in 2007, the clubs industry received total revenue of \$5.4 billion, and incurred \$4.2 billion in expenditure for all operations.⁷⁴ The difference between total revenue and expenditure was \$1.2 billion. As not-for-profit entities, the difference between clubs' revenue and their expenditure clearly has a relationship to their social contributions (ie, this difference can only be spent on providing benefits to members in line with the club primary purpose or making contributions to the

⁷³ Calculated as gaming machine revenue (excess of revenue from machines over outgoings from machines) less gaming machine tax/duty.

⁷⁴ ACG, *Socio-Economic Impact Study of Clubs in NSW (2007)*, 2008, p 15.

community). IPART considers that the difference between clubs' total revenue and expenditure (\$1.2 billion) and its estimated value of clubs' direct social contributions (\$811 million) are similar enough to suggest that IPART's estimate is in the right order of magnitude.

4.3 Recommendations for improving the identification and recording of the value of clubs' social contributions

IPART considers that its preferred approach, based on the aggregation of the estimated provision of representative club types, be adopted as the standard measurement of club-provided social infrastructure and services because:

- ▼ it is a reliably quantified measure (as market values and club sale prices are easily observed)
- ▼ it does not attempt to estimate a consumer surplus and therefore does not require estimates or assumptions on the price elasticity for these products.

However, since such an exercise carries significant cost and requires substantial resources, IPART considers that it should only be undertaken on a four-yearly basis. This coincides with the frequency of ClubsNSW's own socio-economic impact study.

IPART considers that ClubsNSW is best placed to undertake and fund future valuations. Although ClubsNSW has argued that there is a case for IPART to undertake future valuations under shared funding from ClubsNSW and the Government,⁷⁵ IPART considers ClubsNSW is the more appropriate body for the following reasons:

- ▼ As the leading industry peak body, ClubsNSW is the logical choice to make future valuations. This is not dissimilar to the task performed by peak bodies in other industries.
- ▼ ClubsNSW currently conducts its own socio-economic impact study of clubs in NSW on a four-yearly basis. IPART's methodology involves an incremental extension to this study which serves several other purposes for ClubsNSW. Details on the application of the methodology are contained in Appendix E.
- ▼ As Chapter 3 discussed, the level of government support for the clubs industry should be commensurate with the level of contribution made by the industry to the NSW community. Future valuations are an important tool for the industry to demonstrate that levels of support should be maintained (or increased).

IPART also notes that an individual club could produce an estimate of its own individual contribution by applying IPART's estimated market values to the facilities it provides.

⁷⁵ ClubsNSW submission, 4 April 2008, p 13.

IPART also supports the continuation of other quantification exercises, such as ClubsNSW's choice modelling exercise. Attempts to quantify the benefits of clubs' services and infrastructure such as this offer additional insight into the contribution clubs make to communities.

In addition, IPART considers that it is important that all valuation and other quantification exercise be transparent and open. To produce a credible valuation, all results need to be completely transparent and accompanied with detailed explanations of the assumptions and estimation procedures used. Where this does not occur, such results lack credibility. Allowing transparency and scrutiny gains the confidence of external stakeholders and government, which increases the likelihood that the results of the valuation will be accepted.

Recommendations

- 5 That IPART's preferred approach for the measurement of club-provided social infrastructure and services be adopted. Under this approach, the direct social contribution of clubs is calculated via the sum of cash contributions, volunteer labour and the market value of in-kind provision and maintenance of community and sporting facilities, less total revenue received for this provision.
- 6 That ClubsNSW assume responsibility for conducting future valuations of the clubs industry's social contributions to the NSW community on a four-yearly basis. If it chooses to use a different valuation methodology from IPART's preferred approach, ClubsNSW should be transparent and open about its methodology and results.

5 Refining the Community Development and Support Expenditure Scheme

The NSW Government established the Community Development and Support Expenditure (CDSE) Scheme in 1998 to encourage registered clubs earning large profits from gaming machines to be involved with and provide financial support for locally-based community programs and services. It does this by providing a gaming machine revenue tax offset of up to 1.5 per cent to clubs that make financial contributions to eligible recipients. This is known as a 'CDSE liability'.⁷⁶

More than one-third of all registered clubs in NSW participate in the CDSE Scheme. In 2006/07, clubs reported CDSE contributions worth \$71.5 million against a CDSE liability of \$40.2 million.⁷⁷ It is the only statutory scheme that requires clubs to record and report on the social contributions they make.

IPART examined the CDSE Scheme, taking into account that the OLGR published revised guidelines for the scheme in October 2007, after reviewing these guidelines and consulting with stakeholders. Because that review concluded so recently, IPART attempted to avoid any duplication of OLGR's work in its own review. Where possible, IPART did not focus on the inner mechanics of CDSE Scheme operation, but chose to address high level issues or those where it felt significant attention was warranted.

IPART found that the CDSE Scheme is generally an effective means for clubs to support the NSW community. The consistent message from stakeholders was that the Scheme is an efficient and effective way of channelling funds to worthy local community causes. Clubs, community groups such as NCOSS, government (OLGR) and industry peak bodies (such as ClubsNSW) all expressed support for the Scheme.

Nevertheless, IPART found that there are some areas where minor changes will help enhance the Scheme's operation. These areas include:

- ▼ improved promotion of the Scheme
- ▼ encouragement for clubs without a CDSE liability to channel their community contributions through a CDSE local committee
- ▼ additional support for the Scheme's local committees by OLGR

⁷⁶ While the term 'CDSE liability' is used in the guidelines for the scheme, IPART notes that the scheme is not compulsory for clubs. Clubs with gaming machine revenue greater than \$1 million per annum that do not participate in the scheme simply do not receive the tax offset.

⁷⁷ Advice from OLGR.

- ▼ improved guidance on the measurement of in-kind CDSE contributions
- ▼ improved reporting of club contributions.

In light of the strong support for the Scheme, IPART also looked at options for extending the available rebate beyond the current 1.5 per cent cap, but concluded that extension is not justified.

The sections below discuss IPART's findings and recommendations in relation to the CDSE Scheme in detail.

5.1 Improving the promotion of the CDSE Scheme

IPART believes greater awareness and understanding of the CDSE Scheme and how to apply for grants under it could be achieved through improved promotion of the Scheme's details on council and club websites. This should include information about who is eligible for CDSE funding and how applicants can apply.

Clubs should also be encouraged to advertise and publicise the contributions made through the CDSE Scheme. IPART believes a combination of both actions would develop a stronger community awareness of CDSE opportunities to increase the likelihood that the most worthy applicants would apply.

Recommendation

- 7 That local government and clubs enhance their promotion of the Community Development and Support Expenditure (CDSE) Scheme on council and club websites, including publicising CDSE-funded projects on club websites and in annual reports.

5.2 Including smaller clubs in the committee process

Smaller clubs, below the CDSE threshold, should be encouraged to participate in a CDSE local committee process. Participation in CDSE local committee processes will give smaller clubs access to the community and social planning expertise that NCOSS, DOCS and councils provide local committees. IPART believes small club participation in the local committee process will improve the effectiveness of small club contributions, and will enable greater co-ordination between individual clubs and the contributions they make as a group.

Recommendation

- 8 That ClubsNSW encourage smaller clubs below the CDSE threshold to participate in a CDSE local committee process.

5.3 Increasing support for CDSE local committees

During consultation, the OLGR proposed to provide greater support to CDSE local committees through, for example, an annual conference for committee members and the provision of more guidance on process and conflict resolution issues.⁷⁸ While clubs and industry stakeholders were generally happy with the CDSE local committee process, IPART believes the OLGR proposal would further strengthen committee processes by offering greater support and disseminating best practice to participants and convenors.

Recommendation

- 9 That the Office of Liquor, Gaming and Racing (OLGR) provide greater support for local CDSE committees through an annual conference for committees and provision of support materials on issues such as priority-setting, decision-making and conflict resolution procedures, and information to clubs on valuing in-kind contributions.

5.4 Improving guidance to clubs on measuring in-kind CDSE

After considering comments received on in-kind measurement options, IPART believes market value is best suited to measuring clubs' in-kind provision of goods and services. It assigns a commercial or market value to the good provided in-kind. The value of the club's direct social contribution is then found by subtracting any price or fee charged by the club from the commercial or market value assigned to the good.

5.4.1 The need for clearer direction

While clubs do not appear to have any problems describing the in-kind contributions they make, IPART's roundtable and case study club consultation revealed the difficulty they experience when trying to quantify them. This difficulty was further demonstrated by the limited comment IPART received about the options outlined in the issues paper for club in-kind contribution measurement.

Clubs have expressed a view that it is unclear how the in-kind provision of goods and services should be calculated. Some confusion on their part is understandable, because both the March 2004 and the revised October 2007 CDSE guidelines⁷⁹ say that 'actual cost' rather than market price should be claimed, but the guidelines do not define or give examples of actual cost. Actual costs could be interpreted in a number of ways, for example as opportunity cost, marginal cost, avoided cost or average cost – all of which would produce different values.

⁷⁸ For example, OLGR, Sydney roundtable, 27 August 2007, p 20.

⁷⁹ OLGR, *CDSE Scheme Guidelines*, March 2004, p 7; October 2007, p 6.

Even ClubsNSW's CDSE information for clubs gives an incorrect example of 'actual cost', saying that provision of meeting room facilities at no cost to community groups may be claimed at the standard room hire fee ordinarily applied (ie, the market rate).⁸⁰ ClubsNSW's misinterpretation of the valuation requirements is a clear sign that the industry struggles to deal with the valuation of in-kind contributions. IPART believes this is mainly because the guidelines are difficult to understand and apply correctly.

5.4.2 Options for in-kind measurement

IPART's issues paper identified the need for a clearer approach to measure clubs' in-kind contributions. The issues paper outlined four possible options:

1. surplus revenue funding
2. willingness to pay
3. avoidable cost
4. market value.

Chapter 4 described these options in more detail in relation to all direct and indirect social contributions.

5.4.3 IPART's preferred approach

IPART considers that market price should be used to measure clubs' in-kind provision of goods and services.

Of the case study clubs, Clubmulwala was the only club to quantify its in-kind contributions (predominantly room hire) through a method that accounted for all associated marginal costs (eg, servicing and cleaning the room). However, the in-kind value for, say, room hire for a short meeting to a small church group, would be negligible (assuming the servicing and cleaning costs would be close to zero). IPART does not consider a value of close to zero, particularly for meeting rooms, to be a fair outcome, as it does not recognise the fact that clubs built these facilities largely for the purposes of meeting the needs of community groups and organisations.

Many roundtable participants and case study clubs⁸¹ used a market price measure to quantify in-kind contributions (eg, to value the provision of meeting rooms without charge to community groups), whether they were reporting on the contributions to their boards or claiming CDSE rebates for them. In their opinion, a market price approach represented their opportunity cost and, without any clear direction for valuation, was the only logical way to assign value.

⁸⁰ ClubsNSW, *CDSE Funding – FAQs for Clubs and Committees*, available at www.clubsnsw.com.au.

⁸¹ For example, participants at the Armidale roundtable, 21 September 2007, pp 4-18; Bowlers Club of NSW.

IPART believes a market price measure can avoid the current confusion experienced by the industry. It will establish a clear, consistent and objective approach through its simple, straightforward application of easily understood and observed values. Surplus revenue funding and avoided cost are more complicated and require a subjective assessment of cash flows and the costs clubs incur.

IPART considers that the CDSE Scheme guidelines should be amended to replace the reference to actual cost with market value. Additionally, the guidelines should be enhanced to include a more comprehensive explanation of the in-kind valuation process, including examples of in-kind CDSE valuations.

Recommendation

10 That the CDSE Scheme guidelines be amended to:

- advise that a market value approach should be used to value the provision of in-kind CDSE
- include a more comprehensive explanation of in-kind valuation.

5.5 Improving the way clubs report their social contributions

Documenting and reporting on club social contributions would make the task of identifying and measuring the value of the contributions that clubs make to their communities easier.⁸²

A mandatory reporting framework would require all clubs to record, report and potentially measure the social contributions they make in communities. A mandatory reporting framework was proposed by NCOSS at the second Sydney roundtable.⁸³ However, such an obligation would impose a significant additional burden on the industry (in particular for smaller clubs). Some case study clubs⁸⁴ noted the administrative burden measuring and recording involves and/or the difficulties associated with the valuation of in-kind contributions.

The benefit provided by mandatory reporting thus needs to be balanced against the administrative and procedural burden it would create for clubs. While a mandatory reporting framework would conceivably be acceptable for the largest, strongly managed clubs with multiple layers of management, smaller clubs may not have the necessary resources to perform this task.

⁸² Outside CDSE requirements, clubs traditionally do not measure in-kind contributions. However, some clubs have begun to record and value them.

⁸³ NCOSS, Sydney roundtable, 7 May 2008, p 43.

⁸⁴ For example Asquith Bowling and Recreation Club, Club Old Bar and Riverstone-Schofields Memorial Club.

For this reason, IPART considers that individual club measurement, recording and reporting of contributions, beyond that required and conducted through the CDSE Scheme, should remain non-mandatory. Nevertheless, clubs that actively record and measure their activities and contributions gain useful commercial information and receive benefits through a better understanding of their core business. Recognising these benefits, the 'For Community Support' section of ClubsNSW's Best Practice Guidelines recommends clubs annually assess their community support activities. It recommends these activities be reported separately or in the annual report to club members.⁸⁵

IPART considers that recording and reporting of individual club social contributions to members and, where possible, to ClubsNSW, should be encouraged. The benefits of measuring, recording and reporting on club activities and contributions should be communicated to industry through a more detailed discussion within ClubsNSW's Best Practice Guidelines.⁸⁶

Recommendation

11 That ClubsNSW encourage clubs to measure, record and report on their social contributions to their members and to ClubsNSW, by developing a Best Practice Guideline on reporting social contributions.

5.6 The maximum CDSE rebate should not be increased

IPART asked roundtable participants and case study clubs whether they saw benefit in extending the maximum CDSE rebate beyond the current 1.5 per cent of prescribed profits. Some stakeholders saw benefits in CDSE Scheme expansion. NCOSS, for example, supported an extension of the rebate.⁸⁷ The Leagues Clubs' Association, both at roundtables and in submissions,⁸⁸ proposed including donations to professional rugby league clubs in CDSE and providing a 50 cents in the dollar rebate for CDSE contributions over 1.5 per cent of prescribed profit up to 5 per cent of profit.

On the other hand, many individual clubs were wary about extending the Scheme. However, this view seemed to be based on a misunderstanding that CDSE is compulsory, and that extending it would create a larger cost burden for clubs, when in fact it operates as a revenue-neutral tax offset for clubs.

⁸⁵ ClubsNSW, *Best Practice Guidelines*, July 2005, p 37.

⁸⁶ Feedback from the case study process identified that most clubs looked to ClubsNSW Best Practice Guidelines for guidance and found them to be very useful.

⁸⁷ NCOSS, Sydney roundtable, 27 August 2007, p 11.

⁸⁸ Leagues Clubs' Association, Sydney roundtable, 27 August 2007, p 17; Leagues Clubs' Association submission, 8 April 2008, p 6.

IPART considered the merits of extending the rebate, but concluded that it would not achieve its desired objective of increasing club community contributions, as clubs already contribute close to twice their CDSE liability. If the cap were increased under present circumstances, it would most likely result in government subsidy of contributions already occurring, rather than an increase in clubs' community contributions.

IPART therefore considers that the maximum CDSE rebate should remain unchanged as 1.5 per cent of prescribed profits.

6 Strengthening the financial viability of the registered clubs industry

As the terms of reference for this review noted, several factors are placing pressure on the financial viability of registered clubs in NSW. These factors include demographic changes, as well as recent changes to the regulatory framework governing club operations, particularly changes in gaming machine tax rates and the introduction of non-smoking legislation. Registered clubs also face increasing competition from the hotel sector.

IPART investigated the current financial viability of the clubs industry. Its key findings confirm the common perception that most clubs are highly dependent on gaming revenue. As a result, they are very vulnerable to changes related to the regulation of gaming machines. However, IPART also found that 13 per cent of clubs do not rely on gaming machines at all. These clubs have a different business model to clubs that rely on gaming machines. Where they are financially viable, this is largely a result of their high use of volunteer labour and high level of member involvement. IPART considers that the very nature of these clubs mean they make an important social contribution. They are also often the custodians of significant community assets.

IPART's key findings also indicate that the financial viability of registered clubs varies greatly across NSW. Some clubs are financially strong, while others are struggling for a variety of reasons. These reasons include a lack of understanding of their own financial position, the level of competition from other venues in their communities, and the financial management skills of their boards and managers.

IPART considered what can be done to strengthen the clubs industry's financial performance, and concluded that this can best be achieved through a co-ordinated response that involves action by individual clubs, government agencies (such as OLGR) and peak bodies (such as ClubsNSW). IPART considers that action is needed to help clubs to identify when their financial performance is declining, and then to help them and their management to respond effectively. However, IPART recognises that for some individual clubs, no amount of improved financial management will ensure their financial viability. Action is needed to help these clubs explore options such as amalgamation. IPART also examined several regulatory requirements that ClubsNSW submitted create an unnecessary burden for clubs and concluded that some of these need to be addressed.

The sections below discuss IPART's key findings and conclusions on what can be done to strengthen the clubs industry's financial viability in more detail.

6.1 Key findings on clubs' financial viability

In examining clubs' financial viability, IPART looked at what clubs earn and what they spend. It also considered the indicators of an individual club's financial viability and signs of financial distress, and examined how clubs' viability varied by size. In addition, it considered the reasons why some clubs are prospering while others are declining. Its key findings are discussed below.

6.1.1 Most clubs are heavily dependent on gaming machine revenue

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. In a submission, ClubsNSW identified gaming machines as the predominant source of revenue for clubs.⁸⁹ It indicated that, on average, gaming machines account for 63.2 per cent of a club's total revenue, while bar and food revenue account for 16.6 per cent and 7 per cent respectively.⁹⁰

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 machine revenue between \$0 and \$200,000 a year – this source accounts for 10.2 per cent of total revenue.⁹¹

Once the costs of providing club services and activities are met (eg, the costs of goods sold, wages and other employee expenses and taxation), the net profits generated are used to make these services and activities affordable and accessible to club members (ie, many clubs provide services and activities to members for free or at a discounted rate). The net profits are also used to enhance or expand the club's facilities, provide sponsorships and make donations to related sub-clubs (eg, junior sporting clubs, RSL activities), and to provide community facilities and support.

In terms of profit, ClubsNSW highlighted that, 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.⁹²

Table 6.1 summarises ClubsNSW's data on the sources of revenue and profit for registered clubs. IPART's analysis of its case study clubs supports this data.

⁸⁹ Based on data from ACG, *Socio-economic impact study of clubs in NSW (2003)*, 2003.

⁹⁰ ClubsNSW submission, 4 April 2008, p 26.

⁹¹ ACG, *Socio-economic impact study of clubs in NSW (2007)*, 2008, p 17.

⁹² ClubsNSW submission, 31 July 2007, pp 98-99.

Table 6.1 Sources of revenue for registered clubs

Source	Revenue % of total revenue	Profit % of total profit
Gaming machine	63.2	174.6
Bar	16.6	17.0
Food	7.0	(1.7)
Membership	3.2	2.0
Facilities and venue rental	1.1	0.4
Other gaming	2.2	0.0
Sports	2.0	(6.3)
Ancillary business	1.8	(85.8)
Other ^a	2.9	

^a 'Other' includes ancillary businesses, donations, cash grants, abnormal and extraordinary items.

Source: ClubsNSW submission, 31 July 2007, pp 98-99 and Allen Consulting Group, *Socio-economic impact study of clubs in NSW (2007)*, 2008, p 16.

Note: Year sources for columns differ. Revenue figures are based on 2007 data and profit figures on 2003 data (more recent figures on profit % are not available).

ClubsNSW also submitted that, while it believes clubs should be encouraged to diversify their activities and sources of income, it also believes clubs' long-term financial viability will remain closely linked to their ability to operate gaming machines.⁹³ Based on its own investigation and analysis, IPART agrees with this view. It considers that there are no feasible options for replacing a club's reliance on gaming machine revenue for the following reasons:

- ▼ While clubs' operation of gaming machines is not without risk (ie, competition between gaming venues, consumer appeal/expectations of type of and age of machines), this operation is a simple business with defined gross returns in percentage terms (after gaming tax and return to player) compared to other club department operations and other business segments.
- ▼ Gaming machines can generate a much higher volume return per square metre of floor space with relatively low staffing requirements compared to other club trading activities, or any other business a club might diversify into. For example, food operations are far more labour-intensive and influenced by a greater range of external inputs and factors, such as cost of goods, food and service quality and greater competition.

Given this reliance on gaming machine revenue, clubs are vulnerable to changes in government policy that directly influence this revenue stream, such as changes to gaming machine tax rates. Therefore IPART considers any future changes in this policy needed to be preceded by consultation with the clubs industry.

⁹³ ClubsNSW submission, 31 July 2007, p 100.

Recommendation

12 That any future changes in Government policy affecting the revenue stream from gaming machines be preceded by consultation with the clubs industry to determine the likely impact of the proposed changes.

IPART notes the NSW Government and ClubsNSW entered into a Memorandum of Understanding (MOU) about gaming machine taxation rates in March 2006. This MOU sets out the gaming machine tax rates that will apply to registered clubs until 2011/12 and commits the two parties to a consultation mechanism in relation to future changes to taxation arrangements. IPART's view is that a similar level of consultation should take place concerning future changes in policy (in addition to tax rates) that affect this revenue stream.

ClubsNSW submitted that the combination of recent gaming machine taxation increases and the introduction of total smoking bans have sent many clubs to the brink of financial disaster. On this basis, it called for an immediate review of clubs' gaming machine tax rates.⁹⁴ However, as IPART indicated on numerous occasions throughout its review and consultation process, the terms of reference for this review do not include revisiting NSW Government policy on smoking bans in clubs or gaming machine tax rates.

In addition, IPART does not consider that the information presented by ClubsNSW provides clear evidence that clubs are "facing financial disaster". Table 6.2 shows that compared with 2003, a higher proportion of clubs in all size categories were profitable in 2007, and that a smaller proportion of clubs in most size categories were non-profitable.

⁹⁴ ClubsNSW submission, 4 April 2008, p 18.

Table 6.2 Proportion of clubs that were profitable in 2003 and 2007 by club size

Club size	Non-profitable		Marginally profitable		Profitable	
	2003	2007	2003	2007	2003	2007
0-200K	37.1%	23.8%	11.3%	7.9%	51.6%	68.3%
>200K-1M	17.6%	17.0%	35.3%	18.2%	47.1%	64.8%
>1M-5M	29.4%	18.8%	26.9%	11.7%	43.7%	69.5%
>5M-10M	15.7%	21.7%	35.3%	19.6%	49.0%	58.7%
>10M	13.0%	8.3%	19.6%	14.6%	67.4%	77.1%
Total clubs	25.6%	18.2%	24.2%	13.9%	50.2%	67.8%

Note: Clubs with a n EBIT to total revenues ratio of less than 0.1 per cent are categorised as *non-profitable*; clubs with positive EBIT to total revenues ratio of between 0.1 and 5.0 per cent are categorised as *marginally profitable*; clubs with a positive EBIT to total revenues ratio greater than 5 per cent are categorised as *profitable*.

Source: Allen Consulting Group SEIS 2003 and 2007.

The data shown in Table 6.2 do not include the effects of the final stage of increases in gaming machine tax rates, or the total indoor smoking ban introduced on 2 July 2007. However, the changes in profitability do appear consistent with the degree to which changes in gaming machine tax rates affected each of the categories across the relevant period. For example, clubs with gaming machine revenue of \$200K-\$1M had their level of gaming machine tax reduced from 10 per cent to zero. Between 2003 and 2007, the proportion of these clubs that are profitable has increased from 47.1 per cent to 64.8 per cent.

IPART acknowledges that the introduction of a total indoor smoking ban is likely to negatively affect clubs' profitability in the short term. However, it also notes that the experience in Victoria and Queensland (where total indoor smoking bans were introduced some years ago) suggests that levels of gaming machine revenue will recover to pre-ban levels. ClubsNSW submitted that in Queensland, this recovery occurred in 18 months, while in Victoria, it took 5 years.⁹⁵ However, IPART notes that indoor smoking bans were phased-in over a much shorter period in Victoria than they were in Queensland and NSW.

6.1.2 Club-specific indicators of financial viability

Generally, a business is considered to be a 'going concern' if it can demonstrate that it has the capacity to meet all its financial commitments when they fall due. Put another way, such a business has the ability to operate in the future without the need to liquidate assets.

In the clubs industry, this basic definition of financial viability still applies. However, to rephrase it so it is specific to registered clubs, a club is considered to be financially viable if it can generate sufficient funds from its trading activities to enable it to cover its costs and provide services to its members and the community,

⁹⁵ ClubsNSW submission, 4 April 2008, p 6.

meet all its external financial obligations and, over the medium to longer term, provide the financial capacity to continually re-invest in the club to remain relevant and competitive.

However, there is a 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 profits⁹⁶ that allow them to operate other departments and activities at less than commercial rates (eg, they might provide a service for slightly lower than market rates, at cost price, or at less than cost price). For example, as Table 6.1 above indicated, on average clubs incurred losses on food and sporting activities in 2007.

Clubs' not-for-profit status means that benchmarking their financial performance against privately owned, for-profit entities is not useful. Therefore, IPART developed a series of club-specific indicators of financial viability. First, it identified the financial measures generally used within the registered clubs industry to assess the financial viability of clubs (Table 6.3).

⁹⁶ The terms profit and contribution are used interchangeably.

Table 6.3 Measures of financial viability for registered clubs

Measure	Purpose
Earnings before interest, income tax, depreciation, amortisation, rent and donations as a proportion of revenue (EBITDARD%) ^a	Provides a consistent and comparable measure of the recurring cash trading surpluses before non-cash items and financial commitments.
Working capital surplus (or deficiency)	Measures the excess or deficiency of current assets over current liabilities. Provides an indication of the club's solvency and short-term viability.
Operating cash flows/working capital deficiency	Measures the club's prima facie ability to fund any working capital deficiency through operating cash flows.
Operating cash flows/borrowings	Measures the prima facie time period that it would take the club to repay total borrowings through operating cash flows.
Capital expenditure/operating cash flows	Measures the club's level of capital expenditure as a proportion of operating cash flows.

^a The standard accounting EBITDA measure is extended to exclude rent and donations paid by clubs to provide a more accurate comparison of financial performance between clubs. Rent is excluded to remove the impact of decisions to lease/rent assets as opposed to purchasing and depreciating assets. Donations are excluded to remove the differences between those clubs not within the CDSE Scheme, those paying the minimum under the CDSE Scheme and those paying amounts over and above their CDSE obligations.

None of these measures on its own will provide a definitive indication of a club's financial viability – they need to be considered together to provide a complete picture. Nevertheless, IPART considers it useful for clubs to be able to use one measure as an initial indicator of financial viability. In IPART's view, the most useful measure for this is Earnings Before Interest Tax, Depreciation, Amortisation, Rent and Donations as a percentage of revenue (EBITDARD%). EBITDARD% represents the net operating cash surplus of a club that is available to service external debt (loan commitments) and re-invest in the club. If EBITDARD% is low and/or declining, it can indicate that a club is experiencing financial distress. The use of the level of EBITDARD% as an initial indicator (but not a definitive measure) of possible financial distress is discussed in greater detail in Chapter 7.

Second, IPART developed a series of positive and negative indicators of financial viability, based on the measures listed on Table 6.3. These indicators (shown in Table 6.4) provide an insight into the financial strength and long-term viability of a club. For example, growing membership numbers is likely to indicate higher levels of revenue and increasing EBITDARD%. Similarly, an increase in trade creditor days is likely to indicate a higher working capital surplus.

Table 6.4 Indicators of financial viability for registered clubs

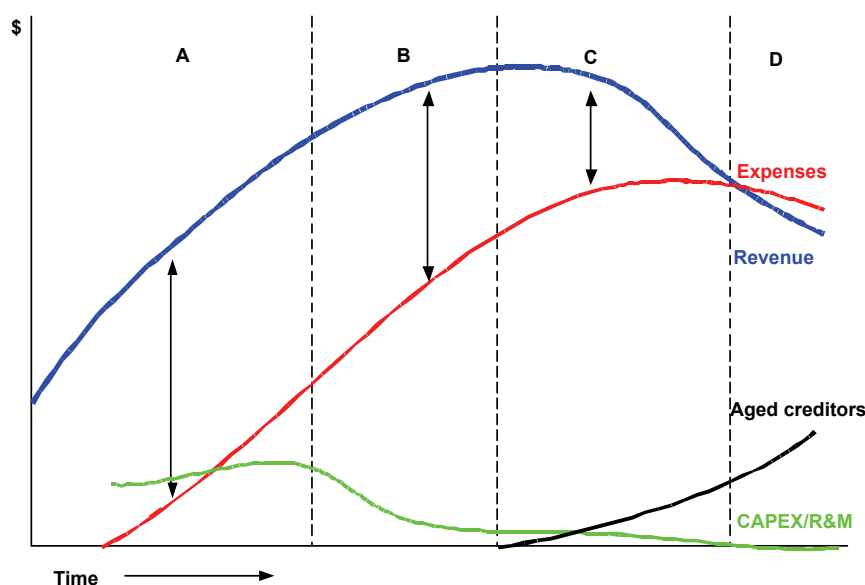
Positive indicators	Negative indicators
Stable or increasing positive EBITDARD% (>15%)	Declining EBITDARD%
Cash flows from operations greater than any working capital deficiency	Increasing working capital deficiency
Sufficient cash flows from operations that allow regular debt repayments and ongoing capital expenditure from trading cash flow	Declining cash flows from operations or negative cash flows from operations
No reliance on interest bearing debt	High levels of interest bearing debt
Ongoing repayment of interest interest-bearing debt	Inability to repay long-term debt
Ongoing capital expenditure and maintenance program	Low or declining capital expenditure and maintenance expenditure
Stable or growing membership	Declining membership
Strategic sales of assets made and ongoing sales of plant and equipment with short lifespan (eg, gaming machines, audio visual equipment)	Sales of non-current assets (eg, land, gaming machine entitlements) to fund working capital deficiencies
Stable or declining trade creditor days	Increasing trade creditor days

As noted above, it is essential that such indicators are not viewed in isolation to assess the financial viability of a club. For example, a club may have a large working capital deficiency and not be making ongoing principal debt repayments on long-term loans. However, it may also have strong EBITDARD%, be generating strong cash flows from its trading activities greater than its working capital deficiency, and be undertaking a large capital expenditure program. In this instance, it would be wrong to conclude that the club's financial viability is in question based only on its large working capital deficiency and the fact that it is not making ongoing principal debt repayments on long-term loans. The indicators must be considered in combination.

6.1.3 The club financial distress timeline

Clubs that go into administration or receivership tend to exhibit similar patterns and symptoms leading up to this severe financial stress. Figure 6.1 (the club financial distress timeline) illustrates the sequence of events typically experienced by financially distressed clubs.

Figure 6.1 The club financial distress timeline



This figure shows the changes in trading revenues, operating expenses, capital expenditure and total aged creditor liabilities experienced by a typical club in financial distress. The timeframe over which these changes occur may be anywhere between two to 10 years.

IPART considers that it is vital for the long-term viability of the registered clubs industry that individual clubs experiencing financial distress are identified and supported in timely fashion. The further a club progresses through the stages illustrated on the figure above, the more difficult it is to turn its trading performance around. If the club progresses through to Stage C, its financial viability will become more marginal, but it may be able to recover if appropriate management strategies are implemented quickly or an appropriate amalgamation partner is found. But if the club progresses to Stage D, it will be almost impossible to turn its performance around (unless a major asset sale is possible).

The four stages shown on the figure are described below.

Stage A

In Stage A, the club is enjoying increasing revenues and increasing margins between revenues and operating expenses (ie, increasing EBITDARD%). During this financially strong (or buoyant) period, it may scale up its operations to accommodate its increasing revenues. For example, the club may respond by increasing the management team and spending money on non-value-added activities (such as unnecessary renovations and equipment purchases). But despite this fact, profits remain strong, mainly driven by strong revenue growth.

Many clubs went through a 'Stage A' period when gaming machine regulation excluded hotels from operating gaming machines, thereby providing the registered clubs industry with a competitive advantage.

Stage B

During Stage B, the club's growth in revenues may start to slow, but its operating expenses may continue to increase. For example, this may be a result of increasing gaming machine tax rates, or the fact that the club has locked itself into commitments that add to the cost of doing business - typically associated with staffing, promotions, or pricing.

During this stage, the club's profitability suffers (ie, the gap between its revenue and expenses narrows). However, its revenues remain relatively strong. The club will often curtail or delay capital expenditure and repairs and maintenance. During the latter part of Stage B, aged creditors begin to increase and the management and board may begin to feel the pressure.

Stage C

During Stage C, the club's revenues begin to decline, as the lack of capital expenditure and repairs and maintenance affects the appeal of the club and increasing competition attracts members and guests elsewhere. Typically, there is also a lag in management's ability to reduce operating expenses because it initially considered the downturn in revenue to be temporary.

In some cases, the club will increase its expenditure on promotion and lower its prices in an effort to drive revenues up again. At the same time, capital expenditure and repairs and maintenance are now reduced to a subsistence level and aged creditors begin to escalate. To make matters worse, the tension between management and the board may begin to further impact on the business and staff morale. At this stage, a club may decide to sell assets (such as surplus land and gaming machine entitlements) to inject cash into the business.

Stage D

At some time during Stage D, operating expenses exceed operating revenues (ie, the club has a cash flow deficiency and thus becomes insolvent⁹⁷). If the club has bank debts or a string of creditors, it often has no option but to go into receivership/administration.

By this stage, the significant deferral of capital and maintenance expenditure means that the club may need to receive a large cash injection in order to survive or generate increases in revenues. This is typically where clubs may decide to sell assets.

⁹⁷ Insolvency is defined as the inability to pay debts as and when they become due or payable.

6.1.4 The level of financial viability among individual clubs varies widely

Evidence presented to IPART in submissions and roundtables (and borne out by IPART's investigations of case study clubs) indicates that the financial health of individual registered clubs varies significantly. Some are very profitable, others are marginally profitable, and some face serious viability issues in both the short and long term.

In a submission, ClubsNSW provided data on the proportion of clubs by size (in terms of gaming revenue⁹⁸) considered to be profitable in 2007, and the proportions considered to be marginally profitable or non-profitable (Table 6.5).⁹⁹ These data indicate that the majority of clubs were profitable (around 68 per cent), while a further 14 per cent were marginally profitable and around 18 per cent were not profitable.

Table 6.5 Proportion of profitable and non-profitable clubs by size (\$ gaming machine revenue) 2007

Club size	Non-profitable (%)	Marginally profitable (%)	Profitable (%)
0-200K	23.8	7.9	68.3
>200K – 1m	17.0	18.2	64.8
>1m – 5m	18.8	11.7	69.5
>5m – 10m	21.7	19.6	58.7
> 10m	8.3	14.6	77.1
Total clubs	18.2	13.9	67.8

Source: Allen Consulting Group, *Socio-Economic Impact Study of Clubs in NSW (2007)* 2008, p 22.

⁹⁸ See section 2.2.2 for a description of classification by size based on gaming revenue.

⁹⁹ ClubsNSW submission, 4 April 2008, p 19.

ClubsNSW highlighted that many of the clubs with gaming machine revenue of less than \$200,000 per annum considered to be marginally profitable or non-profitable in 2007 are bowls and golf clubs that provide a significant proportion of the recreational facilities in NSW.

Clubs with gaming machine revenue of between \$5 million and \$10 million appear to be experiencing the most financial difficulty: 41.3 per cent of clubs in this size category were considered to be non-profitable or marginally profitable.

However, IPART notes that ClubsNSW used only a club's Earnings Before Interest and Tax (EBIT) to determine its profitability. All clubs with a ratio of EBIT to total revenue of less than 0.1 per cent were deemed not profitable, while those with a ratio of between 0.1 per cent and 5 per cent were considered marginally profitable, and those with a ratio of greater than 5 per cent were considered profitable. As noted above, IPART considers that any one measure taken in isolation is not necessarily a good indicator of financial viability. Nevertheless, ClubsNSW's analysis provides a rough guide to the potential level of financial vulnerability in the industry.

6.1.5 Individual clubs are prospering or declining for a variety of reasons

IPART examined the reasons why some clubs are prospering while others are declining. It found that a range of factors can affect an individual club's financial viability, including:

- ▼ Its reliance on gaming machine revenue and vulnerability to regulatory change.
- ▼ Its level of volunteer support or ability to demand higher membership fees.
- ▼ The skills and effectiveness of its board and management.
- ▼ Its understanding of its own financial position.
- ▼ Its consideration of its long-term sustainability and/or retention of community assets.
- ▼ The level of competition it faces.
- ▼ Demographic and socio-economic changes in its local area.

IPART also found that few new clubs have been established in recent years. Each of these findings is discussed below.

Reliance on gaming and vulnerability to regulatory change

As discussed in section 6.1.1, IPART found that most clubs rely heavily on gaming machine revenue. These clubs are particularly vulnerable to regulatory change that directly affects gaming machine operations, such as the recent increases in gaming machine tax rates and the introduction of non-smoking legislation.

In a submission, the Leagues Clubs' Association suggested that to remain financially viable in response to threats to gaming machine revenue, clubs often have to cut back on member and community-based initiatives that are loss making, such as discretionary donations and member subsidies, even though most clubs were established in order to provide such initiatives. Alternatively, they can increase the promotion of gaming machine participation in an effort to limit the loss of revenue, which goes against the Government's promotion of responsible gambling.¹⁰⁰

Clubs with no gaming machines can be viable depending on their level of volunteer support or ability to demand higher membership fees

While most clubs rely primarily on gaming machine revenue, this source of revenue is not necessarily a prerequisite for club financial viability. In fact, a number of smaller registered clubs successfully operate and provide member services with a relatively small number of gaming machines or no gaming machines.

ClubsNSW identified that 23.8 per cent of clubs that generate less than \$200,000 in annual gaming revenue are non-profitable (Table 6.5). Therefore most of these small clubs could be considered as profitable. One of IPART's case study clubs operates only 11 gaming machines, but remains financially viable.¹⁰¹

IPART found that those clubs that operate successfully without significant gaming machine revenue tend to fall into two categories:

1. Clubs that receive significant contributions from their active member base, who volunteer their time to operate the club and co-ordinate member activities. For example, these volunteers might staff the bar, maintain the bowling greens or run the junior sporting competition.
2. Niche clubs that offer valuable services or benefits to a specific target membership group, which enables them to demand significant membership fees. For example, these clubs include exclusive golf clubs or business clubs.

In Western Australia, clubs operate without the support of gaming machine revenue, largely on a volunteer basis, and provide a similar range of sport-related activities as NSW registered clubs. In Victoria, clubs successfully operated without gaming machines until 1992.

IPART notes that a role exists for non-gaming machine clubs in the community. It considers that any action to support the long-term viability of clubs should not overlook this category of club.

¹⁰⁰ The Leagues Clubs' Association of NSW submission, 8 April 2008, p 4.

¹⁰¹ Bingara Sporting Club.

Skills and effectiveness of a club's board and management

IPART found that the skills and effectiveness of a club's board and management team have an important bearing on its financial viability. While stakeholders generally noted that corporate governance had improved since the major reforms in 2003, they argued that the next major corporate governance goal should be to improve the quality of club boards. For example, at the first Sydney roundtable, Bowls NSW cited the quality of elected boards as the greatest issue facing clubs.¹⁰² It put the view that there were far too many board members who, while well-intentioned and passionate about the club, didn't have the necessary skills to effectively direct a business, which in many instances had a turnover of millions of dollars. ClubsNSW also argued that there is a greater need for directors to have capabilities in areas in which they are currently lacking, such as strategic planning, risk assessment and monitoring financial performance.¹⁰³

Similarly, many of IPART's case study clubs identified the board's financial skills as imperative to the club's financial viability. However, IPART found that it was often difficult to judge the level of expertise a board had by indicators such as the members' occupations and qualifications. In addition, stakeholders identified that clubs without full-time managers were also especially vulnerable financially.¹⁰⁴

Chapter 9 discusses the importance of clubs' boards and management in ensuring their financial viability in more detail.

A club's understanding of its own financial position

ClubsNSW acknowledged that many clubs were multi-million dollar businesses and the business practices within these clubs needs to be consistent with this.¹⁰⁵ In particular, such clubs need robust and consistent financial reporting and benchmarking to support their management's decision-making and ensure their long-term financial viability.

IPART's review of its case study clubs found that the quality and degree of consistency in financial reporting and analysis varies significantly within the clubs industry. While some of the case study clubs regularly produce detailed financial performance reports and analyses, others (often smaller clubs) produce little more than what is required by their statutory obligations. The financial management reporting frameworks of case study clubs largely depended on the expertise and experience of individual club managers, as well as the demands of the board. Formalised budgeting processes, completion of ongoing strategic plans and the use of benchmarking information on key performance measures varied greatly.

¹⁰² Bowls NSW, Sydney roundtable, 27 August 2007, p 25.

¹⁰³ ClubsNSW submission, 31 July 2007, p 158.

¹⁰⁴ ClubsNSW, Sydney roundtable, 27 August 2007, p 30; Leagues Clubs' Association, Wagga Wagga roundtable, 14 September 2007, p 30.

¹⁰⁵ ClubsNSW, Sydney roundtable, 27 August 2007, p 25.

IPART considers that clubs which do not produce adequate, detailed financial information and benchmark their own performance are 'flying blind' in terms of understanding their own financial performance and ongoing viability. Adequate financial and benchmarking information allows a club to monitor its financial performance, and identify early signs of declining financial performance. In turn, this allows it to introduce timely measures to improve its financial performance and maintain financial viability (ie, before it reaches Stage D of the financial distress timeline, discussed above).

However, IPART recognises that a club's management reporting framework will vary according to the size and scope of the clubs. For example, a framework that is suitable for a large club like Panthers Entertainment Group may not be suitable for a small club such as Cowra Bowling Club.

A club's consideration of its long-term sustainability and/or retention of community assets

Financially distressed clubs often sell assets to provide a short-term cash injection so they can pay debts when they fall due. However, this is unlikely to assist their long-term financial viability.

IPART considers that this lack of consideration for the long-term financial viability of the club when facing financial pressure is a major reason why some clubs are declining. By selling assets, these clubs can effectively defer necessary reforms. This reduces their ability to rectify the problems causing their decline, and thus places their community assets and services at risk. For example, some clubs sell their gaming machines and gaming machine entitlements, which then reduces their income and thus their ability to turn their financial performance around.

While IPART does not believe further restrictions should be placed on clubs in relation to the sale of assets, clubs should be provided with greater assistance to ensure that any sale is the best option available to them.

Level of competition

IPART found that most stakeholders considered that increasing competition from other providers of hospitality and recreation services and products is a major reason why the financial viability of some clubs is declining. In particular, stakeholders considered that hotels are in direct competition with clubs because they offer a similar package of food, beverage and gaming machine options. To a lesser extent, clubs also compete with other recreational and entertainment options, such as cafes, gyms and cinema, for the consumer's discretionary income or 'entertainment dollar'.

At the first Sydney roundtable, ClubsNSW noted that since the introduction of gaming machines to hotels in 1996/97, there had been 250 closures or amalgamations of clubs.¹⁰⁶ While ClubsNSW did not attribute all those closures or amalgamations to

¹⁰⁶ ClubsNSW, Sydney roundtable, 27 August 2007, p 23.

the introduction of gaming machines in hotels, it suggested that this was a major contributing factor.

Panthers Entertainment Group identified that, in more recent times, consolidation within the hotel sector (ie, the move away from individual ownership to publicly-listed hotel groups and private equity firms) made them formidable competitors for clubs, which are community-owned and do not have the same capacity for developing group holdings.¹⁰⁷

IPART notes that while clubs are experiencing increasing competitive pressure, clubs also enjoy some benefits over competitors such as hotels – such as gaming tax concessions – and have previously enjoyed access to land at peppercorn rental rates.

Demographic and socio-economic changes

Local demographic and socio-economic changes can influence a club's core market (members and guests) and thereby influence the profitability and financial viability of a club. For example:

- ▼ A club located in a population growth area is likely to experience an increase in the local membership and guest base.
- ▼ Conversely, a club located in an area where the population is declining and there are a number of alternative hospitality venues (ie, hotels and other clubs) is likely to have a static or declining membership and guest base.
- ▼ Changes in the socio-economic or demographic profile of the club catchment area, such as the age profile or entertainment and recreation preferences, can also lead to a decline or increase in a club's membership base (for example, lawn bowling is less popular than it was in the past which has led to a decline in bowling clubs' membership).

Case study clubs confirmed the significance of demographic change to club profitability. One case study club identified that its location in a population growth area was beneficial¹⁰⁸; another noted the effect a declining population was having on its profitability¹⁰⁹. The public roundtables, in particular regional roundtable hearings, also noted the impact of declining populations on club operations.

However, IPART notes that, although a stable or increasing population base is a favourable condition for a club, it provides no certainty of improved financial performance or long-term viability. The club also needs to consider the changing preferences and expectations of members and guests (ie, the market) and respond by providing facilities and services to meet these preferences and expectations (ie, maintain its relevance and market appeal).

¹⁰⁷ Panthers Entertainment Group submission, 26 July 2007, p 25.

¹⁰⁸ Bowlers Club of NSW.

¹⁰⁹ Clubmulwala.

Few new clubs are being established

Few new registered clubs have been established in recent years. Only 24 new clubs have obtained certificates of registration since 1998, and only three have obtained such certificates in the last three years for which data are available (2004-2006). In a submission, ClubsNSW attributed this to the impact of government policy, which it argued has not encouraged the establishment of clubs.¹¹⁰

While IPART notes that demographic changes and increases in the level of competition are making it more difficult for the industry, it does not see a role for government in protecting the industry from all changes of this nature. However, it does consider that government has a role in ensuring there are no undue barriers to prevent clubs from being set up in the areas that most need them.

6.2 Strengthening the clubs industry's financial viability

Given the broad range of clubs, and the various reasons why some clubs' financial position is declining, IPART considers that a co-ordinated response is needed to strengthen the clubs industry's financial viability. This response needs to involve action by individual clubs, government agencies (such as OLGR) and peak bodies (such as ClubsNSW). Although approximately 10 per cent of clubs are not members of ClubsNSW, IPART considers it is the most appropriate body to implement several of this review's proposed cross-industry initiatives. ClubsNSW has previously shown that it is capable of and willing to implement such measures. For example, it helped to develop and will distribute the pre-nomination pack for members wishing to nominate for election as directors.

IPART identified a range of initiatives to strengthen the clubs industry's financial viability. These initiatives are designed to help clubs to recognise when their financial performance is declining, and provide assistance to clubs and their management so they can respond effectively. However, even with this assistance, IPART recognises that there are some clubs for which no amount of improved financial management will ensure their individual survival. For example, they may be declining for reasons that are outside their control, such as local demographic changes. For these clubs, there are initiatives designed to help them explore options such as amalgamation.

¹¹⁰ ClubsNSW submission, 31 July 2007, p 117.

IPART's initiatives relate to seven areas:

- ▼ improving clubs' financial reporting and performance benchmarking
- ▼ establishing a Club Viability Panel to assist clubs to identify the early signs of financial distress and to advise on potential responses
- ▼ improving clubs' corporate governance, and training and development for their boards and managers
- ▼ helping clubs better understand the risks and benefits of diversifying their operations
- ▼ making it easier for clubs that are unlikely to be able to improve their financial viability to amalgamate
- ▼ making it easier for new clubs to be established in response to changes in demographics and interests
- ▼ removing unnecessary regulatory restrictions on clubs.

The sections below provide an overview of the initiatives in each of these areas. The following chapters discuss the initiatives in each area in detail, and set out IPART's specific recommendations.

6.2.1 Improving clubs' financial reporting and performance benchmarking

IPART found that clubs need to improve the quality of their financial reporting and performance benchmarking. As outlined in section 6.1.5, there is a lack of consistent financial reporting and performance benchmarking in the industry. This inconsistency makes it difficult for clubs to monitor their own performance, and to compare their performance with other clubs.

IPART considers that as a first step towards improving clubs' performance, more emphasis needs to be placed on clubs monitoring and benchmarking their own performance. To achieve this, IPART considers that clubs with gaming revenue less than \$5 million per annum should be required to produce their financial management accounts in a specific, standardised format, and to report various business efficiency and financial viability measures to the Club Viability Panel as outlined in section 6.2.2 below.

IPART's considerations and recommendations for improving clubs' financial reporting and performance benchmarking are discussed in detail in Chapter 7.

6.2.2 Establishing a Club Viability Panel

IPART considers there is a role for a body to advise clubs on particular matters that affect their financial performance. IPART considers that such a body, to be known as the Club Viability Panel, should be established, with members drawn from the clubs industry and government, plus one or more independent members with financial or legal expertise.

The Club Viability Panel would be advisory rather than supervisory in nature and would have five main functions:

- ▼ facilitating the process of transitioning clubs to a standardised reporting format for their financial management accounts
- ▼ using business efficiency and financial viability measures provided to them by clubs to produce industry benchmarks and communicating them to the clubs industry on an annual basis
- ▼ identifying those clubs that are at risk of being in financial distress, advising these clubs of its findings, and offering to further investigate their financial position and advise them of their options for improving their financial position
- ▼ providing funding for eligible clubs to act on options outlined by the further investigation and advice
- ▼ in situations where the long-term viability of the club is questionable and amalgamation is identified as an option, assisting the club with the process of amalgamation.

Over the course of its review, IPART noted that many of the peak bodies (including ClubsNSW, RSL & Services Clubs Association, and Bowls NSW) were able to identify solutions to many of the issues the clubs industry faces. However, individual clubs were often unaware that there is a problem or, in some cases, were reluctant to implement the required solution. Of course, control over clubs' future direction properly lies with their members through the current democratic system of electing a board to govern these entities. However, IPART envisages that the Club Viability Panel will play a leadership role in encouraging the industry and individual clubs to implement some of the solutions.

IPART's considerations and recommendations for establishing a Club Viability Panel are discussed in detail in Chapter 8.

6.2.3 Improving corporate governance, training and development

As outlined in section 6.1.5, the skills and effectiveness of club boards and the quality of management have a strong influence on a club's financial viability. Clubs that perform well tend to have either a strong, competent board or manager, and ideally all clubs should strive to have both.

An effective board and management team strengthens a club's financial viability, as they can:

- ▼ use appropriate financial planning and assess their club's financial position
- ▼ implement measures such as performance benchmarking and diversification
- ▼ identify when it may be an appropriate time to consider amalgamation and ensure the continued community ownership of club assets.

Stakeholders nominated three principal problems that limit club boards' effectiveness:

1. deficiencies in director skill sets
2. difficulties in attracting suitably skilled and experienced directors
3. difficulties in electing suitably skilled and experienced directors.

Some directors do not have a strong grasp of risk management techniques, financial concepts or the responsibilities attaching to their position. Many clubs are also finding it difficult to attract qualified, adequately experienced people to stand for their boards. And some clubs' constitutional restrictions limit who can stand for election or who is likely to be elected by the membership.

IPART has identified a suite of initiatives to address these problems, including:

- ▼ Requiring all directors of clubs with gaming machine revenue greater than \$1 million a year to undertake core training on financial statements and directors' duties. For clubs below this threshold, the board should be required to ensure that at least two of its directors has completed the core training modules.
- ▼ Encouraging clubs to remove any board or voting restrictions from their constitutions. Where limitations remain, IPART considers that board-appointed directors should be allowed.
- ▼ Encouraging clubs to conduct performance assessments and have a formal succession planning policy in place.
- ▼ ClubsNSW more extensively promoting examples of effective corporate governance and providing further guidance to clubs on best practice.

IPART also considers that there is scope for improving management effectiveness. Therefore, it considers clubs should be encouraged to adopt a more rigorous approach to recruiting management and assessing their performance.

In relation to training, IPART notes that there is already a wide array of training options available for directors and managers of clubs. However, stakeholders considered that factors such as time, cost and negative attitudes to formal education were acting as barriers to directors and managers taking up these training options. Therefore IPART considers action is needed to improve the existing training opportunities, such as introducing more flexible delivery options.

IPART's considerations and recommendations on improving corporate governance, training and development are discussed in detail in Chapter 9.

6.2.4 Helping clubs better understand the risks and benefits of diversifying their operations

IPART believes clubs should consider diversifying their sources of revenue, not as a means of reducing their reliance on gaming machine revenue but as a means of expanding their revenue base and maintaining relevance in their communities. As outlined in section 6.1.1, most clubs rely on gaming machine revenue to remain financially viable. This, coupled with the impact of increasing competition and concern about how regulatory change could affect gaming margins, has meant that diversification is becoming a common element of clubs' business strategies.

However, IPART found 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. This is largely due to gaming operations' inherently high margins. In addition, clubs' ability to diversify may be limited by their managements' capacity to handle diversified businesses.

Despite these issues, IPART considers that diversification can be an effective means of expanding a club's revenue base, broadening its market appeal, and maintaining its relevance by providing additional services to its members and local community. IPART's considerations and recommendations on diversifying clubs' sources of revenue are discussed in detail in Chapter 10.

6.2.5 Making it easier for clubs to amalgamate

There are some clubs for which no amount of improved financial management will ensure their individual survival. In some cases, the impact of demographic changes has reduced the demand for the goods and services that clubs provide to the point where the number of clubs servicing a particular community may not be sustainable. In addition, some clubs may be in a limited position to deal with increased levels of competition from other providers of hospitality and recreation services, so consolidating the number of clubs in the area will improve their financial viability.

IPART believes that amalgamations can assist clubs in areas where there may be an excess number of clubs and where clubs may be struggling to achieve financial viability. For example, some areas may be serviced by three or more clubs that may all be experiencing financial difficulty and may face considerable challenges to become financially viable. In this case, IPART's view is that the needs of this community would be better served through the existence of one strong club, that consolidates the activities and membership of each club, leverages the assets of all clubs and achieves cost efficiencies through the pooling of resources and greater purchasing power with suppliers.

IPART examined the amalgamation process, and considered stakeholder concerns about the complexity and cost of the process. It concluded that measures are needed to provide more information to individual clubs about the requirements of the process. Improving clubs' financial reporting and performance benchmarking (as discussed in Chapter 7) will also better equip clubs to identify the optimum time to amalgamate.

IPART's considerations and recommendations on making it easier for clubs to amalgamate are discussed in detail in Chapter 11.

6.2.6 Making it easier for clubs to be established

As outlined in 6.1.5, it is important to ensure that there are no undue barriers preventing the establishment of new clubs in areas where they are needed. IPART examined how clubs are established. It found that the changing operating environment and maturity of the industry make it unlikely that there will be another 1950s style boom in the number of registered clubs. However, initiatives in three key areas will help make it easier for clubs to be set up in areas that need them:

- ▼ Providing greater guidance to groups wishing to establish a registered club. IPART considers that OLGR and peak bodies should produce a guide to registration, and a pro-forma club constitution to assist in this area.
- ▼ Including an allowance for land that is suitable for establishing a registered club when planning for new developments.
- ▼ Continuing to provide new clubs with access to 10 free gaming machine entitlements until alternative measures to help new clubs are in place.

IPART's considerations and recommendations on making it easier for new clubs to be established are discussed in detail in Chapter 12.

6.2.7 Removing unnecessary regulatory restrictions on clubs

While IPART did not find that regulatory 'red tape' is a significant factor in clubs' financial viability, it did examine several specific regulatory requirements that ClubsNSW submitted create an unnecessary burden on clubs, and found that some of them should be amended or removed.

IPART's considerations and recommendations on these regulatory issues are discussed in detail in Chapter 13.

7 Improving clubs' financial reporting and performance benchmarking

IPART considers that improving clubs' financial reporting and performance benchmarking will help strengthen the registered clubs industry's financial viability. If a club prepares detailed financial management accounts, analyses these accounts in a timely and ongoing way, and compares its own performance against industry benchmarks, it will be able to identify areas of its operations and business where there is scope to improve, whether its financial performance is declining, and whether its financial viability is at risk. If this analysis does identify areas or issues of concern, the club can then develop strategies for addressing them.

As the previous chapter discussed, IPART found that NSW clubs do not undertake financial reporting and performance benchmarking in a consistent way. Therefore, it believes the industry should adopt a common system of mandatory financial reporting and performance benchmarking. In general, IPART is reluctant to recommend mandatory requirements because they can place an additional burden on businesses. However, in this instance, it appears that previous voluntary industry initiatives have not been effective. In addition, it strongly believes that improved financial reporting and benchmarking are in clubs' best interests.

Given the above, IPART considers that:

- ▼ Clubs with annual gaming machine revenue of less than \$5 million should be required to use a standardised reporting format for financial management accounts that is suited to their club size.
- ▼ All clubs should be encouraged to monitor their performance on a range of 'business efficiency measures' and 'financial viability measures' and compare their performance against industry benchmarks.
- ▼ Clubs with annual gaming machine revenue of less than \$5 million should be required to submit annual data on a suite of business efficiency and financial viability measures to the Club Viability Panel, which should then use this data to calculate industry benchmarks.
- ▼ All clubs should be required to calculate and submit a single financial viability measure - EBITDARD as a percentage of revenue - to the Club Viability Panel, which should then use this information to proactively identify and offer assistance to clubs at risk of being in financial distress.
- ▼ Clubs that fail to comply with these financial reporting and benchmarking requirements should be penalised.

Each of these initiatives and IPART's specific recommendations are discussed below. The Club Viability Panel's purpose and activities, including how it will collect and use the information provided by clubs to help improve the industry's long-term financial viability, are discussed in Chapter 8.

7.1 Clubs with annual gaming machine revenue of less than \$5m should be required to use a standardised reporting format for financial management accounts

IPART reviewed the current financial reporting requirements for clubs, and found that the level of detail in clubs' financial reports and how they use the information in these reports varies significantly across the industry. In many cases, the level of detail is insufficient to enable the club to understand its financial performance.

For example, during its review, IPART observed that those clubs that are larger, financially strong or have professional management generally prepare and analyse detailed financial management accounts on a regular and timely basis, which include data on the trading performance of their individual operating departments (such as bars, gaming, catering). Further, the board and management of these clubs recognise and use benchmarking as an important tool to compare the performance of the club against 'like clubs' (in terms of size, location or type) and the wider industry.

In contrast, many small to medium-sized and struggling clubs do not prepare or analyse their financial management accounts in detail. For example, they do not report on or review the trading performance of individual operating departments. Nor do they compare their financial performance to industry benchmarks to identify areas where they can improve. Stakeholder submissions and comments at roundtable discussions confirmed these observations.

Given the importance of financial reporting and benchmarking for strengthening the financial viability of the clubs industry, IPART believes it is important to create a culture of robust financial reporting, analysis and benchmarking among these small to medium-sized clubs. IPART considers that the first step in creating such a culture is to require clubs with annual gaming revenue of less than \$5 million to use a standardised reporting format for their financial management accounts that includes an appropriate level of detail. This will ensure these clubs have access to the information they need to understand their financial performance. It will also generate relevant data for industry benchmarking, and make it easy for clubs to compare their performance to these benchmarks, without imposing a significant administrative burden.

The sections below outline the current financial reporting requirements, and explain how IPART considers a requirement to use a standardised reporting format for financial management accounts should be implemented.

7.1.1 Current financial reporting requirements

As incorporated entities under the Corporations Act, clubs are required to lodge audited financial reports that meet Australian accounting standards with the Australian Securities and Investments Commission (ASIC).

The *Registered Clubs Amendment Regulation 2007* places additional reporting requirements on clubs, including that they must:

- ▼ prepare, on a quarterly basis, financial statements that incorporate:
 - the club's profit and loss accounts and trading accounts for the quarter, and
 - a balance sheet as at the end of the quarter
- ▼ provide the financial statements to the governing body of the club
- ▼ make the financial statements available to the members of the club within 48 hours of the governing body adopting the statements
- ▼ indicate by displaying a notice in the form approved by the Director on the club's premises, and on the club's website (if any), how the club's members can access the financial statements
- ▼ provide a copy of the financial statements to any member of the club or the Director on the request (in writing) of the member or the Director.

These requirements are intended to ensure regular (ie, quarterly) disclosure of the club's financial position to its members. But they are not sufficient to ensure that clubs have access to enough information to understand their own performance. Nor do they specify what reporting format clubs should use, or what level of detail should be included.

7.1.2 Implementing a requirement for clubs to use a standardised reporting format for financial management accounts

IPART considers that a requirement for clubs with annual gaming revenue less than \$5 million to use a standardised reporting format for financial management accounts should be established by amending the Registered Clubs Regulation. It also considers that the only exemption from such a requirement should be for clubs that can show that their existing financial management accounts format can readily produce the business efficiency and financial viability measures clubs are required to submit to the Club Viability Panel.

In addition, IPART considers that there may be a need for more than one standardised reporting format, to take into account variations in club size. In particular, it may be appropriate to require clubs with annual gaming machine revenue between \$1 million and \$5 million to provide a greater level of detail in their financial management accounts than clubs with annual gaming machine revenue less than \$1 million. For example, larger clubs often have more operational departments – such as gyms, restaurants and accommodation – and so it would be appropriate to

require them to report on the trading performance of these departments individually, to provide the board, management and members with an understanding of the profits (or losses) from each department.

IPART considers that the Club Viability Panel it is recommending be established (see Chapter 8) should be asked to develop and recommend the standardised reporting format(s) for financial management accounts to the Minister for Gaming and Racing. The best practice guidelines for benchmarking club performance developed by ClubsNSW and discussed in Box 7.1 (in section 7.2) would provide a good starting point for developing these formats.

Once the standardised reporting formats are approved, clubs should be required to submit one set of financial management accounts in the format they currently use to the Club Viability Panel. The Panel will then determine if their current format is consistent with the standardised reporting format or can readily produce the business efficiency and financial viability measures clubs are required to submit to the Club Viability Panel, in which case they are exempt from the requirement to adopt the standardised reporting format.

If the current format is not consistent with the standardised reporting format and no exemption is granted, clubs with annual gaming revenue between \$1 million and \$5 million should be allowed a transition period of 18 months to comply with the standardised reporting format. Clubs with annual gaming machine revenue less than \$1 million should be allowed a period of two years to comply, in recognition of their more limited resources. All clubs with annual gaming machine revenue of less than \$5 million should be eligible to apply for financial assistance from the Club Viability Panel to help them comply with the standardised reporting format (eg, to buy and install new accounting software).

IPART notes that 90 per cent of clubs in NSW earn annual gaming revenue of less than \$5 million (see Table 2.2) and so would be required to use the standardised reporting format. IPART considers that it is not necessary to require the other 10 per cent of clubs (those with annual gaming revenue of more than \$5 million) to use the standardised reporting format. As discussed above, these larger clubs are likely to already prepare and analyse detailed financial management accounts. Thus, requiring them to use the standardised reporting format would not provide them with additional benefits, and so would create an unnecessary administrative burden. While some large clubs are not currently profitable (see Table 6.4), IPART considers that these clubs have the necessary information and resources available to adequately assess their financial position.

IPART also notes that a club's financial management accounts provide the basis for its audited financial reports. Using a standardised reporting format for these accounts will not reduce the club's ability to prepare its audited financial reports, in line with ASIC's requirements. Nor will it affect the club's ability to prepare quarterly financial statements in line with the requirements of the *Registered Clubs Amendment Regulation 2007*. Rather, the standardised reporting format for financial

management accounts will allow clubs to provide a more accurate and informative picture of the club's financial performance in these statements.

Recommendations

- 13 That a standardised reporting format or formats for financial management accounts be prescribed in the *Registered Clubs Regulation 1996* for clubs with annual gaming machine revenue of less than \$5 million and that:
 - Clubs be granted an exemption from this requirement only if they can show that their existing reporting format for financial management accounts can produce the necessary business efficiency and financial viability measures to submit to the Club Viability Panel.
 - The standardised format may vary, with different requirements for clubs with annual gaming machine revenue less than \$1 million and those with annual gaming machine revenue between \$1 million and \$5 million.
- 14 That the Club Viability Panel (see Recommendation 26) be asked to develop and recommend the standardised reporting format(s) to the Minister for Gaming and Racing.
- 15 Once the standardised reporting format(s) have been approved by the Minister, that:
 - Clubs with annual gaming machine revenue of less than \$5 million be required to submit one set of financial management accounts in their current format to the Club Viability Panel.
 - The Club Viability Panel undertake a high-level review of these financial management accounts to determine whether the club already complies or is exempt from the requirement to use the standardised reporting format on the grounds that its existing format can produce the necessary business efficiency and financial viability measures.
- 16 Where clubs are required to adopt the standardised reporting format, that those with annual gaming machine revenue of less than \$1 million be given two years to comply, and those with annual gaming machine revenue between \$1 million and \$5 million be given 18 months to comply.
- 17 That clubs which have difficulty complying with the requirement to adopt the standardised reporting format due to resource constraints be eligible to apply for funding via the Club Viability Panel to make the necessary changes.

7.2 All clubs should be encouraged to monitor business efficiency and financial viability measures and compare their performance to industry benchmarks

As noted above, benchmarking is an important tool that clubs can use to understand and strengthen their financial viability. It enables clubs to compare their own financial performance with that of similar clubs and the industry as a whole, and identify where their performance can be improved. ClubsNSW has developed best practice guidelines on benchmarking for clubs which provides more detail on the benefits of this tool (see Box 7.1).

While some clubs (particularly the larger clubs) already use benchmarking, IPART considers all clubs should be encouraged to monitor their performance on a range of measures, and compare their performance to industry benchmarks. IPART has developed a set of 'business efficiency' measures and a set of 'financial viability' measures, based on information provided in stakeholder submissions, its consultations with case study clubs, and its review of existing benchmarking material available to the industry.¹¹¹ IPART considers that monitoring these measures will assist clubs to assess the efficiency and profitability of their operating departments and business as a whole, and identify if their financial viability is declining.

These measures are discussed below.

Box 7.1 Benefits of benchmarking for clubs

ClubsNSW has developed best practice guidelines for benchmarking club performance, which IPART considers provide a good description of the process and importance of benchmarking. For example, these guidelines explain that benchmarking plays a vital role in promoting efficiency by ensuring that clubs have access to data that:

- ▼ identifies performance gaps within their operations
- ▼ highlights strengths and weaknesses within their operations
- ▼ assists in developing business improvement strategies
- ▼ provides a platform for decision-making and performance improvement
- ▼ encourages best practice.

As a result, benchmarking can help a club to:

- ▼ improve its overall profitability and efficiency
 - ▼ improve its staff productivity
 - ▼ control costs
 - ▼ use equipment and other assets more effectively
 - ▼ meet its community obligations.
-

¹¹¹ ClubsNSW Best Practice Guidelines on *Financial Reporting and Operational Benchmarking* and ClubData On-line benchmarking service (www.clubdataonline.com).

7.2.1 Business efficiency measures

IPART has developed business efficiency measures for a club's gaming machine departments, for its bar, catering and other departments, and for its business as a whole. Tables 7.1 to 7.3 describe these measures.

Table 7.1 Business efficiency measures – gaming machine department¹¹²

Measure	Description
Gaming revenue as a percentage of total club trading revenue ^a	Provides an indication of the relative contribution of gaming as a percentage of total revenues
Wages as a percentage of total gaming revenue	Provides a relative measure of labour costs as a percentage (proportion) of gaming revenue. Can indicate inefficiencies with staffing levels and rostering
Net contribution ^b as a percentage of total gaming revenue	Measures the net margin as a percentage of gaming revenues or, expressed another way, the percentage of every dollar earned which flows to meeting overhead costs
Revenue ^c per machine	Measures the revenue per machine operated during the period. May indicate an underperforming gaming machine installation when compared to industry benchmarks.

^a Total trading revenue excludes abnormal items not considered to be in the normal course of trading. For example, proceeds from the one-off sale of assets.

^b Excludes non-cash items such as depreciation and amortisation.

^c Gaming machine revenue – gaming machine turnover less return to player but before gaming machine tax.

¹¹² The measures exclude non-cash items, such as depreciation and amortisation and before financing costs, to allow for direct comparison of different clubs' operations. For example, a club that might fund gaming machine purchases from cash reserves can be compared with one that funds purchases from debt. A high (or increasing) cost percentage (relative to a club's historical performance or industry averages) suggests operating inefficiencies. A high or increasing gross profit or net contribution relative to historical performance and industry benchmarks suggests efficient operations.

Table 7.2 Business efficiency measures – bar, catering and other¹¹³ departments

Measure	Description
Revenue as a percentage of total trading revenue	Provides an indication of the relative contribution of individual departments to total trading revenues
Gross profit as a percentage of departmental revenue	Represents the gross margins achieved (sales price less the cost of the beverage/catering item) as a percentage of total beverage, catering or other income respectively. Can indicate inappropriate pricing policies, high costs of supply arrangements or abnormal wastage levels of stock
Wages as a percentage of departmental revenue	Provides a relative measure of labour costs as a percentage of bar, catering or other revenues derived by that labour. Can indicate inefficiencies with staffing levels and rostering
Net contribution as a percentage of total departmental revenue	Measures the net margin achieved as a percentage of bar, catering or other revenues

Table 7.3 Business efficiency measures – whole of business

Measure	Description
Earnings before interest, income tax, depreciation, amortisation, rent and donations as a percentage proportion of total club trading revenue (EBITDARD %)	Provides a consistent and comparable measure of efficiency and profitability of club trading activities
Total club wages as a percentage of total trading revenue	Provides a relative measure of total labour costs (including management and administration) as a percentage of total trading revenue. Can indicate inefficiencies with staffing levels and related costs

These business efficiency measures are common and relevant to all clubs (ie, they are linked to clubs' core business activities). IPART recognises additional measures could be included, such as total promotional and entertainment expenses as a percentage of total trading revenue. It suggests that, over time, the scope of measures may be expanded to include those that are of interest to particular club segments (eg, golf membership fees for golf clubs).

7.2.2 Financial viability measures

As Chapter 6 discussed, IPART has identified several measures that can be used as indicators of a club's financial viability, including:

- ▼ EBITDARD% (which is also a business efficiency measure)
- ▼ Working capital surplus/(deficiency)

¹¹³ For example bowls, golf and accommodation.

- ▼ Operating cash flows/working capital deficiency
- ▼ Operating cash flows/borrowings
- ▼ Capital expenditure/operating cash flows.

As section 6.1.2 explained, these measures need to be considered collectively to present a clear indication of a club's financial viability. As most clubs have varied business strategies related to the application of surplus cash, capital purchases and debt funding, it would be difficult to develop industry benchmarks for some of these measures. However, IPART considers that clubs should be encouraged to monitor their performance on all measures as a means of understanding their own financial position, and to assist them to quickly identify changes in their financial viability.

Recommendations

18 That all clubs monitor the following business efficiency measures:

- Gaming revenue as a percentage of total club trading revenue.
- Wages as a percentage of total gaming revenue.
- Net contribution as a percentage of total gaming revenue.
- Revenue per gaming machine.
- Departmental revenue as a percentage of total trading revenue.
- Departmental gross profit as a percentage of departmental revenue.
- Departmental wages as a percentage of departmental revenue.
- Departmental net contribution as a percentage of total departmental revenue.
- Total club wages as a percentage of total trading revenue.

19 That all clubs measure the following financial viability measures:

- EBITDARD %.
- Working capital surplus/(deficiency).
- Operating cash flows/working capital deficiency.
- Operating cash flows/borrowings.
- Capital expenditure/operating cash flows.

7.3 Clubs with annual gaming machine revenue of less than \$5m should be required to submit annual data on a suite of these measures to the Club Viability Panel

To get maximum benefits from monitoring the measures discussed above, clubs need to be able to compare their own performance to industry benchmarks. IPART considers that the Club Viability Panel should be asked to calculate and publish these industry benchmarks. To generate the necessary data for this, IPART considers that clubs with annual gaming machine revenue of less than \$5 million should be required to submit annual data on a selection of business efficiency and financial viability measures to the Club Viability Panel.

The following sections discuss why it considers that the provision of benchmarking data to the Club Viability Panel should be mandatory, and how this data should be collected and analysed.

7.3.1 Why should the provision of benchmarking data to the Club Viability Panel be mandatory for small to medium sized clubs?

Currently, a private company, Club Data Online, provides industry benchmarking services to clubs on a commercial subscription basis. Metropolitan and larger clubs make up the majority of its subscription base of approximately 200 clubs. In the past, ClubsNSW provided an industry benchmarking services that involved clubs voluntarily providing financial information to create a sample of data, which ClubsNSW used to calculate relevant industry benchmarks. However, while this service was well-regarded by the industry, over time, clubs became apathetic about providing the required financial information. As a consequence, the sample size became too small to be statistically valid and ClubsNSW discontinued the service.¹¹⁴

As noted above, IPART is reluctant to introduce mandatory requirements where resources already exist to help clubs. However, it would appear that cost and perceived irrelevance are operating as barriers to small and medium-sized clubs using commercial benchmarking services. IPART considers that the only way to overcome these barriers is to require these clubs (ie, those with annual gaming revenue of less than \$5 million) to participate in a benchmarking scheme. IPART considers that the Club Viability Panel is the appropriate body to oversee this benchmarking scheme. Larger clubs can continue to use the commercially available service.

IPART notes that Greyhound Racing NSW conducts a performance benchmarking program to identify and assist clubs in financial difficulty (see Box 7.2). Greyhound clubs are generally small operations with limited management and administrative support. If these clubs are able to comply with the information requirements of a benchmarking program, then it is not unreasonable to expect small to medium-sized registered clubs to do likewise.

¹¹⁴ Information provided by KPMG, IPART's consultant.

7.3.2 How should the benchmarking data be collected and analysed?

IPART considered who should collect and analyse the data that the Club Viability Panel will need to calculate industry benchmarks, in what form this data should be provided, how often it should be provided, and how the industry benchmarks should be presented.

Who should collect and analyse the data required for industry benchmarks?

Who should collect and analyse the data required to produce industry benchmarks depends on the administrative requirements of this task, the financial management skills of those performing it, and how important it is for the data to be accurate and consistent. IPART considered two options for data collection and analysis:

1. Clubs calculate the specified measures and submit the results to the Club Viability Panel, which then uses this data to calculate the industry benchmarks.
2. Clubs provide their financial management accounts (in the standardised reporting format discussed above) to the Club Viability Panel, which then extracts the relevant measures, and calculates the industry benchmarks.

Each option has pros and cons (summarised in Table 7.4). On balance, IPART prefers Option 1, because it places greater responsibility on clubs, and creates additional incentive for them to adopt the standardised reporting format for their financial management accounts (as this format will ensure that the measures can be readily extracted). This option would also help ensure that clubs analyse their financial performance against these measures. IPART considers that a well-designed template with guidelines that specify the measures that are required (including definitions and format) would largely overcome any concerns on the accuracy and consistency of the data provided under this option.

Table 7.4 Pros and cons of options for data collection and analysis

	Pros	Cons
1. Clubs calculate own measures and submit results to Club Viability Panel to calculate industry benchmarks	Places greater responsibility on clubs Encourages clubs to adopt standardised reporting format Promotes better understanding of own financial performance	Potential for clubs to submit inaccurate or inconsistently interpreted data More resource-intensive for clubs
2. Clubs provide financial management accounts to Club Viability Panel, which calculates individual club measures and industry benchmarks	Ensures accurate and consistently interpreted data for calculating industry benchmarks Less work for clubs	More resource-intensive for Panel

In what form should the data be provided?

IPART considers that clubs should submit their data to the Club Viability Panel using an electronic template. This is the method successfully implemented by Clubs Secure, the greyhound racing industry's similar program (see Box 7.2).

IPART also considers that, initially, clubs with annual gaming machine revenue of less than \$1 million should only be required to submit data on their performance against 'whole of business' measures (such as those described in Table 7.3). However, over time, as clubs move to the standardised reporting format for financial management accounts (discussed in section 7.1), even the smallest clubs should be in a position to provide data on their performance against a greater range of measures, including those that related to the efficiency of individual departments (Tables 7.1 and 7.2).

How often should the data be provided?

IPART considers that clubs should provide their data to the Club Viability Panel on an annual basis, as quarterly data would reflect seasonality factors and would not be representative of a 'typical' operating period. This does not suggest that a club should only analyse its performance on an annual basis. Best practice suggests such analysis should occur on a monthly basis.

How should the industry benchmarks be presented?

During IPART's review, smaller and regional case study clubs emphasised that they need to be able to compare their financial performance and viability against similar clubs – that is, clubs of similar size, type and location. Therefore, IPART considers that in addition to calculating industry-wide benchmarks, the Club Viability Panel should segment the benchmarks using appropriate classifications (such as size, type and location of club) where this is possible.

Box 7.2 Clubs Secure - Greyhound Racing NSW's standardised financial reporting and performance benchmarking program

Greyhound Racing NSW (GRNSW) is the independent body charged with representing, funding and controlling the commercial operations of greyhound racing in NSW. GRNSW uses Clubs Secure – a financial performance benchmarking system – to monitor the operational and financial performance of 39 greyhound racing clubs in NSW. These clubs vary in size from small country clubs with annual revenue of less than \$100,000 to large metropolitan clubs with annual revenue in excess of \$3.5 million.

All greyhound racing clubs in NSW are required to keep a standardised set of management accounts prescribed by GRNSW. Using information from these accounts, clubs are required to enter information into Club Secure – an online reporting tool – that calculates a set of operating and financial measures for each club. These include:

- ▼ five financial measures (for example, working capital ratio, solvency ratio, interest cover ratio)
- ▼ five operational measures specific to the greyhound racing industry (for example, prize money ratio, race day income to race day expenses).

Each club receives an immediate report on how they are performing relative to industry benchmarks. These benchmarks vary based on club type (TAB club/non-TAB club) and location (metropolitan/country).

Clubs that have performed below the benchmark for three consecutive periods are formally notified by GRNSW and an explanation sought. Clubs may be eligible for further assistance including a more detailed investigation of their performance by GRNSW.

TAB clubs are required to enter data monthly while non-TAB clubs are required to enter data quarterly. Results are compared to audited financial statement at the completion of each financial year.

GRNSW also assists clubs by:

- ▼ providing training and advice on how to enter financial data and interpret results
 - ▼ providing funds, where appropriate, to obtain necessary accounting software and obtain the services of a suitably qualified bookkeeper.
-

Recommendations

- 20 That the Club Viability Panel be asked to develop and recommend to the Minister for Gaming and Racing a suite of business efficiency and financial viability measures appropriate for clubs with annual gaming machine revenue of less than \$5 million, using the measures outlined in Recommendations 18 and 19 as a starting point.
- 21 Once these measures are approved, that the Registered Clubs Regulation be amended to require:
 - Clubs with annual gaming machine revenue of between \$1 million and \$5 million to calculate the full suite of measures on an annual basis.
 - Clubs with annual gaming machine revenue of less than \$1 million to calculate only the 'whole of business' measures on an annual basis.
 - Clubs to provide data on the relevant measures to the Club Viability Panel by the date and in the format specified by the Regulation.
- 22 That the Club Viability Panel use the data provided by clubs to calculate industry-wide benchmarks for each measure, and segment these benchmarks by club size, type and location to allow clubs to compare their performance with 'like' clubs.

7.4 All clubs should be required to calculate a single financial viability measure and submit this data to the Club Viability Panel

As Chapter 6 discussed, it is important to consider a range of financial viability measures to obtain an accurate picture of a club's financial viability. Nevertheless, IPART considers that all clubs should be required to calculate a single financial viability measure on an annual basis, so this data can be used to identify clubs that are at risk of being in financial distress. Those clubs could then be offered assistance to further investigate their financial viability, plus, if necessary, advice and funding to help them improve their financial position.

In addition, IPART considers that:

- ▼ the Club Viability Panel should be responsible for analysing the data on clubs' performance on the single financial viability measure to identify those at risk of being in financial distress, and for approaching these clubs to offer them assistance
- ▼ EBITDARD as a percentage of revenue (EBITDARD%) should be used as the measure of financial viability for this purpose
- ▼ EBITDARD% of less than 15 per cent should be the indicator that a club is at risk of being in financial distress.

The Club Viability Panel should identify and approach clubs at risk of being in financial distress

IPART considers that the Club Viability Panel is the appropriate body to analyse clubs' data, and to approach those clubs whose data indicates are at risk of being in financial distress to offer them further analysis and, if necessary, assistance. In reaching this view, IPART considered ClubsNSW's suggestion that auditors should play a greater role in identifying clubs in financial distress.¹¹⁵ ClubsNSW also suggested that auditors should provide an annual sign-off and submit to government a form that allows assessment of the club's overall financial health. However, IPART considers that:

- ▼ In preparing year-end annual reports, auditors already provide an annual 'sign-off' on the club as a going concern. As part of the task, it is standard practice for auditors to note any issues regarding the club's financial health, even if the overall assessment is that the club is a going concern.
- ▼ Increasing the legal scope of the auditors' role is likely to lead to an increase in auditors' costs and thus a greater financial burden on clubs.
- ▼ Asking auditors to submit a form to government on the financial viability of the club effectively shifts the responsibility of monitoring financial performance from management to the auditor. In contrast, requiring club management to calculate and provide a measure of their financial viability encourages clubs to have a greater understanding and ownership of their financial position.

EBITDARD% should be used as the measure of financial viability for this purpose

Stakeholder submissions and the case study clubs suggested that a measure that identifies a club's cash earnings expressed as a percentage of its total trading revenue is a useful initial key indicator of its financial viability. This kind of measure can also be readily calculated by all clubs.

Such a measure would essentially identify the net cash surplus available to the club to service its external debt (interest), pay tax, contribute to capital expenditure, and contribute to cash reserves. When expressed as a percentage, the lower the percentage the greater the likelihood the club is experiencing financial distress.

¹¹⁵ ClubsNSW submission, 4 April 2008, p 22.

This measure can be defined in a number of different ways, including:

- ▼ Earnings before interest, tax, depreciation and amortisation (EBITDA).
- ▼ Earnings before interest, tax, depreciation, amortisation and rent (EBITDAR). This definition takes account of the fact that some clubs pay rent to a related party. For example, RSL clubs often pay rent to the RSL sub-branch, which owns the land and building, while the club operates the business. By excluding rent, EBITDAR recognises that these payments may not be made at a commercial rate and thus ensures that clubs' operating cash surpluses are being compared on the same basis.
- ▼ Earnings before interest, tax, depreciation, amortisation, rent and donations (EBITDARD) (where donations refers to cash donations made outside the CDSE Scheme). The extent to which clubs make cash donations varies significantly. While some clubs consider these donations as discretionary expenditure, others consider them to be part of a club's core business and thus an ongoing operational expense. By excluding donations, EBITARD recognises this difference in how clubs view donations and thus again ensures that clubs' operating cash surpluses are being compared on the same basis.

IPART considered these definitions to determine which is the most useful initial measure of a club's financial viability, and the most directly comparable measure between clubs. While Panthers Entertainment Group supported the use of EBITDA,¹¹⁶ ClubsNSW argued that EBITDARD is a more useful measure of the cash earnings a club's business generates and thus the best indication of its 'bottom line' trading performance. ClubsNSW also argued that EBITDARD is a valid measure of a club's profitability and efficiency, irrespective of size, purpose or location. In addition, it provided evidence from ClubData Online that EBITDARD has wider industry acceptance than other definitions.¹¹⁷ Given this, IPART considers that EBITDARD, expressed as a percentage of revenue, should be used as the initial measure of a club's financial viability.

EBITDARD% of less than 15 per cent should be the indicator that a club is at risk of being in financial distress

To use EBITDARD% as an initial indicator of financial distress, we need to decide the threshold at which a club should be considered at risk of being in financial distress. ClubsNSW argued that a threshold of 15 per cent is appropriate for this purpose. It provided data from Club Data Online that indicates that the average EBITDARD% among the clubs it monitors is 14 per cent (see Table 7.6).¹¹⁸ This implies that a threshold of 15 per cent is likely to capture all clubs with lower than average EBITDARD%.

¹¹⁶ PEG submission, 26 July 2008, p 27.

¹¹⁷ ClubsNSW submission, 4 April 2008, p 52.

¹¹⁸ ClubsNSW submission, 4 April 2008, p 52.

Table 7.5 Percentage of clubs within certain EBITDARD% ranges

EBITDARD% range	3 months Sept-Dec 07
25% +	6%
15%-25%	33%
10-15%	26%
5%-10%	14%
0%-5%	21%
Average	14%

Note: ClubData Online provides benchmarking services to approximately 400 registered clubs.

Source: ClubsNSW submission, 4 April 2008, p 52.

As noted above, Panthers Entertainment Group supported the use of a different measure – EBITDA%. In its submission, it presented several EBITDA% ranges and described what a club's financial condition is likely to be in each range (Table 7.5). It indicated that clubs with EBITDA% of less than 10 per cent were likely to be experiencing financial distress. IPART reviewed these EBITDA% ranges and corresponding descriptions of financial condition, and found that they are consistent with its analysis of its case study clubs.

Table 7.6 EBITDA% as an indicator of financial distress

EBITDA% range	Financial condition
> 25%	Business flourishing – ability to reinvest and reinvent as required.
15%–25%	Solid financial position – needs to critically evaluate capital purchases.
10%–15%	Stable financial position – sufficient cash flow to maintain current business operations. May find it difficult to reinvest and reinvent as required.
5%–10%	Financial distress – changes required to ensure viability.
0%–5%	Serious financial distress – serious questions as to whether the club can operate as a going concern.

Source: Adapted from PEG submission, p 27.

ClubsNSW noted that there is potentially up to a 2.5 per cent positive differential between EBITDA% and EBITDARD%, which suggests that an EBITDA% of 12.5 per cent would be an equivalent of an EBITDARD% of 15 per cent.

IPART considers that, initially, using an EBITDARD% threshold of 15 per cent is appropriate based on the following considerations:

- ▼ A 15 per cent threshold is likely to capture clubs that are not necessarily in financial distress but may be underperforming. If a lower threshold were used (for example, 10 per cent), there would be less scope for the Club Viability Panel and industry specialists to suggest a range of initiatives to 'turn around' the trading performance of the club.

- ▼ If it becomes apparent over time that a threshold of 15 per cent is identifying clubs that are not at risk of being in financial distress, the threshold can be revised downwards to a more appropriate level. However if, for example, a threshold of 10 per cent was initially adopted, there is likely to be less certainty about whether this threshold is capturing all clubs at risk of being in financial distress.

Recommendations

- 23 That the Registered Clubs Regulation be amended to require all clubs to calculate their EBITDARD% on an annual basis, and submit this data to the Club Viability Panel.
- 24 That the Club Viability Panel analyse this data on an annual basis, and use a threshold for EBITDARD% of 15 per cent to identify clubs at risk of being in financial distress.

The nature of the assistance the Club Viability Panel should offer clubs identified as at risk of being in financial distress is discussed in Chapter 8.

7.5 Clubs that fail to comply with financial reporting and benchmarking requirements should be penalised

If a club does not comply with the financial reporting and benchmarking requirements recommended above, IPART considers that the consequences should be in line with those for non-compliance with the provisions of section 47H of the Registered Clubs Regulation, which covers reporting requirements for clubs – financial statements. The maximum penalty is 50 penalty units (currently \$5500). Provisions for penalty notices in line with Schedule 3 of the Registered Clubs Regulation should also apply.

ClubsNSW submitted that a penalty for non-compliance is too harsh and argued that a financial incentive for compliance in the form of a tax credit on gaming revenue would better encourage clubs to comply. This credit would also assist in offsetting any cost to the club of undertaking the additional reporting.¹¹⁹

IPART considers its recommended penalty regime is consistent with the compliance framework under the Registered Clubs Regulation. IPART is not disposed towards recommending financial incentives when a better understanding of their financial position and ultimately survival should already provide an effective incentive for clubs to comply.

Recommendation

- 25 That clubs which do not comply with the financial reporting and benchmarking requirements recommended for inclusion in the Registered Clubs Regulation be penalised, and that these penalties be the same as those for breaches of section 47H of the Regulation (ie, maximum penalty 50 penalty units). An offence should also be a penalty notice offence listed in Schedule 3 of the Regulation.

¹¹⁹ ClubsNSW submission, 4 April 2008, p 22.

8 Establishing a Club Viability Panel

IPART considers the recommendations for improving clubs' financial reporting and performance benchmarking (discussed in Chapter 7) require the support of a body to help implement them and drive the agenda for change. In particular, IPART considers that a Club Viability Panel (the Panel) should be established to perform this role, and provide other assistance to the registered clubs industry. The sections below discuss:

- ▼ the Panel's purpose and functions
- ▼ that the Panel's role should be advisory rather than supervisory
- ▼ the Panel's membership and secretariat
- ▼ the Panel's main tasks and activities
- ▼ how the Panel's purpose and activities differ from those of other bodies established to support the clubs industry
- ▼ how the Panel and its activities should be funded
- ▼ that the Panel's effectiveness should be reviewed after three years.

8.1 The Club Viability Panel's purpose and functions

IPART considers the main purpose of the Panel would be to help identify clubs that are at risk of being in financial distress, and to offer those clubs further assessment, advice and support to help them improve their financial viability. As Chapter 6 discussed, the earlier the signs that a club may be in financial distress are identified, the sooner the club can put in place strategies to promote its long-term viability (either in its own right or as a viable prospect for amalgamation). In turn, this helps to retain the club's assets as community assets.

IPART considers that the Panel's primary functions would be:

- ▼ facilitating the process of transitioning clubs to a standardised reporting format for their financial management accounts (as previously discussed in section 7.1)
- ▼ producing industry benchmarks and communicating them to the clubs industry on an annual basis (as previously discussed in section 7.3)
- ▼ identifying those clubs that are at risk of being in financial distress, advising these clubs of its findings, and offering to further investigate their financial position and advise them of their options for improving their financial position (as previously discussed in section 7.4)

- ▼ in situations where the long-term viability of the club is questionable and amalgamation is identified as an option, assisting the club with the process of amalgamation.

Further information on the tasks and activities the Panel would undertake in fulfilling these functions is provided in section 8.4.

Recommendation

26 That a Club Viability Panel (the Panel) be established to:

- assist clubs in transitioning to a standardised reporting format for financial management accounts
- produce and publish industry benchmarks
- identify and inform clubs that are at risk of being in financial distress
- assist financially distressed clubs to develop and implement strategies to become financially viable.

8.2 The Club Viability Panel's role should be advisory not supervisory

IPART considers that the Club Viability Panel should be an advisory body that provides information, advice and funding to support clubs in their efforts to achieve long-term financial viability. To achieve the purpose outlined above, the Panel will need access to certain information from clubs. Therefore, as Chapter 7 discussed, clubs would be required to provide this information to the Panel.

ClubsNSW submitted that the Government (via an industry taskforce) should mandate or direct those clubs identified as being in financial distress to use measures to improve their financial performance in the interests of preserving member and community assets. ClubsNSW argued there were many examples of clubs failing due to the reluctance of their board and management to make unpopular (but sensible) business decisions in the best interests of members and the wider community. ClubsNSW also suggested that, should a club resist bringing in improvement strategies, it should be forced to enter into discussions aimed at amalgamation with other clubs. In addition, it suggested that the proposed taskforce should identify regions where there is a potential oversupply of clubs and develop strategies to consolidate club facilities in those areas.¹²⁰

The Leagues Clubs' Association argued that, under a worst case scenario, the Panel would have a lower likelihood of success if its role was advisory. It also argued that the Panel should have the powers to refer clubs that do not respond to its advice to the Casino, Liquor and Gaming Control Authority (CLGCA).¹²¹

¹²⁰ ClubsNSW submission, 31 July 2007, pp 114-115.

¹²¹ Leagues Clubs' Association submission, 8 April 2008, p 2.

IPART recognises that the approach suggested by ClubsNSW and the concern expressed by the Leagues Clubs' Association stem from a desire to actively protect the interests of club members and the wider community from poorly performing boards and management (who have no interest in change). However, after considering ClubsNSW's suggested approach, IPART concluded that:

- ▼ A supervisory role for the proposed industry taskforce would be in conflict with the democratic principles on which clubs were established. Ultimately, the responsibility for a club's future lies with its board and if necessary its members through the calling of an annual general meeting.
- ▼ The NSW Government, via the proposed taskforce, would be a pseudo-administrator of the clubs industry, adding another layer of compliance for the industry.
- ▼ With the Government potentially overriding the board and management of clubs, it may in effect become liable for a club's outcomes. IPART considers that the NSW Government would not want to take on such a position.

For these reasons, IPART considers that the proposed Panel should be advisory in nature. It would not make decisions on behalf of a club's management and board to address its financial viability concerns. This responsibility (and liability) would continue to be the sole responsibility of the board and management. In other words, the board would maintain control over the club's future.

Recommendation

27 That the Panel be advisory (not supervisory) in nature, with a club's board maintaining control over the future of the club.

8.3 The Club Viability Panel's membership and secretariat

IPART considers it important that the Panel's membership have an appropriate mix of skills and experience, and reflect the varied points of view within the clubs industry. It is also likely that the Panel will require secretariat support.

8.3.1 Membership

IPART considers that the Panel will need the range of skills and experience required to provide advice on industry issues, operational issues, financial viability, performance benchmarking and club amalgamations (as a mechanism to retain member assets). Therefore, IPART considers that the Panel's members should be drawn from the groups shown in Table 8.1.

Table 8.1 Club Viability Panel membership

Organisation	Expertise
ClubsNSW	Industry-wide issues
Industry peak bodies ^a	Segment-specific issues
Individual club managers and board members	Day-to-day club operations
OLGR	Compliance, other NSW Government issues
Independent advisers to the industry	Clubs industry-specific finance and legal knowledge

a For example, Bowls NSW, Leagues Clubs' Association and RSL and Services Clubs Association.

IPART considers it important that the Panel include members from individual clubs as well as industry groups, to reinforce that it is advisory in nature, and to allow its members to provide peer support and advocacy for clubs experiencing financial difficulties. Without such members, clubs may perceive the Panel as a pseudo-supervisory body.

IPART considers that the Panel should have up to seven members, and an independent chair.

The RSL & Services Clubs Association raised the question of whether regional panels should be established to identify and address issues specific to particular regional locations (eg, identifying and addressing potential oversupply of clubs in particular regions via the proactive facilitation of amalgamation of clubs).¹²² IPART considers that the Panel should initially be established as one body to ensure consistency in delivery of services and advice.

Recommendation

28 That the Panel comprise up to seven members, drawn from ClubsNSW, other industry associations, individual clubs' management and boards, OLGR and independent industry advisers, to provide a balanced mix of relevant skills and experience.

8.3.2 Secretariat

In pursuing its activities, the Panel is likely to require secretariat support. IPART considers that ClubsNSW is best placed to assume this role given its:

- ▼ existing role as industry advocate and provider of industry support
- ▼ established administration structure and industry experience
- ▼ established relationships and communication with the vast majority of the clubs industry (including industry suppliers – particularly those providing financial and legal services)
- ▼ established relationships with the other industry associations and OLGR.

¹²² RSL & Services Clubs Association, 9 April 2008, p 6.

ClubsNSW should decide whether it would need to employ additional staff (or staff with the necessary skills) to provide secretariat support, or whether this role could be absorbed into existing operations. Should there be a need for additional or specialist resources, ClubsNSW could put forward a business case to the NSW Government and/or industry to provide incremental funding for these secretariat services.

Recommendation

29 That ClubsNSW provide secretariat support to the Panel.

Alternatively, support for some of the Panel's functions – such as undertaking the initial review of clubs' financial management accounts to determine whether they are consistent with the standardised reporting format, and collecting, analysing and developing annual benchmarks -- could be outsourced to a third party. For example, ClubData On-line already provides benchmarking services to the industry. The Panel could take advantage of ClubData On-line's existing software platform, processes, skills and administration, if it could be demonstrated that this would be more cost-effective than ClubsNSW performing these tasks.

ClubsNSW raised concerns about the ongoing costs associated with the Panel collecting and analysing benchmark data and providing advice and support to the clubs industry. ClubsNSW suggested the cost of data collection and analysis could be in the order of \$700,000 per annum.¹²³ IPART considers that sufficient funding should be available from the sources discussed in section 8.6 (below) for the Panel to undertake its principal activities.

8.4 The Club Viability Panel's principal activities

As discussed above, the Panel's functions would be to:

- ▼ facilitate the process of transitioning clubs to a standardised reporting format for their financial management accounts
- ▼ produce industry benchmarks and communicate them to the clubs industry on an annual basis
- ▼ identify those clubs that are at risk of being in financial distress, advise these clubs of its findings, offer to further investigate their financial position and identify options for improving their financial position if required
- ▼ in situations where the long-term viability of the club is questionable and amalgamation is identified as an option, assist the club with the process of amalgamation
- ▼ provide funding to implement identified options, including amalgamation.

¹²³ ClubsNSW, Sydney roundtable, 7 May 2008, p 32.

During the consultation process, ClubsNSW expressed concern that the scope of these functions is beyond the original intention of identifying clubs that are experiencing financial difficulty. ClubsNSW considered that the Panel was being asked to actually bring about a club's recovery process, provide assistance to clubs identified as being financial unviable, audit clubs' accounts to see that they comply, provide sign-off in regards to those accounts, and make recommendations or decisions about amalgamations.¹²⁴

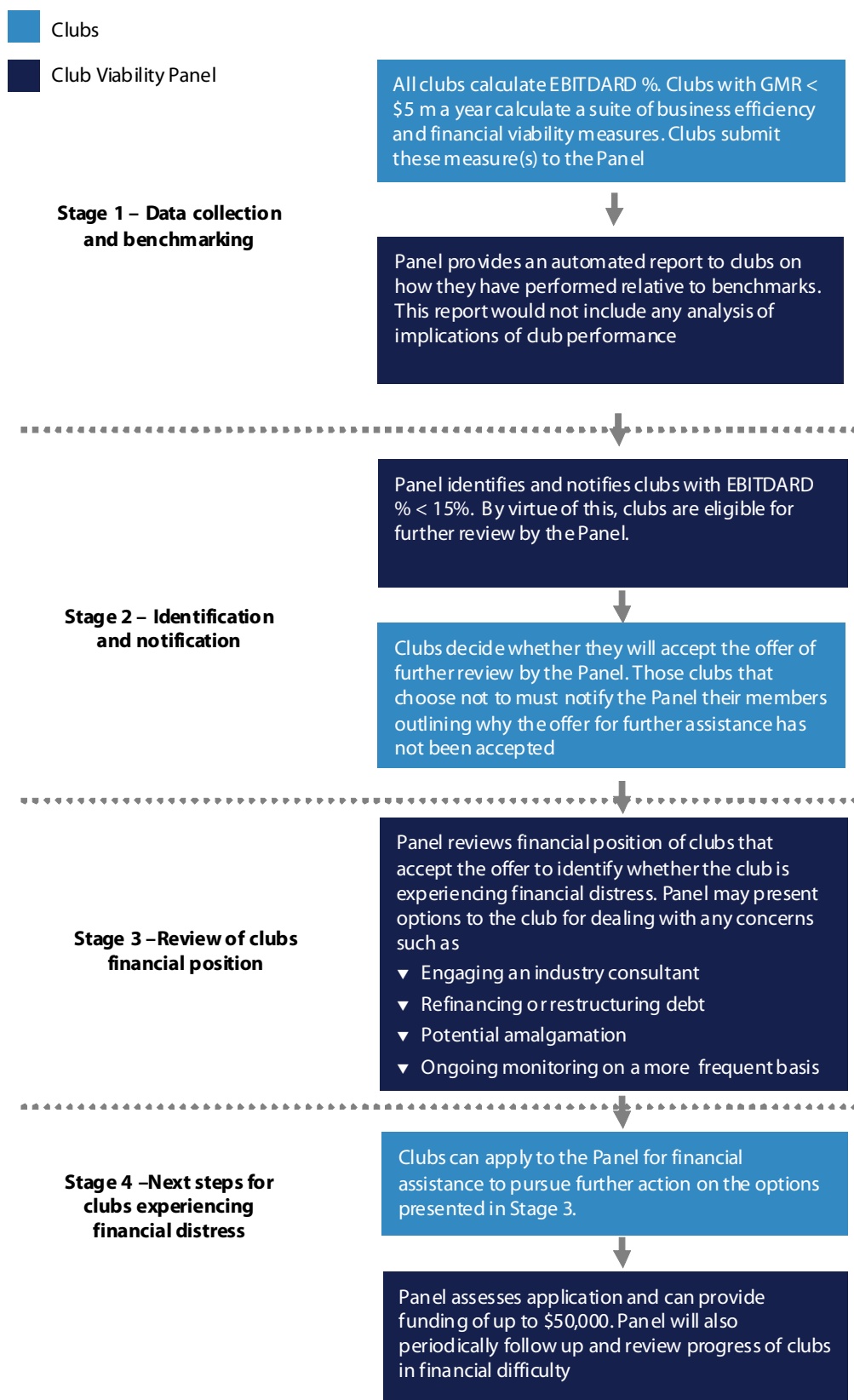
IPART considered ClubsNSW concerns and notes the following:

- ▼ As recognised throughout this review, there is a need to implement a range of measures to assist clubs to achieve long-term financial viability, beyond just identifying and advising clubs they may be exhibiting signs of financial distress.
- ▼ However, IPART does not envisage that the Panel members would get involved in the decisions and activities required to turn around a club's financial performance. Its role would to identify and inform those clubs that may be in financial distress and offer to provide them with a more detailed assessment of financial viability. If requested, the Panel would then undertake this assessment and, if required, provide advice to the club about its options to improve its financial performance. As noted above, it would then be up to the club to decide whether and how it acted on that advice. The Panel would also provide funding to eligible clubs to engage assistance to pursue the identified options.
- ▼ IPART recognises that the Panel will have a significant workload; however, this workload reflects the needs of the industry. One of the key tasks on establishment of the Panel will be to prioritise its activities so it can deliver the greatest level of support to the industry with the resources available.

The sections below describe the principal activities and tasks the Panel would need to undertake to fulfil the above functions. Figure 8.1 provides an overview of the respective roles and responsibilities of clubs and the Panel in relation to benchmarking, identifying clubs in financial distress, and providing advice and assistance.

¹²⁴ ClubsNSW, Sydney roundtable, 7 May 2008, pp 32-33.

Figure 8.1 Club Viability Panel’s benchmarking and advisory functions



8.4.1 Facilitating clubs' transition to standardised reporting format

As discussed in section 7.1, IPART recommends that the Club Viability Panel develop a standardised reporting format or formats for clubs' financial management accounts, and recommend this format to the Minister for Gaming and Racing (Recommendation 15).

Once approved, clubs with annual gaming revenue of less than \$5 million would be required to use the format (Recommendation 14). To help with the transition to the new formats, these clubs would be required to submit a set of financial management accounts in their current format to the Panel so it can determine whether this format is consistent with the new standardised format, can produce the same outcomes and is therefore exempt, or whether the club is required to change to the new format (Recommendation 16).

Both developing the standardised reporting format, and assessing clubs' current reporting format would be 'one-off' tasks for the Panel.

8.4.2 Producing industry benchmarks and communicating them to the industry on an annual basis

As discussed in section 7.3, IPART recommends that the Panel undertake the following activities in relation to benchmarking:

- ▼ Developing and recommending to the Minister for Gaming and Racing a suite of business efficiency and financial viability measures (Recommendation 20), which clubs with annual gaming machine revenue of less than \$5 million would be required to report annually (Recommendation 21).
- ▼ Receiving annual data from the clubs on these measures. (Clubs themselves will be required to calculate the measures and submit them to the Panel; the adoption of the standardised reporting format will facilitate this calculation) (Recommendation 21).
- ▼ Using the data submitted by clubs to calculate industry-wide benchmarks for each measure, and segment these benchmarks by club size, type and location to allow clubs to compare their performance with 'like' clubs (Recommendation 22).

To communicate the benchmarks, IPART considers that the Panel should:

- ▼ Issue an automated report to each participating club indicating how its performance on each measure compares to the rest of the industry. This report would not include any analysis of the implications of the club's performance.
- ▼ Publish a table of industry-wide benchmarks including any segmentation by club size, type and location.

While developing and recommending the suite of measures would be a 'one-off' task for the Panel, the benchmarking and communication process would be undertaken on an annual basis.

8.4.3 Identifying and advising clubs at risk of financial distress, and offering to further investigate their financial position and advise them of their options

As section 7.4 discussed, IPART recommends that the Panel collect data from all clubs on a single measure of financial viability (EBITDARD as a percentage of revenue) and identify those at risk of being in financial distress (based on EBITDARD% of less than 15 per cent) on an annual basis (Recommendations 24 and 25).

In addition, IPART considers that when the Panel identifies a club as being at risk of being in financial distress, it should formally advise the club's board. The Panel will need to ensure that this communication is sensitively worded, and clearly indicates that the intention of the Panel's advice is to help support the long-term viability of the club.

Furthermore, IPART considers that a club identified by the Panel as being at risk of financial distress should automatically be eligible for a more detailed and comprehensive analysis of its financial position, to determine whether its financial viability is threatened, and if so, to identify the options for improving its position. The Panel should formally advise the club of this eligibility at the same time as it communicates its finding that the club is at risk of being in financial distress.

IPART also considers that clubs should be able to seek assistance from the Panel outside the above process. For example, if a club received no formal correspondence from the Panel yet believed it was in financial distress, it should still have the opportunity to approach the Panel and be considered for assessment and advice.

Recommendation

30 When the Panel identifies that a club is at risk of being in financial distress, that the Panel formally advise the club's board of this finding, and that the club is eligible for a more detailed, comprehensive review of its financial position to determine whether its viability is threatened and, if so, to identify the options for improving its financial position.

As discussed above, IPART considers that the Panel's role should be advisory, and that a club's board and management should have sole responsibility for deciding how to respond to the Panel's advice. Nevertheless, IPART also considers there should be some provision for a club's members to be informed of this advice in instances where the club's board is not taking action.

In IPART's view, the best way to encourage clubs to heed the advice of the Panel is by requiring those that receive formal advice from the Panel that they are at risk of being in financial distress and are eligible for a more detailed review of their financial position to inform **the Panel and their members** if they choose **not** to respond to the Panel's offer of further assessment and advice, and the reason for this decision. (In some instances, this reason may be that the club has already considered its financial position by analysing its performance against the complete suite of business

efficiency and financial viability performance measures outlined in Chapter 7, and determined that in its case, an EBITDARD% of less than 15 per cent does not mean that it is in financial distress.) However, if the club accepts the Panel's offer of a more detailed review, there should be no requirement for it to advise its members.

Some stakeholders suggested that there should be a requirement for such clubs to inform their members **after** the further more detailed review and advice have been provided. For example, at the second Sydney roundtable, ClubsNSW observed that this may be useful where a club has been advised by the Panel that it should consider options such as improved management controls or amalgamation but does not take action.¹²⁵

IPART prefers its recommended approach for the following reasons:

- ▼ The club's directors maintain the ultimate responsibility for understanding the financial position of the club. If they can demonstrate to the Panel that the club's position does not warrant further investigation or assistance¹²⁶, this indicates that they have assessed the advice received by the Panel and made an informed decision concerning the action required.
- ▼ A requirement for clubs to inform members **after** they have received the results of the more detailed review and advice may provide a disincentive for clubs to take up the Panel's offer of this support. If clubs have accepted the offer of a further detailed review, this generally would indicate that the directors of the club are actively considering their financial status.

Recommendation

31 That a club which receives formal advice from the Panel that it is at risk of being in financial distress and is eligible for a more detailed review of its financial position be required to inform its members and the Panel if it chooses not to take up the offer of a more detailed review, and the reason for this decision, within three months of receiving the advice.

8.4.4 Providing a more detailed, comprehensive review of the financial position of clubs identified as being at risk of financial distress

When a club accepts the Panel's offer of a more detailed, comprehensive review of its financial position, this review could be undertaken either by the Panel's secretariat or by an approved business consultant. The choice would depend on whether ClubsNSW had the necessary expertise within the secretariat. If it did not, the secretariat could outsource the review to an industry consultant with appropriate financial skills at an agreed cost.

¹²⁵ ClubsNSW, Sydney roundtable, 7 May 2008, p 39.

¹²⁶ Which, as discussed in Chapter 7, may be the case for some clubs with EBITDARD as a percentage of revenue less than 15 per cent. Recall that EBITDARD as a percentage of revenue does not provide a complete picture of a club's financial position and is being recommended as an initial indicator of financial viability.

Undertaking the review would involve the secretariat (or approved consultant) investigating the operational and financial performance measures of the club to gain a better understanding of the extent of the club's financial position, and identify whether it is experiencing financial distress.

If the review found that the club was in financial distress, the secretariat (or approved consultant) would also identify what options are available to the club to address any identified concerns. These options might include:

- ▼ Engaging an industry consultant to work with the club to formulate and implement remedial actions. For example, the detailed financial review may identify that a particular segment of the club's operations is placing a significant drain on the club's financial position so the club could engage a specialist consultant to advise it on remedial action for that operational segment.
- ▼ Refinancing or restructuring bank debt. The detailed financial review may identify that the club's financial performance is in line with industry benchmarks and there are strong cash flows; however, the reason for the financial distress is onerous repayment covenants on bank debt.
- ▼ Amalgamating with another club. The detailed financial review may identify that the club's medium-term solvency is questionable and that the board should consider amalgamation. In this case, the review could also provide information about the amalgamation process and the pros and cons. In addition, the Panel could refer clubs interested in pursuing this option to other service providers, such as appropriate government agencies, legal consultants, financial advisers, and investigative accountants. Though it is not expected that the Panel would have a list of recommended service providers, it could provide advice to clubs about the type of professional assistance they are likely to require.

Recommendation

32 When a club accepts the Panel's offer of a more detailed, comprehensive review of its financial position, that this review be undertaken by the Panel's secretariat or an approved consultant. That the review provide the club with a detailed assessment of its financial viability and information about options to address identified weaknesses.

8.4.5 Providing further assistance to clubs confirmed as being in financial distress

If the more detailed review confirms that a club is in financial distress, the club would be eligible to apply to the Panel for financial assistance to pursue further action in relation to the options identified by the review. For example, the club might apply for financial assistance for:

- ▼ engaging a specialist industry consultant to develop, implement and monitor remedial strategies
- ▼ obtaining advice to restructure or refinance debt
- ▼ undertaking due diligence of potential amalgamation partners

- ▼ funding legal and other costs associated with the amalgamation process.

To be eligible for funding, the club would have to demonstrate that it does not have the financial capacity (ie, the cash reserves) to pursue the option without assistance. IPART considers that the amount of funding should be assessed on a case-by-case basis, but that an upper limit of \$50,000 a club should generally be applied.

The Panel would administer the application process and the grant of funds. It would also periodically follow up and review the progress of those clubs identified as being in financial distress.

Recommendations

- 33 That a club found to be in financial distress by the detailed review should be eligible to apply for funding (administered by the Panel) up to a maximum of \$50,000 to develop and implement strategies to improve its financial position.
- 34 That the Panel periodically follow up and review the progress of a club identified as being in financial distress.

8.4.6 Other activities

Other related activities that the Panel may consider undertaking to support the long-term financial viability of the industry include:

- ▼ Ongoing education for the industry about:
 - club viability issues and the early warning signs of financial distress
 - the benefits of adopting a standardised reporting format for financial management accounts.
- ▼ Periodic review of industry sub-sectors (size of club, type, location) to understand specific issues affecting financial performance and to identify potential areas for industry consolidation, such as a number of under-performing clubs in a particular community.

8.5 Relationship to the existing club support scheme

ClubsNSW, with funding support from the NSW Government (from unclaimed Keno prizes), established ClubBIZ in 2002. That scheme's objective was similar to that of the Panel: to identify clubs in distress by funding financial health checks, then assist such clubs where possible by providing further funding for initiatives identified by the health checks that could improve the clubs' financial viability.

The chief distinction between the Panel and ClubBIZ is that, with the benefit of financial data from clubs and relevant benchmarks, the Panel would proactively identify and engage with clubs in financial distress. In contrast, ClubBIZ relies on a club identifying itself as being in financial distress. As noted in section 6.1.5, some clubs' board and management lack the skills to recognise that the club is in financial distress in the first instance.

In the current environment, where there is clearly a need for the clubs industry to be proactive in identifying and addressing financial distress, IPART considers that the Panel should replace the ClubBIZ scheme. As a result, ClubBIZ should be discontinued with the funding from this program being redirected to the Panel.

Recommendation

35 That the ClubBIZ scheme be discontinued and the funding from this program be redirected to the Panel.

8.6 Funding for the Club Viability Panel and its initiatives

IPART considers that the activities of the Panel and the provision of financial assistance to clubs found to be in financial distress should be funded from two sources:

- ▼ **Unused ClubBIZ Funds:** As described in section 8.5 above, the Government funded the scheme using \$9 million in unclaimed prize money from the Keno Prize Fund Pool. ClubsNSW advises that 500-600 clubs received funding for the initial business health check, leaving approximately \$2.2 million in the ClubBIZ Trust fund. IPART understands that use of these funds outside of the ClubBIZ scheme requires a change to the ClubBIZ Trust Deed of Settlement.
- ▼ **Further unclaimed money from the Keno Prize Fund Pool:** OLGR has advised that the Keno Prize Pool Fund currently accumulates \$0.5-1 million per annum in unclaimed money.

IPART considers that these funding sources should be sufficient for the Panel's first three years of operation.

Recommendation

36 That the Panel and its funding scheme should be funded initially by residual funds in the ClubBIZ Trust Fund and by further monies from unclaimed Keno prizes.

8.7 Review of the Club Viability Panel's effectiveness

The Panel will be responsible for implementing initiatives to assist clubs in financial distress and to improve the long-term financial viability of the industry. IPART's view is that it would be prudent to periodically review the effectiveness of the Panel's activities. Three years would be an appropriate period of time to allow the assessment of the effectiveness of the Panel's activities and the ongoing need for them.

Recommendation

37 That the Panel be reviewed after three years to assess its effectiveness.

9 Improving corporate governance

IPART considers the existing corporate governance arrangements under the Registered Clubs Act and ClubsNSW's Code of Practice and Best Practice Guidelines provide a useful framework for clubs. Its consultations indicate that stakeholders are generally satisfied with the corporate governance provisions under the Registered Clubs Act, particularly after recent amendments aimed at reducing the costs of compliance. These provisions mainly focus on ensuring that club boards and managers are accountable to their members, by requiring them to disclose certain information to members.

Nevertheless, there appear to be a range of deficiencies in clubs' corporate governance. Stakeholders identified that limitations in the skills of directors (especially limited understanding of financial concepts) and difficulties in attracting and electing directors with appropriate skills present challenges to board effectiveness. Therefore, stakeholders suggested that new corporate governance initiatives should particularly focus on improving the effectiveness of club boards.

IPART considers that a range of initiatives aimed at addressing these limitations and strengthening corporate governance within the registered clubs industry should be implemented. In particular, it considers action is needed to:

- ▼ improve board effectiveness by:
 - improving the skills of directors, by requiring them to undertake core training modules and encouraging boards to undertake performance assessments
 - addressing difficulties in electing appropriately skilled directors, by encouraging clubs to remove constitutional restrictions and permitting board-appointed directors in limited circumstances
 - addressing difficulties in attracting directors, by encouraging clubs to undertake succession planning and make better use of board vacancies and committees
- ▼ improve management effectiveness by encouraging:
 - a more rigorous approach to recruiting club managers and assessing their performance
 - greater clarity around the respective roles of the club's board and management
- ▼ enhance ClubsNSW's role in encouraging better corporate governance in clubs and assisting smaller clubs with their compliance obligations
- ▼ improve the existing club-specific training available to directors and managers.

The following sections explain what is meant by corporate governance, outline the existing framework for corporate governance within the registered clubs industry, and discuss IPART's recommendations for improving corporate governance in detail.

9.1 What is corporate governance?

In general, 'corporate governance' refers to the system through which an organisation is directed and controlled.¹²⁷ It includes the mechanisms through which the people who control the organisation are held to account¹²⁸ and encouraged to use the organisation's resources efficiently.¹²⁹ Corporate governance also includes the systems in place to manage an organisation's risk, and thus reduce the possibility of loss (or other adverse effects) to an acceptable level.¹³⁰

It is difficult to define what constitutes 'effective corporate governance' in practical terms because there is no single model that is appropriate for all organisations.¹³¹ For example, effective corporate governance can include an organisation:

- ▼ specifying the respective roles and responsibilities of its board and management
- ▼ having a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties
- ▼ establishing a sound system of risk oversight and internal control.¹³²

¹²⁷ Standards Australia, *Australian Standard Good Governance Principles (AS 8000-2003)*, June 2003, p 8.

¹²⁸ Australian Securities Exchange, *Corporate Governance: Principles and Recommendations (2nd Edition)*, August 2007, p 3.

¹²⁹ A Cadbury, *Corporate Governance and Development, Washington: Global Corporate Governance Forum*, 2004.

¹³⁰ Standards Australia, *Risk Management (AS/NZ 4360-2004)*, August 2004, p 4 and Standards Australia, *Risk Management Guidelines Companion to AS/NZ 4360-2004*, December 2005, p 7.

¹³¹ Organisation for Economic Co-operation and Development, *OECD Principles of Corporate Governance: (2nd Edition)*, 2004, p 13.

¹³² ASX, *Corporate Governance: Principles and Recommendations (2nd Edition)*, August 2007, pp 10-11.

It is even more difficult to define what constitutes effective corporate governance for registered clubs, because of the diversity in the size and type of clubs in the industry. Based on stakeholder comments and its observations of case study clubs, IPART considers that effective corporate governance for clubs includes the following aspects:

- ▼ management and boards being accountable to club members for their actions and use of club resources, through disclosure of relevant information to members
- ▼ management and boards ensuring that appropriate risk management systems are in place at their club
- ▼ boards engaging in succession planning to ensure regular renewal, for example by targeting club members who they think will make useful contributions to their club
- ▼ management and boards using strategic planning to develop appropriate responses to the challenges their club is likely to face in the future
- ▼ boards assessing management's performance, as well as their own performance, at least on an annual basis
- ▼ boards monitoring how successful management is in carrying out board decisions.

Ensuring that board members and managers undertake appropriate training is one way to improve club corporate governance. For example, the provision of induction training for new board members and managers can help them to understand their respective roles and responsibilities. Ongoing training and development can help board members and managers to improve their skill-sets and keep up-to-date with recent developments in the registered clubs industry (such as the changes to the amalgamation regime discussed in Chapter 11).

9.2 Overview of the existing corporate governance framework

On the whole, IPART is satisfied that existing framework for corporate governance in the clubs industry – which is created by the ClubsNSW's Code of Practice and Best Practice Guidelines, and the requirements of Registered Clubs Act – is a useful, practical framework for clubs in NSW. The key aspects of this framework are summarised below.

9.2.1 ClubsNSW's Code of Practice and Best Practice Guidelines

ClubsNSW introduced its Code of Practice and Best Practice Guidelines in 2005. Under the Code of Practice, clubs that are members of ClubsNSW commit to common standards of conduct.¹³³ For instance, directors and managers agree to:

- ▼ make decisions that are consistent with their club's role and interests of members
- ▼ keep up-to-date with changes to relevant legislative requirements
- ▼ promote a culture of continuous professional development.¹³⁴

ClubsNSW established a body known as the Code Authority to examine alleged breaches of the Code of Practice by ClubsNSW members, make determinations in relation to these allegations and, if necessary, impose sanctions. See Box 9.1 for further information about the Code Authority.

The Code of Practice is supported by the Best Practice Guidelines,¹³⁵ which aim to help clubs meet their Code of Practice obligations by highlighting best practice for items such as major capital works, board operation and overseas travel. While compliance with these guidelines is not mandatory, the Code Authority takes them into account in assessing whether a club has complied with the Code of Practice.

Box 9.1 Code Authority

The Code Authority has three members, including a chairperson who is independent of ClubsNSW. These members are appointed by the ClubsNSW board for a period of two years. Criteria for selecting members include the ability to exercise sound and fair judgement, experience in handling disputes, and expertise in administration of self-regulatory schemes.¹³⁶

Some of the sanctions the Code Authority may impose on a club found to have breached the Code of Practice include requiring it to provide financial compensation, offer an apology, or take remedial action within a specified timeframe. If the club does not comply with these sanctions, the Code Authority may recommend to the board of ClubsNSW that it cancel the club's membership of ClubsNSW. The Code Authority may also refer the matter to the Minister for Gaming and Racing for further action.¹³⁷

According to ClubsNSW, the Code Authority heard five complaints in 2007, most of which related to disciplinary proceedings and the suspension or cancellation of club memberships. The Code Authority upheld one of these complaints, requiring the club in question to reinstate a cancelled membership.

¹³³ According to ClubsNSW, around 90 per cent of registered clubs in New South Wales are ClubsNSW members.

¹³⁴ ClubsNSW, *Code of Practice*, July 2005, Part B, Clause 23. The Code is available from: www.clubsnsw.com.au.

¹³⁵ The Guidelines are available to download from the ClubsNSW website (www.clubsnsw.com.au).

¹³⁶ ClubsNSW submission, 31 July 2007, pp 146-147.

¹³⁷ ClubsNSW, *Code of Practice*, July 2005, Part D, Clause 68.

IPART considers that the Code of Practice sets out key principles for club directors and managers to refer to when carrying out their activities, such as the principle of not taking improper advantage of club information.¹³⁸ It also considers that the Best Practice Guidelines outline best practice in important areas of club operations using a plain English, practical approach. For example, the Best Practice Guideline for Board Operation sets out items for boards to complete on an annual basis, such as reviewing the club's strategic plan.¹³⁹

9.2.2 Registered Clubs Act

The main corporate governance provisions in the Registered Clubs Act were introduced in 2003,¹⁴⁰ and focus on improving accountability and probity in the registered clubs industry. In 2007, these provisions were amended as a result of a review of their effectiveness undertaken by OLGR in consultation with the industry peak bodies.¹⁴¹

The provisions aim to create a high standard of transparency and accountability, mainly through requirements for club boards to disclose information to members. See Box 9.2 for some examples of these requirements. The provisions also require club boards to make the club's quarterly financial management reports available to members, to keep them informed of a club's financial position.

In addition, the provisions aim to improve probity in clubs,¹⁴² in response to concerns raised by club members. For example, the members of some clubs expressed concern that their club was disposing of assets without appropriate member consultation, and that their club managers were improperly benefiting from contracts to supply goods and services to their club. To address these concerns, the Registered Clubs Act requires clubs to seek member approval before they can dispose of certain items of club property,¹⁴³ and prohibits clubs from entering into contracts with their managers.¹⁴⁴

¹³⁸ ClubsNSW, *Code of Practice*, July 2005, Part B, Clause 23(j).

¹³⁹ ClubsNSW, *Best Practice Guidelines: Guideline for Board Operation*, July 2005, p 27.

¹⁴⁰ *Registered Clubs Amendment Act 2003*.

¹⁴¹ *Registered Clubs Amendment Act 2006* and *Registered Clubs Amendment Regulation 2007*.

¹⁴² Mr Grant McBride, Second Reading Speech, *Registered Clubs Amendment Bill 2003*, 14 November 2003.

¹⁴³ Section 41J Registered Clubs Act.

¹⁴⁴ Section 41L Registered Clubs Act.

Box 9.2 Disclosure of information to members

The Registered Clubs Act requires that a club keep a register of information related to the management and financial administration of the club, including:

- ▼ a list of disclosures, declarations and returns made by the directors or employees (eg material personal interests in contracts)
- ▼ the number of top executives whose remuneration falls within each successive \$10,000 band, starting at \$100,000
- ▼ details of loans made by the club to any employee in excess of \$1,000
- ▼ details of certain contracts executed by the club (eg, contracts in which directors have a pecuniary interest)
- ▼ the name and remuneration of any employee who is a close relative of a director or top executive
- ▼ details of legal settlements made by the club with a director or employee
- ▼ details of legal fees paid by the club on behalf of a director or employee.

Members may view the register by written request to the club.¹⁴⁵

IPART considers that the Registered Clubs Act's strong focus on accountability, transparency and probity is appropriate. It notes that stakeholders' main concerns about the existing corporate governance framework – including the high cost of compliance with the Registered Clubs Act due largely to the inclusion of some unnecessary provisions – have been addressed by the amendments to the Act that came into effect in late 2007.

9.3 Recommendations for improving corporate governance

IPART considers that a range of initiatives for improving clubs' corporate governance should be implemented, including initiatives focused on:

- ▼ improving the skills of directors, by requiring them to undertake core training modules within 12 months of being elected, and encouraging the use of performance assessments to identify areas where boards and individual directors need to improve
- ▼ addressing difficulties in electing appropriately skilled directors, by encouraging clubs to remove constitutional restrictions and permitting board-appointed directors in limited circumstances
- ▼ addressing difficulties in attracting directors, by encouraging clubs to undertake succession planning and make better use of board vacancies and committees to recruit and train future directors

¹⁴⁵ Clause 47HA(1)(d) Registered Clubs Regulation.

- ▼ improving management effectiveness by encouraging a more rigorous approach to recruiting club managers and assessing their performance, and providing greater clarity about the respective roles of the club's board and management
- ▼ enhancing ClubsNSW's role in encouraging better corporate governance in clubs and assisting smaller clubs with their compliance obligations
- ▼ improving the existing club-specific training available to directors and managers.

IPART's recommendations in relation to these initiatives are discussed below. In formulating these recommendations, IPART took the view that government intervention should be reserved for dealing with the most critical corporate governance issues. Where possible, IPART's recommendations use non-coercive devices, such as the Code of Practice and Best Practice Guidelines, rather than imposing new legislative requirements.

9.3.1 Improving the skills of directors through core training and performance assessments

During this review, stakeholders expressed concern about deficiencies in the skills of board directors, including that some directors:

- ▼ do not have a strong grasp of financial concepts and lack business acumen¹⁴⁶
- ▼ do not clearly understand their role and responsibilities¹⁴⁷
- ▼ do not have a strategic focus, and instead opt to deal with more minor operational matters.¹⁴⁸

To address these deficiencies, many stakeholders suggested that directors should be required to complete appropriate training. Some also suggested that boards should be encouraged to use performance assessments, as clubs such as Wagga RSL Club do (see Box 9.3).

In line with stakeholders' views, IPART considers that to improve directors' skills, they should be required to undertake a certain level of training, both when they nominate themselves for election and after they are elected to the board. It also considers that directors should be encouraged to use performance assessments to identify areas of their skills that they need to improve.

¹⁴⁶ Dubbo roundtable, 12 October 2007, p 39, Wagga Wagga roundtable, 14 September 2007, p 24 and RSL & Services Clubs Association submission, 27 July 2007, p 14.

¹⁴⁷ ClubsNSW submission, 31 July 2007, p 157.

¹⁴⁸ Dubbo roundtable, 12 October 2007, p 35.

Box 9.3 Wagga RSL Club's performance assessment process

- ▼ Wagga RSL Club has moved to more formally assess its directors' performance. It surveys directors, asking them to rate themselves and other directors against statements such as:
 - the director understands the role the board plays in governing the club
 - the director actively contributes to financial discussions
 - the director is committed to the ongoing professional development of the board and management team.
 - ▼ Directors then compare their self-assessed performance rating with the performance rating determined by their peers. This allowed directors to identify skills that they needed to further develop, possibly through completing training.
 - ▼ Despite some initial reluctance about introducing this process, the directors now generally view it as valuable tool to help improve their skills.
-

Require board nominees to undertake pre-election training

IPART considers board nominees should be required to undertake pre-election training as a way of increasing their awareness of the responsibilities involved in being a club director. It notes the recently introduced requirement in the Registered Clubs Act for people nominating for board positions to make a written declaration that they have received a pre-election package of information approved by OLGR.¹⁴⁹ IPART understands that OLGR is in the process of approving a pre-election package developed by ClubsNSW. Once this package is approved, ClubsNSW will make it freely available to all clubs, including those that are not members of ClubsNSW.¹⁵⁰

IPART considers that if the pre-election package approved by OLGR is similar to ClubsNSW's existing package (which includes a DVD that addresses issues such as the qualities directors should have, the responsibilities of a director, and the importance of understanding financial statements), the current requirement that board nominees make a written statement that they have received this package is sufficient.

¹⁴⁹ *Registered Clubs Amendment Act 2006*. This provision will commence when the supporting regulations are finalised later in the year. As the provision is currently drafted, if a director does not comply with the requirement, his/her club could be liable to pay a fine of up to \$1100 (Section 47 Registered Clubs Act).

¹⁵⁰ Mr Grant McBride, Second Reading Speech, *Registered Clubs Amendment Bill 2006*, 14 November 2006.

However, IPART also encourages clubs to look at offering more extensive pre-election and induction training where appropriate. In particular, clubs should encourage board nominees to review the ClubsNSW *Directors Guide*, which IPART understands ClubsNSW provided to all member clubs in 2006.¹⁵¹ This booklet provides a plain English overview of a club director's responsibilities and potential liabilities. It also includes the Code of Practice and Best Practice Guidelines.

Require board members to undertake post-election training

IPART considers directors should be required to complete additional training when elected to the board. This additional training should focus on the core areas that stakeholders indicated many directors struggle with, including financial fundamentals and directors' duties.

In its draft report, IPART proposed a training model under which directors were required to undertake ongoing training each year. The training model had a strong emphasis on flexibility, with directors being able to choose:

- ▼ the content of this training, by self-assessing whether the training was relevant to their development needs at the club
- ▼ the frequency of this training, if they decided to undertake a performance assessment.

However, the trade-off for this high degree of flexibility was a level of complexity. Stakeholders indicated that this made the training model difficult to understand and impractical. Therefore, after consulting with stakeholders and reviewing ClubsNSW's proposed training model, IPART is recommending a simpler training model.

The main elements of IPART's recommended training model are summarised in Box 9.4.

¹⁵¹ Clubs can buy additional copies of the *Directors Guide* from ClubsNSW (\$132 for ClubsNSW members and \$300 for non-ClubsNSW members). Directors also receive a copy of the *Directors Guide* when they join the CDI program.

Box 9.4 IPART's recommended post-election training model

- ▼ Directors must complete two core training modules which target the core areas that stakeholders indicated are most important – understanding financial statements and directors' duties – by either attending a seminar or reviewing materials (e.g., online) within 12 months of being elected (or re-elected) to the board.
 - ▼ Training should be scaled appropriately according to club size, so that:
 - for clubs with gaming machine revenue of greater than \$1 million a year, all directors need to complete the core training modules, and
 - for clubs below this threshold, boards need to ensure that at least two of their board complete the core training modules.
 - ▼ OLGR approves the core training modules. This ensures the modules contain relevant content and are appropriately priced. It is also consistent with OLGR approving the pre-election training package.
 - ▼ Directors keep records of the core training modules they have completed. OLGR checks clubs compliance with this training requirement as part of its regular compliance audits of clubs.
 - ▼ OLGR has the discretion to grant temporary or permanent exemptions in a limited number of circumstances, such as recognition for prior learning, or illness.
-

The training model IPART originally proposed did not apply to small clubs (ie, clubs with gaming machine revenue of \$1 million or less a year) because the more extensive and ongoing training requirements in this model were more suited to directors of clubs with relatively diverse and sophisticated business operations. Further, IPART was concerned that requiring all directors of small clubs to complete the extensive training requirements would adversely affect such clubs' ability to attract people to board positions.

However, IPART has revised and simplified this model so that its recommended training model now focuses on core areas that are relevant to all directors, irrespective of club size. In addition, under the recommended model small clubs need only ensure that two directors complete the core training modules. IPART envisages that through their interactions with the rest of the board, these directors will disseminate what they learned from completing core training to the other directors.

IPART considers that the requirement for board members to undertake the two core training modules could be counter-productive if there was no recognition of prior learning. Directors with useful skills or experience could be deterred from joining club boards if they were required to undergo training in areas in which they already have expertise. Therefore, under IPART's recommended training model OLGR would have the discretion to grant permanent exemptions from training based on prior learning (and temporary exemptions based on illness).

Some stakeholders called for financial incentives to be provided to assist directors to undertake training. For example, ClubsNSW suggested subsidising training along similar lines to ClubBIZ; that is, using unclaimed Keno funds.¹⁵² However, IPART considers that clubs should finance training. One of the factors OLGR will take into account when deciding to approve a core training module is whether it is appropriately priced.

If a director does not comply with the core training requirements, IPART considers that the consequences should be in line with those for directors not complying with the pre-election package requirements discussed above. These requirements are yet to come into effect; however, as they are currently drafted, if a director does not comply with them, the director's club could be liable for a fine of up to \$1100.¹⁵³

In addition to completing the required post-election training, IPART believes it is important that directors undertake ongoing training to keep their skills up-to-date and stay in touch with current developments. In view of this, IPART considers that ClubsNSW should continue to promote ongoing training for directors as best practice. It also considers that ClubsNSW should encourage clubs to report any ongoing training undertaken by their directors in their annual reports, to increase the industry's awareness of the importance of ongoing training.

Recommendations

38 That directors be required to complete two core training modules (unless exempt on the basis of their prior learning) within 12 months of being elected to a club's board. The core training modules should cover understanding financial statements and directors' duties.

This requirement should be appropriately scaled according to club size, so that:

- for clubs with annual gaming machine revenue of greater than \$1 million, all directors need to complete the core training modules
- for clubs below this threshold, the board needs to ensure that at least two of its directors complete the core training modules.

39 That ClubsNSW encourage clubs to report any ongoing training undertaken by board directors in their annual reports.

Encourage boards to use performance assessments to identify areas of their skills they need to improve

IPART considers that club boards should be encouraged to assess the performance of individual directors and the board as a whole on an annual basis. This would help to improve directors' skills by assisting them to identify their strengths and weaknesses. As part of the performance assessment process, directors should decide

¹⁵² ClubsNSW submission, 31 July 2007, p 163.

¹⁵³ Section 47 Registered Clubs Act.

what ongoing training they should take part in over the next year to improve their performance.

To encourage boards to conduct performance assessments, ClubsNSW should amend its Best Practice Guideline for Board Operations. The Best Practice Guideline currently states that each financial year the board should facilitate:

...the giving and receiving of performance feedback for directors by their peers based on the agreed role expectations.¹⁵⁴

IPART considers that this guideline should be expanded, so that the board also asks directors to nominate what ongoing training, if any, they will undertake over the next financial year in light of their performance feedback. In addition, this should become a best practice recommendation (see Recommendation 50) and clubs that do not comply with this recommendation should be required under a revised Code of Practice to disclose their reasons for non-compliance in their annual report (also see Recommendation 50).

ClubsNSW has indicated that it will revise its Best Practice Guideline for Board Operations to encourage performance assessments. However, it considers requiring clubs under its Code of Practice to annually report the extent that they follow the best practice recommendations is unjustified.¹⁵⁵ After considering ClubsNSW's view, IPART remains convinced that this requirement is a useful way for ClubsNSW to continue to foster best practice in club corporate governance.

Recommendation

40 That ClubsNSW encourage club boards to undertake performance assessments of individual directors and the board as a whole on an annual basis, by revising its Best Practice Guideline for Board Operations, and including a best practice recommendation.

9.3.2 Addressing difficulties in electing directors by encouraging clubs to remove constitutional restrictions and permitting board-appointed directors

Some clubs have constitutional restrictions that limit the number of board positions social members can hold, and who is eligible to vote at board elections.¹⁵⁶ Stakeholders indicated that these restrictions can mean that clubs are only able to elect directors from a narrow pool, and inhibit people with appropriate skills from being elected to boards.

¹⁵⁴ ClubsNSW, *Best Practice Guidelines: Guideline for Board Operation*, July 2005, p 28.

¹⁵⁵ ClubsNSW submission, 4 April 2008, p 42.

¹⁵⁶ The Registered Clubs Act permits the voting membership for board elections to comprise a sub-class of ordinary members, provided the sub-class constitutes at least 25 per cent of ordinary members (Section 30(9)(a) Registered Clubs Act). However, there is a requirement that ordinary members approve any resolution by a club to reduce its voting membership below 50 per cent of ordinary members (Clause 50D Registered Clubs Regulation).

While there was some disagreement about the extent and seriousness of this problem, IPART considers that such constitutional restrictions are likely to reduce the effectiveness of the board. Therefore, it considers that clubs should be encouraged to remove restrictions on board membership and voting eligibility from their constitutions.

Some stakeholders indicated that they have experienced significant difficulty in effecting constitutional changes. Therefore, IPART considers that both ClubsNSW and the Government should play a role in encouraging clubs to remove their constitutional restrictions. In particular, the following steps should be taken:

- ▼ The model club constitution template ClubsNSW is to develop (see Recommendation 61) should not contain any board membership and voting eligibility restrictions. Clubs would complete the constitution by inserting the core features of their particular club in the objects section.
- ▼ The Government should amend the Registered Clubs Act to include a provision that defines the core features of the various types of clubs (eg, RSL clubs support certain ANZAC traditions, leagues clubs support their affiliated football teams). This would give members comfort that if they changed their club's constitution, its core features would be protected by legislation.

Members could vote to replace their club's existing constitution with the model constitution or apply the 'core club features' provision to their club in exchange for removing constitutional restrictions from their existing constitution.

ClubsNSW proposed that a provision be included in the Registered Clubs Act to require that at least 25 per cent of a club's ordinary members be 'full voting members'. That is, at least 25 per cent of a club's ordinary members would be entitled to vote on all club business (including constitutional changes) and be entitled to stand for election to a majority of board positions.¹⁵⁷ This would potentially widen the range of people who could become directors. Further, clubs would have the flexibility to define who should constitute a 'full voting member'.

IPART sees merit in this proposal. Its mandatory nature would overcome some of the barriers to constitutional change, such as cost and member apathy. However, it considers it unlikely that this proposal would be appropriate for all club types. For example, many golf clubs give playing members greater voting and board rights than social members, in light of the more substantial fees paid by playing members. If playing members comprise less than 25 per cent of the club's ordinary members, ClubsNSW's proposal could unduly dilute their interests in the club.

Further, IPART considers that members should be able to choose whether, in light of their club's circumstances, they should remove its constitutional restrictions. For this reason, Recommendation 41 below does not remove this member discretion, but attempts to make it easier for clubs to overcome some of the more common concerns of their members.

¹⁵⁷ ClubsNSW submission, 4 April 2008, p 40.

Nevertheless IPART recognises ClubsNSW's concern that, in retaining member discretion, IPART's recommendations may not lead to extensive reform of club constitutional restrictions. Therefore, it considers that OLGR should review the effectiveness of the actions outlined in Recommendation 41 three years after their implementation.

Recommendations

41 That clubs be encouraged to remove constitutional restrictions on board membership and voting eligibility by:

- Not including any such restrictions in the model club constitution template to be developed by ClubsNSW (see Recommendation 61).
- The Government including a provision in the Registered Clubs Act that defines the core features of the various types of clubs.

42 That OLGR review the effectiveness of the actions outlined in Recommendation 41 in facilitating the removal of constitutional restrictions on board membership and voting eligibility three years after their implementation.

In addition, IPART considers that, in limited circumstances, boards should have the option of appointing directors as a way of overcoming constitutional restrictions. Specifically, boards should have this option if:

- ▼ their club has board membership or voting eligibility restrictions in its constitution, and
- ▼ the club's members have voted at an annual general meeting not to adopt the model constitution developed by ClubsNSW or apply the 'core club features' provision of the Registered Clubs Act once effective.

In these circumstances, IPART considers that the board should be able to appoint up to three directors irrespective of a club's size, by majority vote of the board. These appointments are in addition to any directors the board may appoint to fill casual board vacancies as they arise. Safeguards to minimise the risk of this option being abused should include:

- ▼ Term limits: the term of any board-appointed director should be limited to between one and three years, and this term should be nominated by the board at the time of appointment.
- ▼ Member ratification: at the club's next annual general meeting, members should vote to approve the board's appointment of a director for term nominated by the board.
- ▼ Disclosure: the board should be required to document its reasons for appointing a director and note these reasons in its annual report.

Further, board-appointed directors should not be permitted to comprise a majority of a club's board. Therefore, if a club has a board of five directors, only two of those directors could be board-appointed directors.

Recommendation

43 That a club's board be permitted to appoint up to three directors if:

- the club has board membership or voting eligibility restrictions in its constitution, and
- the club's members vote not to adopt the model constitution developed by ClubsNSW or apply the 'core club features' provision of the Registered Clubs Act once effective.

Safeguards to manage the risk of this option being abused should include:

- limited terms for board-appointed directors of between one and three years
- a requirement that members vote to ratify the appointment of a director by the board and that director's term at the next annual general meeting
- a requirement that the board disclose its reasons for appointing a director in its annual report
- a requirement that board-appointed directors should not comprise a majority of a club's board.

9.3.3 Addressing difficulties in attracting directors by encouraging clubs to undertake succession planning and make better use of board vacancies and committees

During the consultation process, ClubsNSW put the view that clubs needed to attract a wider range of members to board positions.¹⁵⁸ However, several stakeholders indicated that clubs have difficulty in attracting sufficient nominees for board positions, particularly candidates with appropriate skills.¹⁵⁹

Some clubs indicated that they are addressing the problem of attracting directors through succession planning.¹⁶⁰ Others are making use of casual board vacancies and committees to give people within the club experience in being a director and encouraging them to later stand for election to the board.¹⁶¹ However, many clubs do not appear to be taking this kind of this pro-active approach to recruiting directors. For instance, the RSL & Services Clubs Association found that less than 20 per cent of the clubs it represented had a succession plan in place.¹⁶²

¹⁵⁸ ClubsNSW, Wagga Wagga roundtable, 14 September 2007, p 47.

¹⁵⁹ Campbelltown Catholic Club submission, p 11 and Cabarita Beach Bowls and Sports Club, Wagga Wagga roundtable, 21 September 2007, p 24.

¹⁶⁰ Wagga RSL Club, Wagga Wagga roundtable, 14 September 2007, p 51, Leagues Clubs Association, Wagga Wagga roundtable, 14 September 2007, p 50, Wagga Wagga Country Club, Wagga Wagga roundtable, 14 September 2007, p 54 and Forbes Services Memorial Club, Dubbo roundtable, 12 October 2007, p 39.

¹⁶¹ Wagga RSL Club.

¹⁶² RSL & Services Clubs Association submission, 27 July 2007, p 33.

IPART considers that the above approaches are likely to be useful in helping to overcome the challenge of attracting people, particularly those with appropriate skills, to club boards. Therefore, it considers that club boards should be encouraged to have in place a formal succession policy. This policy should set out how the board intends to renew itself over time, to achieve a balance between keeping existing expertise and bringing in new ideas and skills. In addition, clubs should be encouraged to use casual board vacancies and committees to recruit and train future directors.

To encourage succession planning, ClubsNSW should amend its Best Practice Guideline for Board Operations to include a best practice recommendation on this issue, consistent with Recommendation 50. IPART considers that this best practice recommendation should emphasise the need for succession planning to be an open and transparent process. Such an approach should be consistent with the current tone of the Best Practice Guideline, which encourages boards to ensure that their make-up is representative of a club's membership.¹⁶³ Clubs that do not comply with the best practice recommendation should be required under a revised Code of Practice to disclose their reasons for non-compliance in their annual report (also see Recommendation 50).

In addition, ClubsNSW should amend its Best Practice Guideline for Board Operations to encourage clubs to view casual board vacancies and committees as opportunities to attract and train people with appropriate skills for future board positions.

Recommendations

- 44 That ClubsNSW encourage club boards to prepare a formal succession policy that sets out how they intend to renew their membership over time, to achieve a balance between keeping existing expertise and bringing in new ideas and skills, by revising its Best Practice Guideline for Board Operations and including a best practice recommendation on succession planning.
- 45 That ClubsNSW encourage clubs to better utilise the opportunities created by casual board vacancies and committees to attract and train people with appropriate skills for future board positions by revising its Best Practice Guideline for Board Operations.

Some stakeholders also suggested that remuneration could be used to attract appropriate people to directors' roles, but this option did not receive wide support among stakeholders. IPART is similarly wary of clubs remunerating only some of their directors. It considers it would lead to disharmony between remunerated and non-remunerated directors.

¹⁶³ For example, the Guideline notes that clubs that have a large number of women as members should actively encourage appropriately qualified women to seek directorships: ClubsNSW, *Best Practice Guidelines: Guideline for Board Operation*, July 2005, p 26.

9.3.4 Improving management effectiveness by encouraging a more rigorous approach to recruitment and performance assessment, and clarifying the respective roles of the board and management

In general, stakeholders did not raise significant concerns about the effectiveness of club management. Therefore, although some stakeholders suggested that management should be required to undertake training, IPART did not consider it appropriate to recommend this. However, it does recognise that it is best practice for managers to undertake ongoing training to develop their skills and keep up-to-date on changes in the industry.

IPART considers that its recommendations for improving clubs' financial reporting and performance benchmarking are likely to lead to improved management effectiveness, by helping to ensure that managers' actions are based on a sound understanding of their clubs' financial position and relative performance (see Chapter 7). It also considers its recommendations for improving board effectiveness will lead to improved management effectiveness, due to the pivotal role the board plays in relation to management (eg, through hiring the secretary-manager, overseeing the secretary-manager's performance and identifying when a new secretary-manager needs to be brought in to revitalise the club).

In addition, IPART has identified some specific initiatives for improving management effectiveness. In particular, it considers that clubs should be encouraged to:

- ▼ take a more rigorous approach to recruiting managers and assessing their performance
- ▼ provide greater clarity about the respective roles of the board and management.

Taking a more rigorous approach to recruiting managers and assessing their performance

Several case study club boards indicated that the quality of their managers was an important factor in their club's success. However, despite the vital role managers play in clubs, IPART found that some case study clubs did not have appropriate procedures in place for either recruitment or performance assessment.

IPART considers that clubs should be encouraged to develop and maintain:

- ▼ a formal recruitment policy outlining the procedures for recruiting people into management roles
- ▼ a document listing the key capabilities for each management role.

To encourage clubs to improve the recruitment practices, ClubsNSW should develop a Best Practice Guideline on this issue.

In addition, IPART considers that club boards should be encouraged to set key performance indicators (KPIs) for management on at least an annual basis. Some of these KPIs could be based on the financial performance measure outlined in

Chapter 7. Club boards should also be encouraged to assess management's performance against the KPIs on at least an annual basis.

To encourage clubs to assess management's performance, ClubsNSW should amend its Best Practice Guideline for Remuneration of Club Executives to include a best practice recommendation on this issue, consistent with Recommendation 50.

ClubsNSW has indicated that it will revise its Best Practice Guidelines to cover recruitment and performance assessment of management.¹⁶⁴

Recommendation

46 That ClubsNSW encourage clubs to improve their practices regarding recruitment and performance assessment of management by developing a Best Practice Guideline covering recruitment, revising its Best Practice Guideline for Remuneration of Club Executives and including a best practice recommendation on performance assessment.

Providing greater clarity about the respective roles of the board and management

ClubsNSW suggested that the development of a board charter would encourage greater clarity about the respective roles of a club's board and management. Such a charter would allow the club's directors to focus their energy on strategically leading the club and its managers to get on with the job of managing day-to-day operations.¹⁶⁵

In line with this suggestion, IPART considers that club boards should be encouraged to develop a board charter that sets out their functions and responsibilities and distinguishes them from the functions and responsibilities delegated to management. Further, boards should be encouraged to review the board charter annually to ensure that it remains consistent with their functions and responsibilities.

To encourage the development of board charters, ClubsNSW should amend its Best Practice Guideline for Board Operation to include a best practice recommendation on this issue. It should also revise its Code of Practice to require clubs to state in their annual reports the extent to which they follow this best practice recommendation.

ClubsNSW could assist clubs to develop a board charter by creating a pro-forma charter for boards to adopt and amend as relevant. The pro-forma board charter could be based on the information on board functions already included in the Best Practice Guideline on Board Operations.¹⁶⁶

ClubsNSW has indicated that it will develop a pro-forma board charter for boards to adopt and amend as relevant.¹⁶⁷

¹⁶⁴ ClubsNSW submission, 4 April 2008, p 43.

¹⁶⁵ ClubsNSW submission, 31 July 2007, p 159.

¹⁶⁶ ClubsNSW, *Best Practice Guidelines: Guideline for Board Operation*, July 2005, pp 25-26.

¹⁶⁷ ClubsNSW submission, 4 April 2008, p 42.

Recommendation

47 That ClubsNSW encourage clubs to develop board charters that provide greater clarity about the respective roles of the board and management by developing a pro-forma board charter, revising its Best Practice Guideline on Board Operations and including a best practice recommendation on board charters.

9.3.5 Enhancing ClubsNSW's role in improving corporate governance

IPART considers that it is ClubsNSW's role to bring club corporate governance into line with best practice. ClubsNSW has already implemented a number of initiatives designed to achieve this, such as including a corporate governance section in its industry awards for excellence and introducing the Code of Practice and Best Practice Guidelines.

However, IPART sees merit in ClubsNSW more extensively promoting examples of effective corporate governance in clubs. If clubs were made aware of these examples, they could more readily assess how they and their fellow clubs are performing in relation to corporate governance.

IPART considers that ClubsNSW could give greater prominence to effective corporate governance by including articles about clubs that comply with its Code of Practice and Best Practice Guidelines in publications such as its *ClubLife* magazine. These articles could set out what arrangements those clubs have implemented and how they have benefited from them.

In addition, ClubsNSW could use this forum to continue to promote positive industry initiatives, such as the recent industry initiative to encourage smaller clubs to utilise professional management services. This initiative involves ClubsNSW and the Club Managers' Association Australia (CMAA) promoting the idea of part-time managers or shared managers for clubs who cannot afford to employ full-time managers, so that they can more readily access management expertise.¹⁶⁸

Recommendation

48 That ClubsNSW more extensively promote examples of effective corporate governance in clubs.

IPART also considers that ClubsNSW should continue to develop its Code of Practice and Best Practice Guidelines as new corporate governance issues arise. For example, IPART considers that moving to three-year rolling elections (as permitted under the Registered Clubs Act)¹⁶⁹ would help improve board effectiveness. Stakeholders indicated that this approach to elections would increase board stability, facilitate the

¹⁶⁸ Under a shared management arrangement, two clubs could pool their resources and employ a manager who manages each club for two to three days a week: ClubsNSW, Sydney roundtable, 7 May 2008, p 11.

¹⁶⁹ That is, directors would have three year terms and their re-election would be staggered so that each year, one third of directors would be up for re-election. See Section 30(1)(a)(iii) Registered Clubs Act.

establishment of good working relationships between boards and management, and encourage directors to invest time and money in undertaking training.¹⁷⁰ To encourage clubs to adopt this approach and assist them in overcoming member resistance to it, IPART considers that ClubsNSW should develop a Best Practice Guideline on this issue.

Recommendation

49 That ClubsNSW continue to develop its Code of Practice and Best Practice Guidelines as new corporate governance issues arise. In particular, ClubsNSW should develop a Best Practice Guideline encouraging boards to move to three-year rolling elections.

In addition, IPART considers that ClubsNSW could continue to develop its Code of Practice and Best Practice Guidelines by:

- ▼ introducing best practice recommendations into its Best Practice Guidelines
- ▼ amending its Code of Practice to require a club to:
 - either follow its Best Practice Recommendations or, if it does not follow a recommendation, to explain why that recommendation was not appropriate to the club's particular circumstances
 - set out in its annual report the extent to which it has followed each recommendation and the reasons it has not followed any particular recommendations.

This approach is based on one used by the Australian Securities Exchange (ASX), known as the 'if not, why not' approach. The ASX has a suite of corporate governance recommendations for listed companies to follow. If a listed company considers that a particular recommendation is not appropriate to its circumstances, it has the flexibility under the 'if not, why not' approach to not adopt the recommendation, as long as it explains why. The ASX requires that listed companies disclose in their annual reports the extent to which they have followed each recommendation.¹⁷¹

¹⁷⁰ Leagues Club Association, Wagga Wagga roundtable, 14 September 2007, p 50; ClubsNSW submission, 31 July 2007, p 158; RSL & Services Clubs Association submission, 9 April 2008, p 9; Riverina Australian Rules Club, Wagga Wagga roundtable, 14 September 2007, p 52.

¹⁷¹ ASX Corporate Governance Council, *Response to Submissions on Review of Corporate Governance Principles and Recommendations*, August 2007, p 2.

The obvious advantage of this approach over mandating best practice is that it provides clubs with an incentive to follow best practice, while providing them with the flexibility to determine what is appropriate in light of their circumstances. However, IPART acknowledges that the approach also has a number of limitations. For instance:

- ▼ Requiring clubs to disclose in their annual reports the extent to which they follow best practice recommendations is somewhat inconsistent with the direction of the most recent amendments to the Registered Clubs Act, which reduced the amount of information required to be disclosed in annual reports.¹⁷²
- ▼ Member apathy about corporate governance may mean that the annual report disclosures are not sufficiently scrutinised, reducing a club's incentive to follow the best practice recommendations.¹⁷³
- ▼ ClubsNSW does not audit compliance with the Code of Practice and Best Practice Guidelines, instead relying on people to report alleged breaches to bring matters to its attention. If members are not reviewing the annual report disclosures and reporting alleged breaches, ClubsNSW will not be adequately aware of the extent to which clubs are complying with the 'if not, why not' requirement.
- ▼ The Code Authority does not have extensive powers to sanction clubs for breaches of the Code of Practice. Its most serious sanction would be to recommend to the board of ClubsNSW that it cancel the club's membership. It could also refer the matter to the Minister for Gaming and Racing for further action, presumably if there was some concomitant breach of the Registered Clubs Act.
- ▼ The Code of Practice and Best Practice Guidelines only apply to ClubsNSW members.

In addition, ClubsNSW considers that annual reporting of compliance with best practice recommendations is unjustified.¹⁷⁴

Despite these limitations and ClubsNSW's view, IPART still considers that this is a useful way for ClubsNSW to continue to foster best practice in club corporate governance. In particular, IPART considers this more rigorous approach is appropriate given the numerous examples where the Code of Practice or Best Practice Guidelines already cover an item that stakeholders raised as a corporate governance concern.

¹⁷² Previously, the Registered Clubs Act required a club to disclose in its annual report various corporate governance information. Now clubs only need provide details of these disclosures on written request by members. See section 9.2.2.

¹⁷³ For example, the case study club Riverstone-Schofields Memorial Club estimated that in its experience, 90 per cent of members did not read its annual report.

¹⁷⁴ ClubsNSW submission, 4 April 2008, p 42.

Recommendation

50 That ClubsNSW introduce best practice recommendations into its Best Practice Guidelines, and revise its Code of Practice to require a club which does not follow a best practice recommendation to disclose its reasons in its annual report.

9.3.6 Enhancing ClubsNSW's role in assisting smaller clubs with their compliance obligations

Several stakeholders commented on the difficulties faced by smaller clubs in complying with the Registered Clubs Act. While larger clubs were able to afford compliance officers to manage their compliance obligations, this was not an option for smaller clubs due to the costs involved.

IPART notes that OLGR has provided useful compliance tools for clubs, including a self-audit checklist and a standards and systems audit.¹⁷⁵ However, there is scope for further assistance in this area for smaller clubs. It considers that ClubsNSW should employ a pool of compliance officers for smaller clubs to use as needed, on terms similar to those set out below:

- ▼ A club requests ClubsNSW to allocate a compliance officer to it for a fixed period of time.
- ▼ The compliance officer provides the club with services such as:
 - auditing the club's current level of compliance with the Registered Clubs Act requirements
 - reviewing the systems the club has in place to manage compliance.
- ▼ ClubsNSW charges the club for the compliance officer's services on a cost recovery basis. That is, ClubsNSW charges the club a fee equal to the cost incurred by ClubsNSW for salary, insurance etc, to provide this compliance service per year, pro rata for the number of days the club uses the compliance officer over that year.
- ▼ The compliance officer is subject to confidentiality arrangements with the various clubs s/he assists.
- ▼ Only clubs with gaming machine revenue of \$1 million or less a year should be able to access the service.

¹⁷⁵ The self audit checklist is the same list OLGR officers use when auditing clubs. The standards and systems audit helps clubs identify their compliance risks and strategies for reducing these risks, and compile a folder outlining their compliance program. (See www.olgr.nsw.gov.au/gaming_info_compliance_tools.asp)

ClubsNSW expressed reservations about this initiative. It thought most small clubs would be unwilling or unable to pay for such a service. Further, it would not have the resources to offer this service to its members for free. Based on its previous experience with using compliance officers, ClubsNSW estimated that this initiative would cost between \$800,000 and \$1 million a year.¹⁷⁶ Instead, ClubsNSW would prefer to assist clubs with compliance issues by expanding its Member Enquiry Centre and developing other compliance tools which clubs can access online.¹⁷⁷

IPART encourages ClubsNSW to develop its preferred compliance initiatives. However, due to stakeholder concerns about the compliance difficulties faced by smaller clubs, IPART still sees merit in ClubsNSW creating a pool of compliance officers to assist them. As an initial step, ClubsNSW should explore the demand from smaller clubs for this service, including their willingness to pay for the service on a cost recovery basis.

Recommendation

51 That ClubsNSW examine the feasibility of employing a pool of compliance officers to assist smaller clubs meet their compliance obligations under the Registered Clubs Act. These officers would be available on request to clubs with gaming machine revenue of \$1 million or less a year. ClubsNSW would be able to charge clubs a fee for using this compliance service, determined on a cost recovery basis.

9.3.7 Improving risk management

Dealing with compliance issues is one area of risk management. Another area of risk management not specifically addressed by the tools provided by OLGR referred to in section 9.3.6, or by ClubsNSW's Best Practice Guidelines, is the risk of fraud. Stakeholders identified this risk as a concern, and noted that it was increased where club boards did not have sufficient skills to provide good oversight of management, and monitor their club's financial performance.

IPART considers that its recommendations related to improving clubs' financial reporting and benchmarking (see Chapter 7) and improving the effectiveness of boards (see above) should reduce some of the underlying risk factors. In particular, Recommendation 13 requiring clubs with annual gaming machine revenue of less than \$5 million to use a standardised reporting format for their financial management accounts should improve the consistency and relevance of financial information reviewed by boards and management.

¹⁷⁶ This estimate is based on the assumption that around 50 per cent of the 800 small clubs use the service each year, at a cost of \$2,000 a club: ClubsNSW submission, 4 April 2008, p 44.

¹⁷⁷ ClubsNSW submission, 4 April 2008, p 44.

9.3.8 Improving the existing club-specific training available to directors and managers

A range of club-specific training options is already available to directors and managers. For example, ClubsNSW offers director training through its Club Director Institute (CDI). Other organisations, including the CMAA and Southern Cross University (SCU) offer training tailored to club managers. On the whole, stakeholder comments about the existing training were positive. However, IPART has identified several ways in which this training could be improved, including:

- ▼ providing the option of accredited director training
- ▼ providing more flexible delivery of director training
- ▼ increasing the promotion of training.

Accredited director training

ClubsNSW should provide directors with the option to have their involvement in CDI accredited, ideally under the Australian Qualifications Framework. ClubsNSW has indicated that it is investigating accreditation options and is looking at becoming an Enterprise Registered Training Organisation.¹⁷⁸

IPART considers more directors would be encouraged to take up CDI training if some form of accreditation were available. IPART notes that CMAA and SCU already offer the option of accredited training to managers.

More flexible delivery of director training

Stakeholders indicated that only a minority of club directors participate in regular training, and that some of the barriers to this participation include time constraints, and distance from training facilities. IPART considers that ClubsNSW should look at providing more flexible director training to overcome these barriers – for example, online training programs or smaller scale face-to-face training programs in regional areas.

IPART notes that management training is already available in a flexible form. For example, managers may complete the SCU program by distance education.

IPART acknowledges ClubsNSW's comment that the age profile of its CDI members has implications for training delivery options. However, IPART considers that providing more flexible training for directors would complement IPART's other recommendations to encourage people to take up director training, such as core training (see section 9.3.1). ClubsNSW has indicated that it is currently developing flexible training options through CDI.¹⁷⁹

¹⁷⁸ ClubsNSW submission, 4 April 2008, p 34.

¹⁷⁹ ClubsNSW submission, 4 April 2008, p 34.

Greater promotion of training

IPART considers there should be greater promotion of training. The various programs offering club-specific training for directors and managers appear to be relevant and generally well-received by the stakeholders who participate in them. Continuing to raise awareness of the benefits of training will likely lead to an increase in participation by directors and management.

Therefore, IPART considers that ClubsNSW should continue to promote ongoing training as best practice. Further, it considers that ClubsNSW should encourage clubs to record in their annual reports any ongoing training undertaken by directors in addition to the core training modules. This would increase the industry's awareness of the importance of ongoing training.

ClubsNSW has indicated it will continue to develop new avenues to promote training, for example by re-launching its Club Director magazine.¹⁸⁰

Recommendation

52 That improvements be made to the existing club-specific training available to club directors and managers by ClubsNSW:

- offering accredited training for directors, ideally under the Australian Qualifications Framework
- offering more flexible delivery options for director training
- with other providers of club-specific training, increasing their promotion of the programs that they offer.

¹⁸⁰ ClubsNSW submission, 4 April 2008, p 36.

10 Helping clubs better understand the risks and benefits of diversifying their operations

In the corporate world, diversifying into new operating areas can be an effective strategy for some businesses that seek to reduce their risk and improve their shareholder returns (or financial viability). However, it is not a universal strategy. Some businesses choose not to diversify, while others have pursued and then reversed diversification strategies.

In the registered clubs industry, IPART has found that diversification has, at best, a mixed record of success. Specifically, it is not proven as a means of reducing (to any great extent) clubs' reliance on the revenue and net contribution from gaming machines to support their provision of facilities and services or improve their long-term financial viability.

However, there still may be merit in clubs seeking to diversify their sources of revenue. In specific circumstances, diversification can be an effective means of expanding a club's revenue base, broadening its market appeal, and maintaining its relevance by offering additional services to its members and local community.

The sections below provide an overview of the potential for diversification to help enhance clubs' financial viability – both in theory and in the experience of clubs in NSW – and discuss IPART's key findings and recommendations in relation to diversification.

10.1 The potential for diversification to improve clubs' financial viability

In general, businesses consider diversification strategies for a range of reasons, including (but not limited to) the following:

- ▼ Where a business sees an opportunity to increase shareholder returns or reduce risk or exposure to a market or product. This may be by entering into a new business with high margins or with unmet consumer needs, or by spreading operational risks across various lines of business and thus reducing variability in profits.

- ▼ Where a business's core operations are in long-term decline for reasons that are beyond its control. This may be because of changes in consumer tastes and demand for its products or services (often seen in the case of technology and consumer electrical manufacturers); supply constraints (oil firms); legislative restrictions (tobacco companies); and/or changes in the competitive environment (such as the expiry of intellectual property rights). Even in these cases, diversification requires specific benefits that would not generally be available to all businesses, such as offsetting risk positions that are not otherwise easily hedged, economies of scope and scale between the activities or access to unique skills or product relationships.

10.1.1 Why do clubs diversify?

During the consultation process, stakeholders identified that registered clubs consider diversification as part of their overall business strategy for several reasons:

- ▼ to reduce their reliance on gaming machine revenue (and thus the potential impact of changes in the regulation of gaming machines on their operating margins)
- ▼ to respond to increasing competition from hotels and other businesses
- ▼ as a means of improving their offerings to members, broadening their membership base, and addressing community needs.

Some stakeholders noted that while clubs might embark on a diversification strategy with a particular objective in mind, there can be unintended consequences. For example, Wagga RSL stated it developed a motel on surplus land adjacent to the club to reduce its reliance on gaming machine revenue. In fact, the motel generated increased traffic in the club and consequently increased gaming.¹⁸¹

Many stakeholders suggested that diversification strategies were a natural progression for larger and/or successful clubs that had the financial and management resources at their disposal to consider diversification options. While smaller and/or financially distressed clubs saw merit in diversification, it was not a realistic option for them due to their limited financial capacity and management resources. For example, Leeton Bowls Club stated it was not in a position to diversify because it had limited cash reserves and does not own its land so cannot mortgage it to secure funding.¹⁸²

¹⁸¹ Wagga RSL Club, Wagga Wagga roundtable, 14 September 2007, p 25.

¹⁸² Leeton Bowls Club, Wagga Wagga roundtable, 14 September 2007, p 24.

10.1.2 What have clubs diversified into?

IPART's consultation identified that clubs have diversified into a range of areas, including (but not limited to):

- ▼ health and fitness centres
- ▼ accommodation
- ▼ training and education
- ▼ bottle shops
- ▼ retail
- ▼ child care
- ▼ aged care
- ▼ travel services.

In some instances, the club operates the diversified business or businesses itself, generally where it can do so within existing club operations (eg, new upmarket dining options). Where the diversified business is somewhat removed from the hospitality sector, the club often engages a third party to own and operate the business with the club acting as landlord.

ClubsNSW cited Dee Why RSL as an example of a club that has used numerous diversification strategies to reduce its reliance on gaming machine income.¹⁸³ It established a car wash, which it operates, and has leased space to a child-care operator and a ten pin bowling centre. Dee Why RSL has also entered into a joint venture arrangement with a property developer to establish a retirement village adjacent to the club. This development is expected to generate a significant cash injection and income from an ongoing management fee for the club.

However, ClubsNSW also acknowledged that, even with diversification, the long-term financial viability of clubs is likely to remain closely linked to their ability to operate gaming machines.¹⁸⁴

10.1.3 Are there any restrictions on diversifying?

The Registered Clubs Act places no specific restrictions on what business/sectors clubs can diversify into. At the outset of this review, section 41J(3) of the Registered Clubs Act placed conditions on the disposal of land by a registered club. Essentially, this section meant that clubs could not dispose of land (or grant options to buy) unless:

1. the disposal was approved by a majority of club members
2. the disposal was by public auction or open tender, and

¹⁸³ ClubsNSW submission, 31 July 2007, p 105.

¹⁸⁴ ClubsNSW submission, 31 July 2007, p 100.

3. the club first obtained a valuation of the land from an independent valuer.

This section of the Registered Clubs Act also applied to the granting of a lease over land. However, it excluded leases where the purpose is to provide goods and services to club members and guests. It also excludes providing goods and services to the general public subject to approval by members.

This section – particularly the second and third conditions noted above – indirectly placed limitations on some diversification strategies, namely those involving divestment of land and property development. However, IPART considers that the provisions introduced by the *Registered Clubs Amendment Act 2006* provide greater flexibility to clubs to get the best return on, and use from, land while protecting and preserving the core club assets for members. These provisions:

- ▼ create a distinction between core property (club premises) and non-core property (other property such as investment property)
- ▼ allow clubs to deal with non-core property without the need for approval from members, independent valuation or public auction
- ▼ still require approval from members, independent valuation or public auction for disposal of core property.

IPART considers that these amendments should address concerns about this legislative constraint on diversification.

ClubsNSW also argued that clubs are constrained in pursuing diversification options by the prohibition on providing catering anywhere off their premises at functions sponsored by and paid for by people who are not members of the club.¹⁸⁵ This regulatory restriction has implications beyond clubs' diversified business segments and is discussed in Chapter 13.

10.2 IPART's findings and recommendations on diversification

IPART found that diversification will not reduce clubs' reliance on gaming machine revenue to any great extent but can be a worthwhile strategy for other reasons. In addition, clubs that pursue diversification need to consider how they can capitalise on their unique strengths and manage the risks. To assist clubs in effectively adopting diversification strategies, IPART considers that ClubsNSW should provide advice and education on diversification.

The sections below discuss these findings in more detail, and set out IPART's recommendations in relation to diversification.

¹⁸⁵ ClubsNSW, Sydney roundtable, 7 May 2008, p 48.

10.2.1 Diversification will not reduce clubs' reliance on gaming machine revenue to any great extent but may be worthwhile for other reasons

IPART found that diversification is unlikely to significantly reduce clubs' reliance on gaming machine revenue. This is because operating gaming machines is a relatively low-risk business that typically generates high volumes and net contributions per square metre of floor compared with other core club activities (such as food and beverages). These qualities would be difficult to replicate in any other line of business, particularly in the hospitality sector (which appears to be the area into which clubs feel most comfortable diversifying).

For example, IPART understands that gaming operations are typically capable of providing net cash operating profit margins of approximately 65 per cent.¹⁸⁶ In comparison, Table 10.1 shows that industry profit margins for some of the typical lines of business clubs have diversified into range between 4 and 10 per cent. In addition, IPART's analysis of case study clubs found that most of these clubs' business lines (apart from gaming) were loss-making or, at best, operated at margins consistent with those in Table 10.1.

Table 10.1 Australian industry operating profit margins

Industry	Operating profit margin (%)
Cafes and restaurants	4.8
Store-based retailing	5.9
Accommodation services	9.7
Health and fitness centres and gymnasias	4.6

Note: Year sources for lines of business differ.

Source: Cafes and restaurants: ABS Cafes and Restaurants Industry 1998-99; Store based retailing: ABS Retail and Wholesale Industries 2005-06; Accommodation Services: ABS Accommodation Services 2003-04; Health and fitness centres and gymnasias: ABS Sports and Physical Recreation Services 2004-05.

In a survey of clubs cited by ClubsNSW¹⁸⁷, adopting diversification strategies as a response to financial challenges over the next five to 10 years ranked fourth behind improving existing products; increasing non-gaming income¹⁸⁸; and increasing membership. This suggests that clubs are cautious about the ability of diversification to improve financial viability.

However, despite its limited ability to reduce clubs' reliance on gaming machine revenue and improve their financial viability, IPART found that diversification can be a worthwhile strategy for other reasons. For example, stakeholders identified that diversification can be useful for:

- ▼ Attracting new customer segments. Clubs may lease part of their premises to a third-party operator at rates that are below market in an attempt to attract a new customer segment to the club.

¹⁸⁶ Information provided by KPMG (IPART's consultant).

¹⁸⁷ ClubsNSW submission, 31 July 2007, p 103.

¹⁸⁸ From other core activities of the club, such as food and beverage.

- ▼ Assisting government in pursuing its policy goals. ClubsNSW submitted that there is an opportunity for clubs to assist the NSW Government in pursuing its policy goals by providing aged care services, and that the Government has recognised this opportunity in its draft State Environmental Planning Policy (Seniors Living).¹⁸⁹ The Richmond Club is one club that already has several years' experience in providing aged care services, with high care and independent living units as well as a specialist dementia ward. The Richmond Club stated in an interview with IPART that it saw aged care as part of its social responsibility in the local community (and not, in fact, as a diversification from its core business).¹⁹⁰

In addition, based on the evidence presented by clubs, IPART considers that diversification can be an effective means of expanding a club's revenue base, broadening its market appeal, and maintaining its relevance by providing additional services to members and the local community.

As Chapter 2 discussed, there is a significant subset of clubs that operate without gaming machines. IPART notes that these clubs could consider diversifying their operations as one strategy to promote their long-term financial viability, although it also notes they tend to be the clubs lacking the resources to do so.

10.2.2 Clubs that pursue diversification should seek to take advantage of their unique strengths while minimising risk

IPART considers that the clubs industry has not generally recognised its unique and collective strengths. These include:

- ▼ the size and loyalty of its membership base, particularly when taken as a state-wide group
- ▼ the high levels of land ownership in the industry, including a high proportion of underused or unproductive land
- ▼ clubs' extensive geographic reach, with clubs located throughout metropolitan areas and in most regional markets.

When reviewing opportunities for diversification, it is important that clubs consider entering into joint venture arrangements with business operators. These allow a club to gain access to skills that they might not otherwise have, and to share the risks of operating a new business with a third party.

While many other not-for-profit entities engage in common and joint strategies, clubs tend to operate unilaterally and independently of other clubs. IPART considers that if they shared information and used their collective strengths to their advantage through joint venture arrangements, clubs' opportunities for diversification would

¹⁸⁹ ClubsNSW submission, 31 July 2007, pp 105-106.

¹⁹⁰ IPART interview with Richmond Club, 15 October 2007.

increase. Of course, clubs (particularly those nearby to one another) are often in competition with each other, so collaboration will not always be an option.

In addition, there are a range of risks associated with diversification that clubs adopting this strategy would need to consider and minimise. For example, these include risks associated with the competitive nature of the industries they diversify into, their ability to manage the greater complexity of a diversified business, inadequate due diligence, risk analysis and planning, and other risks.

Risks associated with competitive nature of industries clubs diversify into

Clubs have traditionally operated in uncompetitive and tightly regulated markets, such as gaming machines (where clubs had a monopoly until 1995) and licensed operations. While the competitive pressures on clubs are increasing, most club managers and boards have relatively limited experience operating in competitive markets.

Many of the diversified business sectors that clubs are seeking to enter are mature and highly competitive, such as health and fitness, accommodation and off-licence bottle shops. These types of businesses tend to record low operating margins and therefore there is a risk that they will drain the financial resources of the club.

Risks associated with clubs' ability to manage more complex diversified businesses

In pursuing diversification initiatives, a club may increase the level of complexity within its business and therefore increase the level of operational risk. And because most club managers have relatively limited experience outside the clubs industry, the risk of operational failure is increased. For these reasons, it is important that clubs continually assess their level of internal control and management review to ensure that the new businesses are being operated properly.

Risks associated with inadequate due diligence, risk analysis and planning

Diversification strategies often involve a significant capital investment and/or the contribution of club assets (such as land). Therefore it is important that clubs undertake adequate due diligence and planning when assessing a proposed new business venture. IPART noted that some of its case study clubs had undertaken a detailed due diligence or feasibility process before going ahead with a diversification initiative, while others had not engaged in any formal assessment process.

The inability of some clubs to adequately assess and compare the feasibility of different diversification initiatives is a significant risk. This may be compounded by the collective lack of financial skills on some club boards and the limited experience of most club managers in operating businesses outside the clubs industry or hospitality sector.

At the first Sydney roundtable, ClubsNSW indicated it could cite numerous examples of poorly executed diversification strategies due to inadequate planning. These included examples involving joint ventures where there was no financial 'upside' for the club in the deal, and undercapitalised ventures that meant the club was financially overcommitted and put at risk from default from the lender.¹⁹¹

Other risks

Other identified risks of diversification include:

- ▼ The risk that the significant financial commitments and management attention the diversification initiative requires could distract clubs from their core purpose and function. It is important that clubs ensure they have appropriate and sufficient financial and management resources to pursue the initiative. Clubs NSW stated at the first Sydney roundtable that 62 per cent of clubs did not have professional management, and so struggle with managing their day-to-day operations let alone a diversified business.¹⁹²
- ▼ Clubs are often required to sign long-term contracts in the form of lease agreements or management arrangements. These reduce the level of operational flexibility and prevent the clubs from exiting any onerous contracts. IPART considers it critical that clubs adequately assess the implications of entering into such arrangements.
- ▼ Gunnedah Services and Bowls Club at the Armidale roundtable also noted that regional clubs should be cautious about diversifying into areas that may take away business from others in the community, because the "political fall-out" can rebound on the club.¹⁹³

10.2.3 To assist clubs, ClubsNSW should provide advice and education about when and how to diversify effectively

IPART believes clubs need support and assistance in identifying financially sound diversification strategies and avoiding unsound, risky diversification. In particular, they need education about the risks associated with diversification, and advice on how to make an informed judgement on the relative merits of any proposed diversification strategy.

¹⁹¹ ClubsNSW, Sydney roundtable, 27 August 2007 p 30.

¹⁹² ClubsNSW, Sydney roundtable, 27 August 2007, p 30.

¹⁹³ Gunnedah Services and Bowls Club, Armidale roundtable, 21 September 2007, pp 30-31.

Given the risks associated with diversification, it is essential that clubs engage in appropriate due diligence and planning before entering into diversified businesses. This would typically include (but not be limited to):

- ▼ Thorough assessment of the needs of the local community and of the club's membership base to find out whether there is demand for the new product or service.
- ▼ Thorough forecasting and budgeting, particularly where the diversification strategy involves a significant up-front capital commitment or a long-term contract.
- ▼ Analysis of the market, financial and operational risks of entering into the new venture.
- ▼ Consideration of possible opportunities to mitigate the risks identified. This could include joint venture arrangements with third-party operators or other clubs.

IPART considers that ClubsNSW is best placed to develop and deliver guidance and education material about diversification. This material should cover the risks of diversification, and the processes and strategies clubs need to use to minimise these risks.

Recommendation

53 That ClubsNSW develop and deliver material to assist clubs (particularly small to medium-sized clubs) in understanding and managing the benefits and risks associated with pursuing diversification, including:

- Providing guidance with respect to the measures usually adopted to identify and mitigate diversification risks, such as due diligence and planning procedures to objectively assess the relative merits of a particular diversification strategy.
- Advising clubs on the merits (and risks) associated with joint ventures with third party business operators in order to obtain management expertise and share operational and financial risks that arise from diversification.
- Assisting clubs to recognise and leverage their collective strengths when thinking of diversification. These include the size and loyalty of membership bases, underutilised landholdings in strategic locations and extensive geographic reach of the industry.

11 | Making it easier for clubs to amalgamate

IPART found that there are some clubs for which no amount of improved financial management can ensure their individual survival. In some cases, closure of a club might be the only appropriate outcome. However, given that clubs are custodians of community assets, amalgamation with another club may be a positive alternative to closure that protects and preserves those assets and their benefits to the community.

IPART reviewed the procedure for amalgamations and movement of assets between registered clubs, and found that some areas of the current process create barriers to amalgamation, whether intentionally or not. For example:

- ▼ The complexity of the amalgamation process and the involvement of various government bodies and professionals make it quite a daunting undertaking, especially for smaller clubs with fewer resources.
- ▼ The cost associated with amalgamation is also a burden for the clubs involved, particularly the legal costs, due diligence costs, associated fees and the need for the parent club to invest in the other club. Legislated restrictions related to gaming machine entitlements and dealing with the major assets of the dissolved club in an amalgamation also create a financial disincentive to amalgamation for the parent club.
- ▼ The timing of an amalgamation is critical to its success. Experience indicates that it is better for struggling clubs to consider amalgamation earlier rather than later. However, there are two main obstacles to timely amalgamation:
 - As Chapter 6 discussed, many clubs do not understand their own financial position, which can result in them failing to consider amalgamation until it is too late. The recommendations made in Chapters 7 and 8 should help to address this barrier.
 - The inability of club members and/or directors to consider amalgamation as a 'first choice' strategy to improve a club's viability, which can delay the important decision to pursue amalgamation.

IPART also found that management agreements can provide clubs (that are considering amalgamating) with a better understanding of what an amalgamation may bring to both entities.

The sections below explain the process and role of amalgamation, and discuss IPART's findings and recommendations on overcoming the barriers to amalgamation and using management agreements as a first step towards amalgamation.

11.1 The amalgamation process

Provisions allowing clubs to amalgamate were included in the Registered Clubs Act in 1985. Since 1998, there have been over 100 amalgamations. Indeed, over the course of this review, 10 amalgamations have been completed.

Amalgamations are usually effected by one club taking over the membership and assets of another club. The amalgamated club keeps the registration number of the first club and the second club is dissolved. The Registered Clubs Act refers to the first club as the parent club and the second club as the dissolved club. However, because the second club is not dissolved until the end of the amalgamation process, to avoid confusion this report uses the terms 'parent club' and 'other club' when discussing clubs contemplating or engaged in the amalgamation process, and 'dissolved club' only once the other club has been dissolved.

There are no provisions in the Registered Clubs Act that prevent two clubs from entering into a merger by dissolving both clubs and forming a new club. However, to date, this model has rarely been used.

11.1.1 The current amalgamation process

The current amalgamation process involves several pieces of legislation including the Registered Clubs Act, Registered Clubs Regulation, Licensing Court Practice Directions and the Corporations Act. This process includes the following six steps:

1. **Seeking amalgamation:** a club's board of directors decides to seek an amalgamation.
2. **Calling for an expression of interest (EOI):** a club must call for an EOI in amalgamating with it from registered clubs within a 50km radius of its location, regardless of whether it is in a metropolitan or non-metropolitan area. If a club is unable to find an acceptable amalgamation partner from the EOI, it may seek partners outside of the 50km radius.
3. **Notifying members:** clubs party to the proposed amalgamation need to inform their members. The form of the notice is to be determined by each club and displayed on the noticeboard at the main club premises and on the clubs' websites (if they have one).
4. **Undertaking due diligence and negotiation:** once an amalgamating partner is found, due diligence investigations begin as well as negotiations on how the clubs will operate as a result of the amalgamation.
5. **Entering into a memorandum of understanding (MOU):** clubs party to the amalgamation need to enter into a MOU which needs to be lodged with the Licensing Court when submitting the application for amalgamation. The MOU has to be publicly available for inspection at the premises of the clubs that are party to the amalgamation.

6. **Holding an extraordinary general meeting to vote on the amalgamation:** each club must hold an extraordinary general meeting to vote on the motion to amalgamate. A majority of 50 per cent or more of members casting votes at the meeting is required for the motion to be passed. If this is not achieved, the amalgamation does not proceed.

Following these steps, clubs also need to finalise the amalgamation, including winding up the other club and transferring its business and core property to the parent club. However, with the commencement of the *Liquor Act 2007* on 1 July 2008, the actual administrative procedures and requirements for these steps will be changing and have yet to be finalised by the new Casino, Liquor and Gaming Control Authority (CLGCA) (discussed further in section 11.1.2 below).

11.1.2 Recent legislative changes affecting the amalgamation process

During the period of this review, there were three legislative changes which affect amalgamations:

- ▼ the *Registered Clubs Amendment Act 2006* was passed in November 2006¹⁹⁴
- ▼ the *Registered Clubs Amendment Regulation 2007* took effect from 21 December 2007
- ▼ the *Liquor Act 2007* received assent on 13 December 2007.

The Registered Clubs Amendment Act and Regulation contain sections that aim to relax the restrictions on amalgamation, while provisions in the *Liquor Act 2007* will have implications for the governing bodies that will oversee such matters and, as indicated above, on the administrative procedures and requirements involved in the final steps of the amalgamation process.

The main change introduced by the Registered Clubs Amendment Act and Regulation is to replace the Deed of Amalgamation (Deed) with an MOU (see step 5 above). A Deed requires legal drafting and input, whereas clubs can draft and easily amend a MOU. This could help clubs reduce legal costs and allow more flexibility to incorporate changes as the negotiations proceed.

Other major changes as a result of the Registered Clubs Amendment Act and Regulation include:

- ▼ raising the limit on the number of amalgamations a club can enter into from four to 10
- ▼ requiring clubs to look for Expressions of Interest (EOI) from within a 50km radius of their club (regardless of whether the club is metro or non-metropolitan)
- ▼ replacing 'major assets', which had to be negotiated between the clubs and recorded in the Deed, with 'core property' as defined in the Registered Clubs Act.¹⁹⁵

¹⁹⁴ Much of the Act did not commence until December 2007 and some provisions are yet to commence.

The *Liquor Act 2007* will commence on 1 July 2008. This will see the Liquor Administration Board and the Licensing Court abolished, and replaced with a Casino, Liquor and Gaming Control Authority (CLGCA). Under the *Liquor Act 2007*, steps 1 to 6 in section 11.1.1 above will remain applicable. However where section 17A of the Registered Clubs Act currently requires a conditional application and lodgement of documents with the Licensing Court to finalise an amalgamation, this provision will effectively be replaced with a requirement to transfer the club liquor licence under section 60 of the *Liquor Act 2007*.

OLGR has advised that transitional arrangements for clubs currently undergoing amalgamation procedures will be as follows:

- ▼ any application for amalgamation lodged by clubs under section 17A of the Registered Clubs Act prior to 1 July 2008 will continue to be heard and dealt with by the Local Court (sitting as the former Licensing Court)
- ▼ any clubs that are undergoing the EOI and/or MOU aspects of the amalgamation process as at 30 June 2008 (but have not lodged an application for amalgamation with the Court) will, once the EOI and MOU processes are completed, need to apply to the CLGCA for a transfer of the club's liquor licence under the new *Liquor Act 2007* from 1 July 2008.

11.2 The role of amalgamation

There are a range of views within the clubs industry and within government on the role of amalgamation. For example, within the clubs industry one school of thought is that amalgamation is no different from club closure, and involves the 'death' of the identity of the dissolved club. ClubsNSW commented that¹⁹⁶

There is a perception in the club industry that amalgamation means that one club identity simply disappears...

This attitude often leads financially struggling clubs to resist considering amalgamation, perhaps until it is too late. Amalgamation is then seen as a last resort to save a struggling club from complete oblivion. Stakeholders indicated that in a situation such as this, there can be an expectation that a potential parent club will 'rescue' the struggling club by amalgamating with it, but that potential parent clubs needed to be wary about the impacts of this sort of amalgamation on their own bottom line.¹⁹⁷

¹⁹⁵ While core property can be defined by the vote of members, usually core property is the club premises (clubhouse and associated facilities); non-core is any other property such as investment property.

¹⁹⁶ ClubsNSW submission, 4 April 2008, p 27.

¹⁹⁷ For example, Moama Bowling Club, Wagga Wagga Roundtable, 14 September 2007, p 29; Wagga RSL Club, Wagga Wagga Roundtable, 14 September 2007, p 37.

Another possibility is to see amalgamation as a strategic move that can preserve a club's identity and thus long-term viability through amalgamation with a larger, stronger club. For the parent club in this situation, amalgamation can bring expansion opportunities, a greater range of facilities (such as bowling greens and golf courses) to offer members and a degree of 'brand-building'. This approach is perhaps exemplified by the Penrith Rugby League Club's strategy of expansion by amalgamation, which it embarked on during the 1990s.¹⁹⁸ Penrith Rugby League Club (now Panthers Entertainment Group) was the first club to engage in amalgamations with clubs well outside its own geographic area.

Government views on the role of amalgamation seem to have changed in recent years. For example, in 2001, provisions placing restrictions on amalgamations were included in the Registered Clubs Act.¹⁹⁹ These provisions:

- ▼ limited the number of amalgamations per club to four
- ▼ required clubs to first seek to amalgamate with clubs in the same area, then with others with the same objects if none in the same area were willing to amalgamate
- ▼ prevented a parent club from disposing of the dissolved club's assets for three years after amalgamation.

IPART understands that these amendments arose from concerns that amalgamation with geographically dispersed clubs was contrary to the community-based, local nature of clubs and that amalgamation could potentially be used as a strategy to strip assets (by transferring gaming machine entitlements and selling property from the dissolved clubs).

However, these restrictions were relaxed by the *Registered Clubs Amendment Act 2006*, on the basis that amalgamations are often a positive step to preserve community assets held by smaller clubs, and that larger, more profitable clubs that might be in a position to help smaller clubs were prevented from doing so by the existing restrictions.²⁰⁰

Based on its consultations, 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.

¹⁹⁸ Department of Gaming and Racing, *Inquiry in relation to Penrith Rugby League Club Ltd*, December 2004, p 10.

¹⁹⁹ Via the Gaming Machines Act.

²⁰⁰ Registered Clubs Amendment Bill, second reading speech, Mr Grant McBride, 14 November 2006.

Areas where clubs are struggling financially

In areas where clubs are struggling, financial viability can often be achieved by amalgamating two or more clubs, as it offers cost efficiencies through pooling of resources and back office, better use of assets, and stronger purchasing power with suppliers. This scenario often occurs in non-metropolitan areas, where the facilities and services clubs provide are important because alternative providers are scarce, yet where the population density may not be sufficient to support several clubs. For example, stakeholders at the first Sydney roundtable²⁰¹ noted that in Sale, Victoria, four clubs consolidated into one club (with one premises) to ensure the continued availability of the clubs and their sporting facilities to the community.

Areas over-serviced by clubs

As ClubsNSW identified, some areas have too many clubs providing similar services.²⁰² A strategic amalgamation by these clubs would improve their financial viability, as the merger would allow the clubs to rationalise and make better use of the assets they hold collectively. This may occur in rural areas where there are too many clubs given the population, or in metropolitan areas where a demographic shift has changed the demand for services. (For example, stakeholders often identified that bowling clubs fall into the latter group, as demographic changes have led to a declining number of bowlers.)

In this scenario, IPART considers that clubs should view the option of amalgamating with another club or clubs as a solution that will allow the unique (as opposed to generic) assets of each club to be preserved. These more strategic amalgamations might benefit from a model that is more along the lines of a partnership or merger, rather than the current parent club-other club model. The identity of both clubs could be preserved while savings in costs are made. The Panthers amalgamation model is an example of this kind of partnership model (see Box 11.1).

Ultimately, it should be the individual club's members and directors who decide whether to amalgamate or not. However, in making this decision, some clubs may need assistance and advice about how to make this assessment, especially if the decision not to amalgamate may result in closure of the club.

²⁰¹ Sydney roundtable, 27 August 2007, p 51.

²⁰² Sydney roundtable, 27 August 2007, p 46.

Box 11.1 Panthers' amalgamation model

In its submission, Panthers Entertainment Group (PEG) put forward its model for amalgamation, which it described as:

...based on the principles of 'twin citizenship' which in this context meant that while they would become part of a greater group, each club would also remain part of its local community.

Legally, the PEG amalgamations were parent-other amalgamations; however, PEG has incorporated features of a partnership-style amalgamation. The PEG model allows the dissolved clubs to take advantage of support and investment from the larger group, such as PEG's procurement, payroll and financial reporting systems. This leads to improvement in the dissolved club's performance, which means it can continue to provide services and support to its local community.

Local community commitments are taken into account in the amalgamation with a Memorandum of Understanding (MOU) and a local advisory board. The MOU was in addition to the legislative requirement for a Deed of Amalgamation at that time.

The MOU provides a commitment from the parent club to the dissolved club as to how it will deal with its assets, traditions, members, employees, creditors etc. IPART considers that the inclusion of statements and intentions related to how the dissolved club's local community commitment, history and traditions will be maintained and supported are of particular interest.

PEG also sets up an advisory board for each dissolved club that is made up of members from that dissolved club. Members are elected to positions on the advisory board in a similar way to the election of PEG board members (the legal board of directors for all clubs in the group). Only members on an advisory board are eligible to stand for the PEG board of directors, thereby providing more representation from the dissolved clubs.

Source: PEG submission and discussions with Panthers Entertainment Group.

Clubs need to be aware of the risks as well as the benefits of amalgamation

Roundtable participants and case study clubs²⁰³ indicated that, although clubs recognise it is important to preserve community assets, more potential parent clubs now also look for the benefit that the amalgamation will bring to them. Many may not be willing to go in and rescue a struggling club, as it may adversely affect their own club's financial position. IPART agrees that potential parent clubs need to inform themselves of the risks as well as the potential benefits of amalgamation.

²⁰³ For example, Club Old Bar and Nowra Bowling & Recreation Club.

11.3 Overcoming the barriers to amalgamation

IPART found that there are a range of factors that make amalgamation difficult and less likely to be used effectively to protect and preserve a financially unviable club's assets and their benefits to the community. These include:

- ▼ the complexities of the amalgamation process
- ▼ uncertainty about whether the amalgamation will get final approval
- ▼ the costs associated with amalgamation
- ▼ the challenges associated with clubs considering amalgamation in a timely fashion
- ▼ restrictions on transferring gaming machine entitlements.

Each of these barriers and IPART's recommendations for overcoming them are discussed below.

11.3.1 The complexities of the amalgamation process

The current amalgamation process is complex, due to the various legal instruments and government bodies that feed into it. After discussions with stakeholders, IPART found that a great deal of this complexity is unavoidable, particularly the steps related to the negotiations between the clubs and the due diligence investigations. This is because a merger between two businesses is inherently complex.

However, IPART considers that the difficulties this complexity poses for clubs – particularly smaller clubs – could be reduced by developing a step-by-step guide to help clubs navigate the amalgamation process. Such a guide would also be timely, given the recent legislative changes affecting amalgamation (see section 11.1.2). IPART envisages that this guide would serve as the main reference document that informs clubs (both parent and other) about amalgamation.

Although the guide is not likely to be able to cover all facets of amalgamation in exhaustive detail, it should be comprehensive enough to help clubs begin the amalgamation. The guide should be written in plain English and cover a wide range of issues, including:

- ▼ Information on ways to approach an amalgamation, such as:
 - options for amalgamation structures, including the parent-other model and the partnership/merger model
 - use of management agreements as an alternative or a stepping stone to possible amalgamation.
- ▼ The legal steps required, and when and how each of these steps should be taken.
- ▼ Financial considerations that all clubs party to the amalgamation should investigate, such as:

- Identifying the full extent of assets and liabilities of the other club. This is especially important for parent clubs as they will assume the other club's business.
 - Checking the compliance of the clubs involved in relation to the Registered Clubs Act and other related legislation. An example of this would be checking for building compliance with relevant standards and regulations.
 - Modelling the viability of the amalgamated club under various scenarios to consider the risks and possible impacts of amalgamation, particularly in the case of a parent-other model where the parent is 'saving' a struggling other club.
 - Determining how much assistance the parent/stronger club should provide or can afford to provide to the other/struggling club prior to and after the amalgamation.
- ▼ Operational considerations that the clubs need to negotiate, such as:
- the business and management structure of the amalgamated club
 - the level of autonomy of the other club, including what services, amenities and traditions will remain
 - how memberships at the other club will be absorbed into the parent club and what benefits will remain or change
 - a charter of separate accounts for the other club's core property/activities, to allow for the monitoring of the preservation of the other club's main purpose post-amalgamation
 - the treatment of major assets and core property²⁰⁴
 - impacts on employment and existing staff, particularly for the other club
 - the strategic future direction of the amalgamated club and how this will impact on the individual clubs in the amalgamation
 - under what circumstances and after how long the parent club will consider or be allowed to close down the dissolved club, and any required consultation process.

The availability of this step-by-step guide should help clubs to better understand and negotiate the complexity of the process. The guide may also make it cheaper for smaller clubs with limited resources because they would not need to rely so heavily on consultants and/or would be able to manage their consultants more effectively.

²⁰⁴ As defined in the Registered Clubs Act.

Recommendation

54 That OLGR, in consultation with the industry, the Panel and the public, develop a comprehensive guide to amalgamation. It should be a comprehensive guide written in plain English that includes (but is not restricted to):

- information on ways to approach an amalgamation
- details on the legal requirements of amalgamation, how they should be carried out and in what order
- a list of the major issues to consider when amalgamating, including financial, due diligence, operational and strategic planning matters.

11.3.2 Uncertainty about whether the amalgamation will get final approval

As discussed above, after completing the six steps of the amalgamation process outlined in section 11.1.1, clubs are also required to finalise the amalgamation, including applying for a transfer of the other club's liquor licence, and winding up the other club, including transferring its business and core property to the parent club.

During this review, stakeholders expressed concerns about the previous administrative procedures in this final stage of the amalgamation process. Under these previous procedures, after step 6, if club members approved the amalgamation then the parent club needed to take the following additional steps:

- ▼ Making a conditional application to the Licensing Court for approval of the amalgamation.
- ▼ Transferring the other club's assets and liabilities to the parent club: if the conditional application was approved, the other club usually went into voluntary liquidation as a means of winding up its business and transferring its assets and liabilities to the parent club.
- ▼ Making a further application to the Licensing Court for final approval of the amalgamation: this involved the parent club applying to have the other club added to its certificate of registration and the other club's registration being dissolved.

Stakeholders indicated that under these arrangements, when clubs gained conditional approval, there was no certainty that they would gain final approval, and this added to the difficulties of amalgamation.

IPART notes that with the commencement of the *Liquor Act 2007*, requirements under the Registered Clubs Act for amalgamating clubs to apply for a conditional application to the Licensing Court will be replaced by a requirement to transfer the other club's liquor licence under section 60 of the *Liquor Act 2007*. This administrative procedure may potentially provide some relief to this issue of uncertainty around transition from conditional to final approval. But given that the CLGCA will be a new administrative body, it is unclear at present exactly how it intends to process applications for the transfer of a club liquor licence.

In addition, IPART identified some inconsistencies in the provisions of the Corporations Act and the Registered Clubs Act in relation to final stages of the amalgamation process which could create some practical difficulties for amalgamating clubs. As noted above, conventional industry practice is to wind up the other club using voluntary liquidation as a means of transferring its business to the parent club. However:

- ▼ For the wind-up of a company, the Corporations Act requires a special resolution from members with a majority vote of 75 per cent or more. Failure to achieve this resolution can stall the amalgamation, even after members have voted at an extraordinary general meeting to approve it (which only requires a 50 per cent majority under the Registered Clubs Act).
- ▼ Where a liquidator is brought in to wind up a club, the liquidator is obliged to carry out his/her duties in accordance with the Corporations Act. Though s/he may have regard to the contents of the MOU between the two clubs, there is no compulsion to follow what is set out in the MOU.

ClubsNSW suggested that members be allowed to pass a resolution to wind up the club being dissolved at the same meeting they vote on the amalgamation, and that this wind-up resolution only take effect when the Licensing Court grants conditional approval. It argued that this would reduce the costs of having to organise another members' meeting and reduce uncertainty surrounding the outcome of the second meeting.²⁰⁵ However, passing such a resolution does not appear to be legally practicable given the requirement in the Corporations Act that a business cease operations immediately after passing a wind-up resolution.

In addition, Coffs Ex-Services Club queried the necessity for the club being dissolved to go into voluntary liquidation, because bringing in a liquidator adds to the costs of amalgamation. IPART explored two alternative options to voluntary liquidation, including deregistering the other club, and making the other club a 'subsidiary' of the parent club (see Box 11.2). While these options have some advantages, IPART considers that legal and practical issues associated with them would introduce new barriers to amalgamation that outweigh their benefits. On balance, IPART considers that the voluntary liquidation of the other club is still the preferred method.

²⁰⁵ ClubsNSW submission, 31 July 2007, p 132.

One way of reducing the uncertainty associated with winding up the other club's business would be to seek an amendment of the Corporations Act to allow for a simple majority vote in the case of registered clubs that have agreed to amalgamate only. This would overcome the current inconsistency with the requirements of the Corporations Act and those of the Registered Clubs Act.

Recommendation

55 That the NSW Government write to the Commonwealth Government requesting an amendment to the *Corporations Act 2001* to allow for a simple majority vote for liquidation in the case of a registered club that has already voted to amalgamate.

Box 11.2 Alternatives to voluntary liquidation as a means of winding up the other club's business

Option 1 – Deregistering the other club. Under this option, the assets and liabilities of the other club are transferred to the parent club and then this club is deregistered. The manner in which the other club's business is transferred to the parent should be negotiated and set out in the amalgamation's MOU. The benefit of this option is that the vote to deregister the other club can occur at the same meeting as the vote on the amalgamation. It should also be less costly than bringing in a liquidator. However, for this option to be possible:

- ▼ the constitution of the club being dissolved must not prohibit disposal of club assets
- ▼ to deregister the other club, this club must:
 - no longer be carrying on business
 - have assets worth less than \$1,000
 - have no outstanding liabilities
 - not be a party to any legal proceedings
 - ensure all fees and penalties under the *Corporations Act 2001* are paid.
- ▼ the vote to deregister must be approved by all members.

Given the nature of the industry, getting all members to vote and agree constitutes a virtually insurmountable barrier.

Option 2 – Making the other club a subsidiary of the parent club. Under this option, the parent club would take control of the other club in a transaction akin to a takeover. The other club would still exist as an independent legal entity, so would not need to be wound up. Note that under the Registered Clubs Act, this would not be considered an amalgamation. The following procedures would need to be followed:

- ▼ the process to effect the takeover is set out in negotiating the MOU (including issues related to control, structure of the subsidiary's board of directors, dealings with assets etc)
- ▼ members then vote on the proposal to amalgamate and, if approved, they also vote at the same meeting to effect the takeover
- ▼ if the members approve the vote to effect the takeover, then the procedures agreed in the MOU are implemented
- ▼ once the takeover has been completed, the other club lodges a form with the Australian Securities and Investments Commission to inform of a change in its company structure.

This option offers few practical benefits to the parent club, so it is not clear that a stronger club would be willing to enter into such an arrangement. The other club would continue to be a company limited by guarantee and so will have its own board of directors. The parent club can negotiate in the MOU to have a certain representation on the subsidiary club's board, but the members of the subsidiary club can vote those directors off the board at the next election. Further, the legislative scheme requires that any profits or income from a club shall only be used for the promotion of that club, and prohibits a club from distributing its profits to members. This raises doubts as to whether the parent club can derive any ongoing benefit from the future revenues of the subsidiary club.

11.3.3 The costs associated with an amalgamation

Stakeholders indicated that the costs of amalgamation are high, and this acts as a barrier to amalgamation. ClubsNSW estimated that amalgamations can take between six and 18 months to finalise and cost a minimum of \$50,000 in due diligence, legal fees and associated costs.²⁰⁶ Other stakeholders indicated that in addition to legal fees, there is also the need to invest in the other club's facilities, assume its debts, etc. This can bring the total costs of an amalgamation to well over \$100,000.²⁰⁷

IPART assessed the current amalgamation process and considers there are areas that can be improved to help streamline and potentially reduce the costs associated with an amalgamation. For example, clubs rely heavily on legal consultants to run the amalgamation and ensure they comply with necessary requirements. Coffs Ex-Services Club²⁰⁸ suggested that the regulator should consider issuing templates for the Deed of Amalgamation (now replaced by the MOU), to provide clubs negotiating an amalgamation with a starting point. Though the aim is not to entirely do away with legal consultants, IPART considers that the provision of pro-formas for key documents clubs need to prepare as part of the amalgamation process could reduce a club's reliance on legal consultants.

Recommendation

56 That OLGR and the Casino, Liquor and Gambling Control Authority develop pro-formas for documents that are required to be lodged with the application for amalgamation, where appropriate. These pro-formas should be easily accessible to clubs. For example, the OLGR should develop a pro-forma MOU which clubs can access from OLGR's website and that of the peak bodies. The pro-forma MOU should include the minimum legal requirements but provide flexibility for clubs to add their particular requirements.

Another major cost in the amalgamation process is operational rather than legal – namely the financial assistance the parent club provides to the other club before the amalgamation is complete. This is especially the case where the other club is struggling and the parent needs to invest in it to keep it trading during the amalgamation process. For example, Wagga RSL indicated that when it amalgamated with a golf club it:²⁰⁹

...assumed responsibility for the running of the golf club, including ongoing maintenance and payment of accounts for almost two years, before the formal amalgamation was formalized on April 2004. Costs associated with this period totalled about \$474,000, including some \$50,000 for costs directly associated with the amalgamation (eg, legal and consultancy) and payout of the club debt of \$75,000.

²⁰⁶ ClubsNSW submission, 31 July 2007, p 129.

²⁰⁷ ClubsNSW submission, 31 July 2007, p 129, meeting with Wagga Wagga RSL, 14 September 2007, and meeting with Coffs Ex-Services Club, 19 September 2007.

²⁰⁸ Meeting with Coffs Ex-Services Club, 19 September 2007.

²⁰⁹ RSL & Services Clubs Association submission, 27 July 2007, p 18.

ClubsNSW also identified the costs to the parent club of providing financial assistance to the other club as a barrier to amalgamation, and that it would like to see:²¹⁰

...some guidance by regulation as to the extent a continuing club can assist a struggling dissolving club at the early stages of the amalgamation and prior to member approval and to what extent this can increase after member approval.

IPART considers that this is an area for negotiation between the clubs involved in the amalgamation. The club providing assistance needs to bear in mind how such assistance will affect its own financial viability, but ultimately it is up to the club and its members to decide how much risk it wants to take on. However, given that some clubs in the past have gone into an amalgamation as a 'rescue mission', it is envisaged that the guide to amalgamation (see section 11.3.1 and Recommendation 54) should raise this as an important financial issue for clubs to consider and address in amalgamation negotiations. In addition, clubs should be encouraged to look at the option of amalgamation earlier rather than later.

11.3.4 Challenges associated with clubs considering amalgamation in a timely fashion

For amalgamations to be a feasible option for preserving and protecting a struggling club's assets for community benefit, these clubs need to consider the option of amalgamation earlier rather than later. If they leave it too late, they are likely to run down their assets to the point where they are debt-laden, and are no longer an attractive proposition as an amalgamation partner. Potential parent clubs considering taking on an amalgamation partner also need to take into account the timing of the amalgamation, given that they will need to take on the other club's business, including its debts.

It can be argued that a club with more to offer could have more bargaining power in an amalgamation negotiation. If amalgamations are approached from a strategic point of view, rather than as the last resort for saving the club, the structure of the amalgamation is more likely to resemble a partnership rather than parent-other model. This may allow the other club to retain more of its identity while accessing the cost savings and other resources offered by being part of an amalgamated club entity.

However, it can be difficult for clubs to identify when they should start considering amalgamation, especially for clubs lacking strong financial acumen. The inability of some club managers and/or boards to identify amalgamation as a first choice option for improving their club's viability can be a barrier to timely amalgamations. ClubsNSW, roundtable participants and some case study clubs²¹¹ suggested a standardised reporting format for financial management accounts, benchmarking

²¹⁰ ClubsNSW submission, 31 July 2007, p 132.

²¹¹ For example, ClubsNSW submission, 31 July 2007, pp 112-113; Club Old Bar and Nowra Bowling & Recreation Club.

and even compulsory audits from the regulator could help clubs to identify when they should start to consider amalgamation.

IPART found that another key barrier to timely amalgamation can be club culture. The RSL & Services Clubs Association submitted that the complexity of the amalgamation process is minor when compared to the cultural (political) issues a club may face.²¹² Members and directors may have strong views about maintaining their club's independence, or club rivalry may be strong enough to influence members/directors to not consider amalgamation, even if it means the club eventually must close.

IPART's recommendations on financial reporting and benchmarking, including the Club Viability Panel's role in identifying clubs at risk of being in financial distress and helping them to identify their options for improving their financial position (see Chapter 7), should assist clubs to better understand their financial position and recognise when they should consider amalgamation.

With regard to cultural considerations, there are three possible scenarios in clubs reluctant to consider amalgamation:

1. both members and directors are not willing to amalgamate
2. directors are willing to amalgamate but members are not
3. members are willing to amalgamate but directors are not.

To address scenarios 1 and 2, members and directors need to be made more aware of the importance of amalgamation to a club's survival, and better educated about how it can be approached. IPART notes that OLGR currently provides workshops to clubs on compliance issues, among other things. If industry peak bodies were to provide similar education about amalgamation, this could dispel some of the misunderstanding and encourage clubs to approach it more strategically and innovatively, to the benefit of their members, community and the club. For example, a workshop providing information about the different types of amalgamation models could help directors and members to understand that amalgamation does not have to involve a parent club taking over another club. Instead they can adopt a partnership model where both clubs join to create a new, bigger and better club.

Recommendation

57 That peak bodies provide more education to club members and directors on amalgamation. This education should provide a balanced view of amalgamation, covering issues such as the pros and cons of amalgamation, the process, and alternative amalgamation models.

²¹² RSL & Services Clubs Association submission, 9 April 2008, p 6.

Under scenario 3, where members may be willing to consider amalgamation but directors are not willing “to give up their blazers”²¹³, the board of directors may knock back any amalgamation approaches and members would not be informed. But if members were aware of the financial position of the club and the amalgamation proposal by another club, they may well decide to vote in favour of amalgamation or at least further investigation of this option. This raises the question, when does the board have a duty to disclose amalgamation offers to its members?

ClubsNSW put the view that informing members of amalgamation offers as they are made can compromise negotiations. However, it also submitted that there is merit in clubs disclosing in their annual report any amalgamation offers and the details of the board’s consideration of those offers.²¹⁴

IPART accepts that revealing details of a potential amalgamation offer that is still being finalised might compromise negotiations. However, IPART also considers that disclosing amalgamation offers only in the annual report would delay disclosure for too long. IPART is of the view that formal amalgamation offers should be disclosed to members in a timely manner.²¹⁵ This would be the case particularly for clubs that receive a proposal from another club to amalgamate. The reason for notifying members of formal amalgamation offers is to provide an avenue for members to provide timely input to the board of the club, especially if the members and the board have opposing views.

Defining what constitutes a formal offer may be difficult. However, where a board has formally considered an amalgamation proposal and made a decision, IPART considers that this outcome should be disclosed to its members as soon as practicable. This would also give members the opportunity to express their views on whether they think the board has made the right decision, or whether the board should review its decision.

IPART considers that a reasonable time period for boards to inform members is 30 business days from the date the board makes its decision. This would effectively give clubs around six weeks to draft a notice and approve it at the next monthly board meeting and then communicate it to members, for example by mail, on the club’s website, and in a notice on the message board of the club premises.

Recommendation

58 That the management and board of a club be required to inform its members, within 30 business days, after a board decision regarding a formal amalgamation offer has been made. The disclosure to members should include information on the reasons for its decision.

²¹³ This term was used to characterise directors reluctant to consider amalgamation for reasons of club or personal pride by a number of participants at the Wagga Wagga Roundtable, 14 September 2007.

²¹⁴ ClubsNSW submission, 4 April 2008, p 30.

²¹⁵ ASX Listing Rule 3.4 under Continuous Disclosure requirements state that an entity needs to inform the ASX of the outcomes of a takeover bid within 10 business days after the end of the offer period.

11.3.5 Restrictions on transferring gaming machine entitlements

The Gaming Machines Act restricts the movement of gaming machines by the parent club. These requirements effectively reduce the number of gaming machines another club can offer to the parent club (or that a parent club can shift to another club to improve its operations). The underlying policy objective of these restrictions is both gambling harm minimisation and deterrence of predatory behaviour by stronger clubs. These restrictions include:

- ▼ A club must forfeit one gaming machine entitlement for every two to three gaming machines it transfers, unless both clubs are located within a certain distance from each other.
- ▼ Where a club premises has less than 10 gaming machine entitlements, none can be transferred unless approved by the majority of ordinary members at an extraordinary general meeting.
- ▼ The NSW Liquor Administration Board may require a Social Impact Assessment (SIA) when transferring gaming machine entitlements.

Various stakeholders submitted that the current SIA process, limitations on the number of amalgamations and restrictions on shifting gaming machine entitlements are a hindrance to amalgamation.²¹⁶ ClubsNSW argued that the main impediment to amalgamation is the financial disincentives related to gaming machine entitlements.²¹⁷

The report on the review of the Gaming Machines Act, released in December 2007, has addressed some of the above issues in its proposals. IPART supports the general direction of the proposals and of the *Registered Clubs Amendment Regulation 2007*, as they relate to club amalgamations. This direction includes:

- ▼ Relaxing the restriction on gaming machine transfers between related clubs by removing the forfeiture requirement if the transfer is within the same local government area (LGA) and changing the forfeiture ratio to one entitlement for every six for inter-LGA club transfers.
- ▼ Amending the SIA process (which will be renamed Local Impact Assessment (LIA)) to change the threshold for when it is required, and simplify some of the steps involved (see Box 11.3).

²¹⁶ For example, see Betsafe Group submission, 26 July 2007, p 3 and the Leagues Clubs' Association submission, 27 July 2007, p 33.

²¹⁷ ClubsNSW submission, 4 April 2008, p 28.

ClubsNSW suggested that the above amendments should go further by making the transfer of entitlements between amalgamated clubs exempt from forfeiture requirements in all cases.²¹⁸ However, IPART considers that stakeholder concerns related to the forfeiture scheme have been adequately considered by the review of the Gaming Machines Act. It also considers that full exemption for amalgamated clubs from the forfeiture rule would be contrary to the policy of gambling harm minimisation.

Box 11.3 Social Impact Assessment and Local Impact Assessment

Currently each club premises has an SIA threshold expressed as a number of gaming machine entitlements. Any transfers of entitlements that would result in this threshold being exceeded require an SIA. The proposal is to move to the LIA thresholds (expressed as a number of entitlements per local government area (LGA)) while keeping Class 1 and 2 assessment categories. There will be 'bands' decided (and revised periodically) for each LGA by reference to gaming machine numbers, expenditure on gaming machines and socio-economic indicators published by the ABS.

There are a range of conditions for when and what type of LIA is required:

- ▼ no LIA is required if the transfer is within the same LGA
- ▼ no LIA is required for transfers into an LGA deemed as Band 1, with a limit that only 20 or less gaming machine entitlements can be transferred per year
- ▼ for transfers into LGAs deemed as Band 2, an LIA is required and the type of LIA will be determined by the decision-maker
- ▼ for transfers into LGAs deemed as Band 3, a class 2 LIA is required.

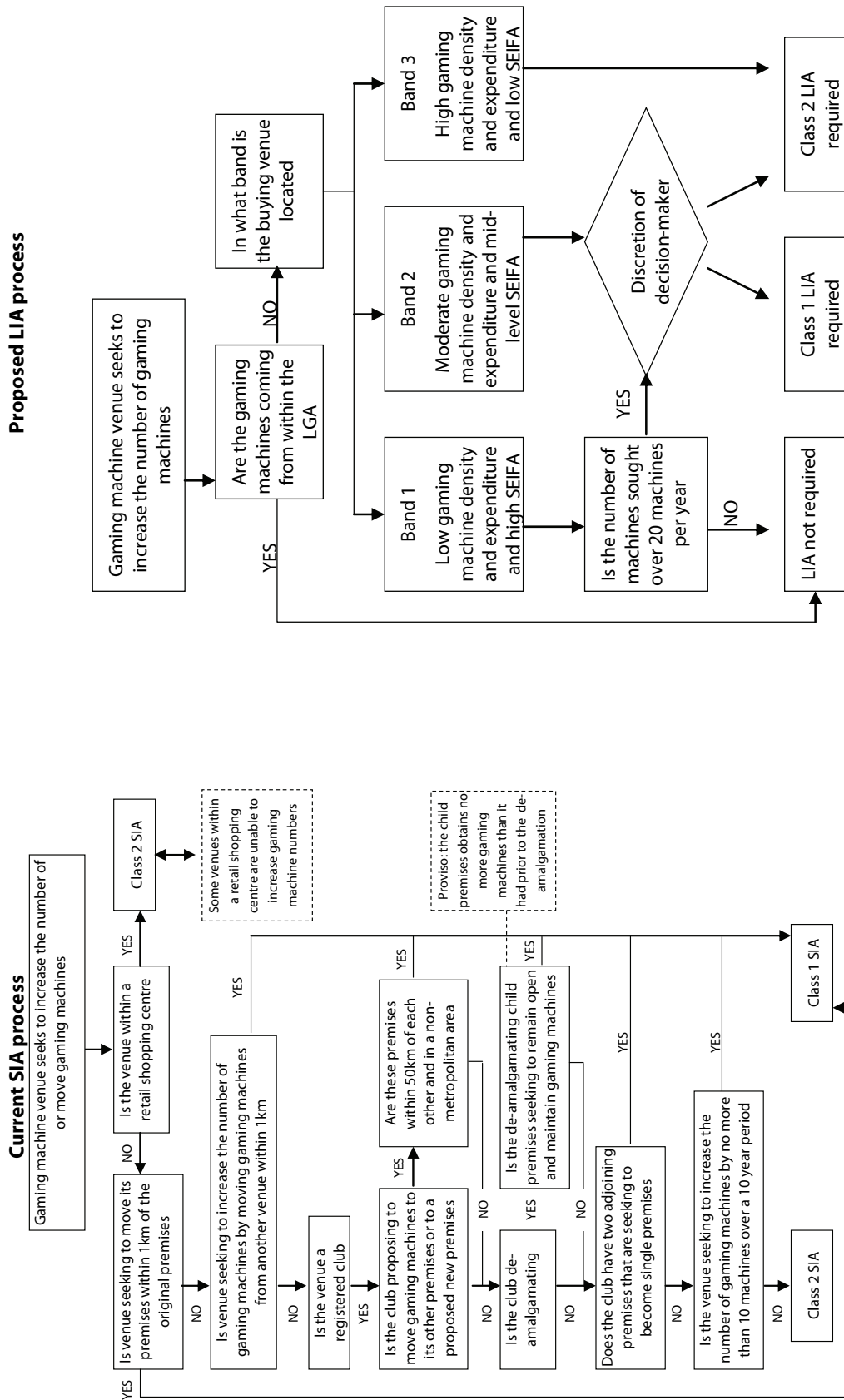
This approach would provide more flexibility, as the threshold would effectively change with the demographics in the LGA, while still ensuring measures for gambling harm minimisation are in place.

The replacement of the SIA with an LIA is expected to simplify the steps in some areas; however, there the Class 1 and Class 2 assessment categories would be retained. Stakeholder concerns mostly relate to the Class 2 assessment, which the proposals in the report on the review of the Gaming Machines Act will not change significantly. But the change in the premises-specific SIA threshold to an LGA gaming machine threshold should make it easier to decide whether a club requires a class 1 or 2 LIA, see Figure 11.1.

Data source: *Report on the Five-year Statutory Review of the Gaming Machines Act 2001*, pp 21-22.

²¹⁸ ClubsNSW submission, 4 April 2008, p 28.

Figure 11.1 Comparison of current SIA and proposed LIA process



Data source: Report on the Five-year Statutory Review of the Gaming Machines Act 2001, pp 51-52.

11.4 Using management agreements as a first step towards amalgamation

Currently, clubs use management agreements when the management of a club is contracted out to another party, while the underlying control of the club still remains with its board of directors.

At the time of consultation with Coffs Ex-Services Club, the club had a management agreement in place with Urunga Golf and Sports Club. This arose because Urunga Golf and Sports Club was not able to find a secretary-manager or an amalgamation partner. Coffs Ex-Services Club entered into an agreement to effectively second a manager to Urunga Golf and Sports Club for a small fixed monthly fee. Apart from getting a secretary manager (who could access advice from other managers and the CEO at Coffs Ex-Services Club), Urunga Golf and Sports Club was also provided with gaming, finance and reporting services from Coffs Ex-Services Club. From the point of view of Coffs Ex-Services Club, it provided an opportunity to offer alternative employment roles to its staff and, most importantly, an opportunity to assess the business situation of Urunga Golf and Sports Club before deciding whether or not to enter an amalgamation.²¹⁹

Coffs Ex-Services Club's experience with this arrangement has been positive. Where a small club is struggling to find and keep a secretary manager, management agreements could provide a solution and a stepping stone to amalgamation. Coffs Ex-Services Club suggested that a template secondment contract could be developed by OLGR to provide clubs with assistance in drafting the contract, as well as reduce costs, if they choose to go down this route.²²⁰

Though the experience of Coffs Ex-Services Club with management agreements is positive, there have been cases where management agreements have not worked to the benefit of the club, because of the quality of the manager. Thus club directors need to exercise care in selecting who the club seconds.

ClubsNSW commented that clubs operating under a management agreement run the risk of being in contravention of section 32 of the Registered Clubs Act.²²¹ IPART has examined this issue and considers that a carefully drafted management agreement contract, like that drawn up by Coffs Ex-Services Club, would not place the club in contravention of the Registered Clubs Act. To assist clubs in this area, IPART considers that a pro-forma management agreement contract should be provided to facilitate clubs considering this option.

²¹⁹ Information provided by Coffs Ex-Services Club at a meeting on 19 September 2007.

²²⁰ The Registered Clubs Act requires the club secretary manager to be the licensee. Thus the secondment contract needs to be drafted in a way which allows the employee to maintain his/her employment with the managing club while still taking up all the responsibilities of being secretary manager of the club being managed.

²²¹ ClubsNSW submission, 4 April 2008, p 30.

IPART notes that management agreements are specifically provided for in Queensland's *Gaming Machine Act 1991*, and guidelines have been introduced to help clubs set up these agreements (see Box 11.4).

Box 11.4 Management agreements in Queensland's registered clubs industry

The *Gaming Machine Act 1991* (Qld) specifically allows for a club to enter into management agreements with another club or a private business. Common types of management agreements include:

- ▼ private business offering its professional management services to the club for a fee
- ▼ private business buying up the clubhouse and land and leasing it back to the club and taking over the management of the property under a management agreement
- ▼ one club entering into a management agreement to manage another club.

Guidelines have been introduced to assist clubs in setting up management agreements. These guidelines include that the agreement must not restrict the board's control of the club, and that the agreements should include periodic performance reviews of the manager, and allow the club to terminate the agreement (without any compensation to be paid) should the manager's performance be unsatisfactory.

The Gaming Machine Act requires that the remuneration must be commercially realistic, transparent, easily calculated and not linked to gaming earnings, profits or revenues.

Source: Queensland Office of Gaming Regulation, Guidelines Management Agreements Section 67.

Recommendations

- 59 That clubs explore the use of management agreements in their approaches to seeking amalgamation. Information relating to management agreements should be included in the guide to amalgamation (see Recommendation 54).
- 60 That OLGR develop a pro-forma management agreement contract that clubs can access easily, to facilitate clubs seeking to enter into management agreements. The pro-forma should include information about the legal requirements to be met to ensure the agreement does not contravene the Registered Clubs Act.

12 Making it easier for new clubs to be established

The terms of reference asked IPART to examine the barriers to establishment and relocation of clubs and how they could be reduced so that clubs locate in areas that would most benefit from them. IPART found that several factors have limited the growth in new clubs in recent times including:

- ▼ structural changes such as demographic movements and industry maturity
- ▼ increased competition through greater leisure and entertainment choices
- ▼ legislative developments, such as regulatory requirements and alternatives to club registration.

IPART considers that government can do little to affect changes in demographics, and should not discourage the benefits that increased competition can bring to consumers. However, it considers that three legislative changes should be made to make it easier for clubs to be set up in areas that need them:

1. Greater guidance should be provided to groups wishing to establish a registered club. IPART considers that the OLGR and peak bodies should produce both a guide to registration and a pro-forma club constitution to assist in this area.
2. Planning for new developments should include an allowance for land that is suitable for the establishment of a registered club.
3. New clubs should continue to have access to 10 free gaming machine entitlements to help keep the costs of establishment to a minimum, until suitable alternatives to assist new clubs are implemented.

The following sections outline how clubs can be established in new and developing areas, and discuss the factors that limit the establishment of new clubs and IPART's findings and recommendations for overcoming those factors that can be influenced to make it easier for new clubs to be established in areas where they are needed.

12.1 How can clubs be established in new and developing areas?

Registered clubs can be established in three ways:

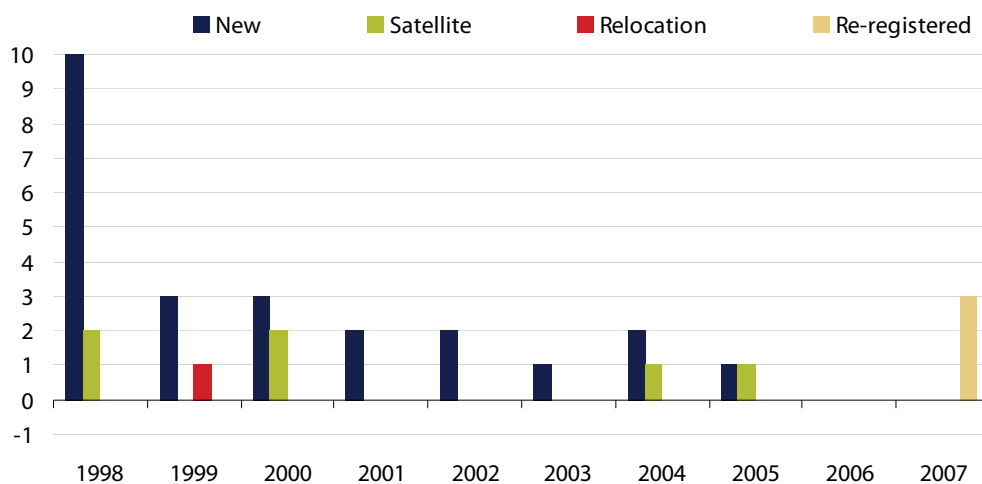
1. a group of people get together and form a brand-new club
2. an existing club relocates from its current premises to a new location
3. an existing club sets up a satellite club in new premises in addition to their primary premises.

To date, the first approach has been the most common way that registered clubs have formed: that is, they have been formed organically by a group of individuals in a community getting together, and slowly building up to obtaining a certificate of registration and operating as a registered club.

Stakeholders indicated that clubs are unlikely to be established using the second approach. For example, ClubsNSW submitted that a club is unlikely to relocate to premises a significant distance from its current location, given that it draws membership from its local area, and members are unlikely to continue their involvement in the club once it has relocated.²²² The RSL & Services Clubs Association also submitted that it is very rare for clubs to relocate premises as a result of choice; they will only do so in circumstances whereby the club must cease to exist on the current site and is forced to move.²²³

Figure 12.1 shows the number of clubs established using these different approaches over the last 10 years. In this time, 24 new clubs and six satellite clubs were registered, and one club relocated. Of the 24 new clubs registered, three have already surrendered their licences and ceased to trade. However, in 2007, another three clubs that previously surrendered their licences registered again.

Figure 12.1 New clubs between 1998 - 2007



Data source: Information provided by OLGR and IPART's analysis.

IPART considers establishing a new club organically is only likely to be possible for small-scale clubs. Under this model, a group of people, dedicated to a common purpose, run a small club operation for a particular interest group in the community, whether it be cultural, sport, religious or other. To establish a new club in developing areas that can provide services similar to the existing large diversified clubs, the only realistic option is to encourage satellite clubs. It is only by relying on

²²² ClubsNSW submission, 31 July 2007, p 127.

²²³ RSL & Services Clubs Association submission, 27 July 2007, p 16.

an existing club's financial strength and experience that a wider set of facilities and services could be developed sooner in a greenfield location.

12.2 Factors affecting the establishment of clubs

The number of clubs being established has diminished significantly in recent years. ClubsNSW submitted that current government policies do not encourage the establishment of clubs, arguing that the low rate of newly registered clubs is:

...primarily a result of the broader legislative and regulatory environment (especially as it relates to access and movement of gaming machine entitlements) and the large capital commitment required to establish a clubhouse of an appropriate standard to attract a sufficient level of patronage and create a viable business.²²⁴

IPART identified three main reasons for the decline in the establishment of new clubs: demographic and cultural change, changes in clubs' operating environment and changes to the legislative environment. Each of these reasons is discussed below.

12.2.1 Demographic and cultural change

Clubs by nature are driven by community demands. Thus it is not surprising that demographic changes affect the establishment of registered clubs. For example, many of the existing registered clubs were established during the 1950s. The main reason for this growth was the increase in the number of RSL clubs to cater for returned service personnel after World War II.

Cultural changes also influence the establishment of clubs, particularly smaller clubs that rely on many volunteers. These changes affect the pool of people clubs can draw on to continue their operations. The Australian Bureau of Statistics (ABS) survey of voluntary work shows that, though the proportion of the population carrying out voluntary work has increased, the type of voluntary work involvement has changed. Between 1995 and 2006, volunteer work activities like management and committee participation, coaching and refereeing had fallen, while activities like counselling and support, fundraising, and teaching/mentoring had increased.²²⁵

IPART considers that demographic and cultural changes are part of the landscape that clubs and other industries operate in. These changes represent a business risk that clubs need to manage. However, there is little that government can or should do to influence these changes and their impact on clubs.

²²⁴ ClubsNSW submission, 31 July 2007, p 117.

²²⁵ Australian Bureau of Statistics, *Voluntary Work, Australia*, publication 4440.0 (1995) and 4441.0 (2006).

12.2.2 Changes in clubs' operating environment

The operating environment of the clubs industry has changed since the boom of the 1950s. Competition has increased in many industries, and the clubs industry is no exception. There is now greater competition from commercial providers offering services that once only clubs provided, such as sporting facilities and meeting/conference venues. On the other hand, some clubs have moved into new areas in competition with the private sector, such as fitness and accommodation.

It can be argued that increasing competition has placed pressure on clubs. For example, between 1994/95 and 2004/05, the number of businesses operating sports grounds and facilities grew by 15 per cent in NSW to 508 venues.²²⁶ Over a similar period (1998 to 2007), the number of cafes and restaurants grew by around 16 per cent to 5,603 venues.²²⁷ However, the number of registered clubs decreased.

While this competition may be placing pressure on clubs, and may be a barrier to club establishment, IPART considers that is generally a positive change for the community. For example, more providers of sports and hospitality facilities give consumers more choice.

12.2.3 Change in the legislative environment

The legislative environment is also another important factor influencing the establishment of clubs. In the 1950s, legislation supported growth in the industry through amendments that allowed clubs to operate gaming machines and removed the cap on the number of clubs that could be registered. At the same time, there were operating restrictions on competitors in the liquor and gaming markets. Hotels and pubs had restricted trading hours and were not allowed to operate gaming machines.

However, since the 1950s, the legislative environment relating to clubs has become more complex as more areas of the industry are regulated. Some legal instruments, specific to the clubs industry, have introduced barriers to the establishment of clubs including:

- ▼ complexity of the process to become a registered club
- ▼ land requirements associated with a club being the bona fide occupier of premises
- ▼ limits on the number of free gaming machine entitlements for new clubs and restrictions on movement of gaming machine entitlements for satellite clubs as well as the cost and complexity of the Social Impact Assessment (SIA) process.

²²⁶ Australian Bureau of Statistics, *Sports and Physical Recreation Venues*, publication 8686.0 (1994-95) and (2004-05).

²²⁷ Australian Bureau of Statistics, *Cafes and Restaurants*, publication 8655.0 (2006-07).

In addition to industry-specific regulatory changes, more requirements are being placed on clubs in areas such as training for Responsible Service of Alcohol (RSA) and Responsible Conduct of Gambling (RCG), corporate governance, occupational health and safety, planning and environmental regulations. However, progressively broader legislative requirements are not unique to the clubs industry. IPART notes that various other industries, such as finance and building, have also experienced greater levels of regulation in recent times.

Another legal development that may affect the rate of registered club establishment is the introduction of new types of licences. Some small clubs no longer need to be registered, as there are alternative function licences they can use. For example, under the current liquor licensing regime, clubs that do not hold regular events can apply for a permanent on-licence (function) that allows them to hold up to 26 functions a year (no more than one a week) where alcohol can be served.²²⁸ From 1 July 2008, the *Liquor Act 2007* will provide for a limited licence allowing up to 52 functions per year.²²⁹ Though this may reduce the number of clubs that become registered, IPART considers this is a positive step for small clubs as it provides them with more flexibility for their operations.

12.3 Addressing the barriers to establishment that can be influenced

To a large extent, the factors discussed above cannot or should not be addressed by government to make it easier for clubs to be established. However, IPART identified several areas where government can help to remove the barriers for a club wanting to become registered, including:

- ▼ providing greater guidance about the process involved in establishing a registered club
- ▼ facilitating access to suitable land to locate a registered club in new development areas
- ▼ continuing to provide new clubs with access to 10 free gaming machine entitlements until alternative measures to support new clubs are in place.

²²⁸ The Department of Gaming and Racing, *Fact Sheet 9: Permanent Function Licences*, April 1999.

²²⁹ OLGR, *Liquor Law Reform: more responsibility, less red tape; Overview*, 2008, p 5.

12.3.1 Providing greater guidance about the process involved in establishing a registered club

IPART considers that groups wishing to establish a registered club should be provided with greater guidance about the process. This process involves many government bodies, which can make it complex, time-consuming and expensive. Based on legislation applicable at the time of writing this report, the major bodies involved in registering a club are:

- ▼ Licensing Court: the main body that assesses the application and grants the licence.
- ▼ Local councils or consent authorities: these authorities consult the community to see if there are any objections to the establishment of a registered club in that location.
- ▼ OLGR: Director of Liquor and Gaming (Director) prepares various reports, including premises report, (that is, compliance with statutory, regulatory and other requirements such as Licensing Court Practice Directions). The Director also prepares a probity report on the proposed secretary manager.
- ▼ Police: Commissioner of Police reports on Section 10 issues in the Registered Clubs Act (for example, the club is conducted in good faith, membership requirements are met, the premises is appropriate for the purposes of the club), checking into the constitution of the club, the company that underpins it, the membership etc.
- ▼ Liquor Administration Board: conducts the SIA process if required.

In a submission, ClubsNSW outlined 20 steps to becoming a registered club.²³⁰ IPART considers that each of the steps is essential (see Appendix G for full list of ClubsNSW's steps to establishing a registered club).

Once the *Liquor Act 2007* commences on 1 July 2008, some of the governing bodies that administer club registration will change. For example, clubs wanting to be a registered club will need to apply to the CLGCA for a club licence instead of applying to the Licensing Court for a certificate of registration.

The CLGCA, Director and Commissioner of Police will still have a role in the consideration of the application and the requirements of section 10(1) of the Registered Clubs Act will still need to be fulfilled. However, there will be an additional requirement, in the form of a Community Impact Statement (CIS). OLGR has advised that a step-by-step process guide will be available to assist applicants in preparing their CIS. The CIS is expected to be simpler than the current liquor SIA process. It will summarise the results of consultation with local stakeholders – which can include local councils, police, health, aboriginal representatives, community organisations and residents.²³¹

²³⁰ ClubsNSW submission, 31 July 2007, pp 117-121.

²³¹ OLGR, *Liquor Law Reform: more responsibility, less red tape; Overview*, March 2008, p 6.

At present, it is uncertain how different the application process will be under the CLGCA, compared to the current Licensing Court process. However, it is clear that clubs wanting to gain a club licence will need to conduct more community consultation, via the CIS, than has been required in the past.

Given the impending changes, IPART considers clubs would be significantly assisted if a comprehensive guide to the establishment process were available and that drafting a constitution could be made simpler for clubs by the production of a model club constitution template.

Recommendations

- 61 That ClubsNSW develop a model club constitution template to assist and guide clubs to draft their club constitution so that it complies with both the Registered Clubs Act and the Corporations Act.
- 62 That OLGR develop a comprehensive guide, in consultation with peak bodies, to assist groups seeking to establish a club. This guide should include the important facets of becoming a registered club, including the areas of:
 - Who should become a registered club?
 - Preparation for the process to apply for a club licence.
 - Time and cost involved in becoming a registered club.
 - Resources and contacts for assistance and information.

12.3.2 Facilitating access to suitable land to locate a new club in new development areas

The process to become a registered club is costly. Stakeholders indicated that legal fees and application fees alone can come to over \$50,000.²³² The cost of the land and building from which the club is to operate is even more significant.

The Registered Clubs Act requires a club applying for registration to be the bone fide occupier of a premises that has a properly constructed bar room.²³³ The costs associated with building club premises can be significant. Campbelltown Catholic Club indicated that to set up a new moderate-sized club would require \$6-9 million, reflecting the cost to construct and fit out the club. However, this estimate excludes the cost of purchasing land and securing gaming machine entitlements.²³⁴

In the past, many clubs were able to build facilities on Crown land provided at peppercorn rents. The availability of such land has greatly reduced and clubs have

²³² For example, ClubsNSW submission, 31 July 2007, pp 118-121; interview with case study club Hamrun Association (NSW) Incorporated.

²³³ Registered Clubs Act s 10(1)(f) and s(10)(1)(h).

²³⁴ Campbelltown Catholic Club, confidential submission, 27 July 2007, p 10. Permission was granted by the club to quote its submission in this report.

commented that councils and State government agencies are increasingly seeking commercial rents for existing Crown land leases.²³⁵

Given that clubs must be incorporated, any attempt to raise capital to cover the costs of establishing a club would require a prospectus under the Corporations Act. For many start-up clubs, preparing a prospectus would be onerous. This leaves clubs with few methods to raise the capital they need.

ClubsNSW submitted that planning for land release and residential development should include clubs and that the NSW Department of Lands should look favourably on club requests to purchase the Crown Land they occupy.²³⁶ The Leagues Clubs' Association also suggested that planning for urban growth include club locations.²³⁷

IPART considered these suggestions, and concluded that a club should only be established if there is demand from the local community. Developments over time may make the generic offerings of a club available in another way or from other providers, so establishment of a registered club should be related to the unique attributes of a club. However, where there is demand for a club, obtaining a suitable location is an important issue.

IPART understands that the two options for clubs to obtain land in new release areas are:

1. A club can approach the NSW Department of Planning or the Growth Centres Commission at the stage of precinct planning to put forward a case for an allowance of land in the master plan. This is more likely to suit clubs looking to set up a satellite premises (and seeking a large tract of land).
2. Master plans for greenfield sites include land zoned for commercial uses, which clubs are free to purchase. This is more likely the option for clubs that develop over time from a group of people in the local community who want to set up a club. The risk here is that the size and location of the land may not be suitable, depending on how the area develops.

Under both of the above options, the club would have to raise capital to purchase the land.

IPART considers that clubs looking to set up a satellite premises need to become more familiar with the processes and policies of the NSW Department of Planning and the Growth Centres Commission and engage in discussions at the early stages when the precinct is being planned. Clubs should also consider the design of the premises and its compatibility with the plans for that precinct.

²³⁵ ClubsNSW submission, 31 July 2007, p 95.

²³⁶ ClubsNSW submission, 31 July 2007, pp 122-123, and ClubsNSW submission, 4 April 2008, p 33. Government policy currently requires that Crown Land should not be sold for less than its market value.

²³⁷ Leagues Clubs' Association submission, 27 July 2007, p 30.

Councils also purchase land for community facilities. It is open to clubs and councils to work together to develop community facilities. One party could provide the land and the other the facilities and services. ClubsNSW presented the example of Blacktown Workers Club in a submission (see Box 12.1).

Box 12.1 Blacktown Workers Sports Club

Blacktown Workers Sports Club is located on approximately 50 hectares of land in Blacktown.

The cost of constructing the premises was \$8 million and took, from concept to completion, 18 months. Club facilities include:

- ▼ 100 gaming machines and TAB
- ▼ members' courtesy bus
- ▼ bar facility, members' bottle shop and buffet
- ▼ outdoor barbecue and entertainment area
- ▼ lounge
- ▼ administration.

The sporting complex features two soccer fields, two rugby league fields/cricket ovals, two bowling greens, five all weather tennis courts and a baseball diamond. Other facilities include on-site storm water treatment, on-grade and multi-level car park, and a Travelodge motel.

Blacktown Council assisted this development by rezoning the site to make the multiple uses permissible.

Source: ClubsNSW submission, 31 July 2007, pp 125-127.

Recommendation

63 That councils, in purchasing land for community facilities, make allowance for the establishment of a registered club. Important aspects of this recommendation are that:

- The land is not provided on a first come first served basis. When an organisation approaches a local council to establish a registered club on that particular piece of land, this should trigger a tender process where all local groups and clubs are invited to bid for the rights to establish a registered club on that land.
- The winning tender for that piece of land would need to be determined on a merits basis, including financial viability, how well services and facilities meet demands of the community, and any potential negative impacts that may result.
- The parcel of land should contain a sunset date whereby if after, say, 15 years, no group has applied for the rights to develop a registered club on that piece of land, then council should be able to develop it for other purposes.

12.3.3 Continue to provide new clubs with access to 10 free gaming machine entitlements until alternative measures to assist new clubs are in place

Stakeholders identified three main areas in the legislation as a hindrance to club establishment:

1. **New clubs have access to only 10 free gaming machine entitlements.** Stakeholders argued that the current allowance of 10 free gaming machine entitlements is insufficient to financially support a club's ongoing operations, and some peak bodies called for an increase in this allowance. The Leagues Clubs' Association of NSW submitted that clubs providing significant infrastructure should have access 100 plus free gaming machine entitlements.²³⁸ Similarly, ClubsNSW argued that the NSW Government should allow access to an appropriate number of free gaming machine entitlements that allows the club to provide the level of facility desired in a new community.²³⁹
2. **Clubs transferring gaming machine entitlements between club premises are required to forfeit gaming machine entitlements.** Many clubs put the view that setting up satellite clubs is not feasible, due to the restrictions on transferring gaming machine entitlements between club premises. The movement of gaming machines between club premises is subject to the forfeiture scheme. Under this scheme, if a club wants to move gaming machine entitlements to a satellite club, it must forfeit one gaming machine entitlement for every two to three gaming machine entitlements it transfers.²⁴⁰ This effectively penalises a club by reducing its entitlements.
3. If a club that established a satellite club wanted to apply for more entitlements, and this exceeded the club's SIA threshold, it would also have to go through the SIA process. Clubs argued that this further reduces the feasibility of opening satellite clubs by adding another layer of costs.

IPART notes that the report on review of the Gaming Machines Act includes proposals that relate to these three issues. The proposed changes are to:

- ▼ Reduce the state-wide cap on gaming machines and provide a mechanism for the automatic reduction of the cap over time.
- ▼ Eliminate access to 10 free entitlements, as this inhibits the proposal to reduce the overall state cap on gaming machines. Instead, the report proposes to develop other mechanisms, in consultation with the industry, to assist small clubs and new clubs (particularly in greenfield areas).
- ▼ Relax the restriction on gaming machine transfers for related clubs by removing the forfeiture ratio for transfers within the same LGA and changing the forfeiture ratio to one entitlement for every six that is transferred for inter-LGA transfers.

²³⁸ Leagues Clubs' Association of NSW submission, 8 April 2008, p 2.

²³⁹ ClubsNSW submission, 4 April 2008, p 33.

²⁴⁰ Gaming Machines Act, Section 20. Forfeiture rules apply unless both club premises are located within 1km of each other for metropolitan locations and 50km for non-metropolitan clubs.

- ▼ Significantly amend the SIA process to reduce time and complexity, while still ensuring that an impact assessment of additional gaming machines on the community is carried out (see Box 11.3).²⁴¹

New gaming laws arising from this review are expected to be introduced during 2008. In principle, IPART supports moves to relax the forfeiture ratio and improve the gaming SIA process. This should, with appropriate implementation, reduce some of the cost and barriers to establishing a registered club or satellite club. IPART also considers that such proposals still provide a level of protection to uphold the underlying principles of gambling harm minimisation and deterring predatory behaviour.

However, IPART is concerned about the proposal to immediately eliminate access to 10 free gaming machine entitlements for new clubs. As highlighted in section 6.1, gaming machine revenue is an important source of funding for clubs. This proposal effectively means that new clubs wanting to operate gaming machines would have to purchase all their gaming machine entitlements, adding to the cost of establishment.

IPART notes that alternative mechanisms are proposed to be developed in lieu of access to 10 free gaming machine entitlements for new clubs. However, as the report does not provide further details regarding what these mechanisms may be, IPART considers that the 10 free entitlements should only be removed when appropriate alternative mechanisms are in place.

IPART does not support stakeholder suggestions to increase the number of free gaming machine entitlements that new clubs can access, as this would be contrary to the Government's policy aim of reducing the overall number of gaming machines in NSW over time.

Recommendation

64 That access to 10 free gaming machine entitlements for new registered clubs be maintained, until suitable alternative measures are developed and in place to assist new clubs.

²⁴¹ Proposals 4, 5, 6, 9, 10 and 14 from the Report on the Review of the Gaming Machines Act, December 2007, p 47.

13 Removing unnecessary regulatory restrictions on clubs

IPART examined four regulatory restrictions that ClubsNSW submitted create an unnecessary burden on the clubs industry: limitations on club membership size, club sign-in procedures and the ‘five kilometre rule’, restrictions on contract caterers serving alcohol, and the prohibition on clubs providing off-site catering. IPART concluded that:

- ▼ limitations on club membership size should be removed
- ▼ sign-in provisions and the ‘five kilometre rule’ should be retained, but more flexible provisions for extended temporary memberships should be introduced
- ▼ OLGR should clarify the circumstances under which contract caterers can serve alcohol on club premises
- ▼ the prohibition on clubs providing off-site catering should be removed.

IPART’s considerations and recommendations regarding these items are discussed below.

13.1 Remove limitations on club membership size

Section 11 of the Registered Clubs Act restricts clubs to 6250 ordinary and life members. This can be varied through application to the Licensing Court.²⁴² ClubsNSW described the provision as outdated and unnecessary red tape.²⁴³

This provision has been in place since the late 1960s and appears to have been introduced to address concerns about venue over-crowding.²⁴⁴ However, ClubsNSW submitted that venue management issues are adequately addressed through planning and fire safety regulation.²⁴⁵ IPART also notes that that few applications to vary have been received by the Licensing Court in recent years and all have been approved.²⁴⁶

²⁴² Or from 1 July 2008, the CLGCA.

²⁴³ ClubsNSW submission, 31 July 2007, p 23.

²⁴⁴ OLGR, Sydney roundtable, 7 May 2008, p 52.

²⁴⁵ ClubsNSW, Sydney roundtable, 7 May 2008, p 48.

²⁴⁶ Information provided by OLGR.

IPART considers that this provision is redundant. Whether or not applications are routinely granted, the provision still represents unnecessary red tape and should be removed.

Recommendation

65 That the Registered Clubs Act be amended to remove the provision restricting membership numbers in clubs.

13.2 Retain sign-in procedures and the ‘five kilometre rule’

People entering a club whose home address is within a five kilometre radius of the club are required to be members of the club, members of another registered club with “similar objects” or be bona fide guests of a member. People entering the club whose home address is further than five kilometres from the club may be granted temporary membership.²⁴⁷ Clubs are required to keep a register of members’ guests and temporary members who attend the club each day.²⁴⁸ This means that guests and temporary members need to sign in when they enter a club.

While there is no provision that sign-in registers be supervised, clubs need to have measures in place to maintain these registers. For larger clubs, this generally involves employing a full-time door person. However, this is not practical for smaller clubs with limited staff or those managed by volunteers.

The five kilometre rule protects the legislative concessions that registered clubs receive, particularly in relation to the (Commonwealth) taxation of mutual income, and has been reviewed by the clubs industry itself on a number of occasions and defended on this basis. The sign-in rules similarly establish clubs as being for the benefit of members and their guests.

While ClubsNSW put the view that there is scope to modernise procedures,²⁴⁹ its main concern seems to relate to providing protection for clubs against fraudulent sign-in by club patrons. As discussed at the second Sydney roundtable, clubs may be in breach of the Registered Clubs Act if sign-in requirements are not adhered to at all times (for example, if someone were to sign in to a club as “Mickey Mouse”). While this danger is greatest for smaller clubs, ClubsNSW also argued that a complex and burdensome procedure is also required in larger clubs to minimise the risks of incorrect entries in the sign-in registers.

ClubsNSW proposed that club patrons should be held responsible for correctly entering their personal details in a club sign-in register and that as such clubs should have an appropriate defence under section 31 of the Registered Clubs Act. It argued that breaches should be issued only where a pattern of non-compliance is evident, with warnings issued in cases of ad hoc non-compliance.

²⁴⁷ Registered Clubs Act s 30(3B).

²⁴⁸ Registered Clubs Act s4 and s 30(2)(m).

²⁴⁹ ClubsNSW, Sydney roundtable, 7 May 2008, p 49.

IPART understands that the current approach taken by OLGR is consistent with ClubsNSW's proposal: that is, breaches of section 31 of the Registered Clubs Act are generally only issued where a pattern of non-compliance is evident, with warnings issued in cases of ad hoc non-compliance.

IPART does not consider club responsibility for patron sign-in to be overly burdensome. Given the regulatory approach taken by OLGR, IPART considers the requirements to be commensurate with the mutuality benefits clubs receive through maintaining accurate sign-in registers. IPART also notes that employment of door staff who supervise sign-in registers also serves other functions for clubs, such as meeting their obligations concerning the responsible service of alcohol.

Therefore, IPART finds that these provisions should be maintained. However, it also considers that there is a need for some discussion between the industry and the regulator to clarify compliance with the requirements so that they meet the needs of industry and the community.

13.3 Introduce more flexible provisions for extended temporary memberships

ClubsNSW put the view that there is scope to make sign-in process more flexible and reflective of the individual circumstances of clubs. In particular, it would like to see a provision in the Registered Clubs Act that allows for one, three or seven day temporary membership for clubs which have relatively high levels of temporary member visitation (for example, those in tourist and business centres).²⁵⁰

ClubsNSW argued that this would allow holidaymakers and business travellers to access club facilities without the inconvenience of daily sign-in. For example, a seven day membership would allow the patron to visit the club during this period without having to sign in each visit. The patron would still need to present his or her temporary membership as he or she entered the venue for each visit.

IPART considers that allowing this type of membership would provide benefits for some clubs. While having to sign in for each visit does not necessarily provide a disincentive to all patrons visiting a club, it could help assist large clubs in tourist areas (for example Twin Towns at Tweed Heads). IPART considers that the Registered Clubs Act should not restrict this type of membership, and that a provision for seven day temporary memberships should be included in the Act. This arrangement will also provide more flexibility than provision of a one or three day membership as proposed by ClubsNSW.

Recommendation

66 That the Registered Clubs Act be amended to allow clubs to issue seven day temporary memberships.

²⁵⁰ ClubsNSW submission to Club Industry Working Group, 13 September 2007.

13.4 Clarify circumstances where contract caterers can serve alcohol on club premises

The Registered Clubs Act provides that the “the supply of liquor to the club or on the premises of the club [must occur] under the control of the governing body of the club.” ClubsNSW argued that this provision is obsolete, and reduces the efficiencies offered by contracting out catering services in clubs, because the clubs must provide bar staff to serve alcohol in club restaurants and bistros.

OLGR has advised that, under the *Liquor Act 1982* and Registered Clubs Act, the liquor licensee (ie, the club) must control the supply of liquor on its premise. In OLGR’s view, this control must be “day-to-day” control, and if a club enters into a contract for a caterer to serve alcohol on its premises, it may no longer have the requisite degree of control over the supply of liquor. As such, OLGR acknowledges that these provisions prevent contract caterers from serving alcohol in clubs (and hotels). (These provisions were carried over to the *Liquor Act 2007* which shall commence on 1 July 2008.)

IPART notes that under both the *Liquor Act 1982* and the new *Liquor Act 2007*, it is possible for an independent contractor who is engaged by a registered club to lawfully supply liquor on club premises as an “agent” of that club, provided that they have the appropriate authority from the club and that both the club and caterer conduct themselves in accordance with these Acts.

IPART notes the primary policy objective of the Liquor and Registered Clubs Acts of minimising harm and encouraging responsible attitudes and practices towards the sale, supply, service and consumption of alcohol. However, it is also of the view that, given the increasing use of contracting arrangements for catering services provided on club premises, OLGR’s current interpretation of “control” to the effect that only club employees may serve liquor on club premises, may not be a preferable interpretation.

IPART considers that OLGR should revise this policy and publish enforcement guidelines that clarify what measures and/or arrangements would, if implemented by a club, constitute an adequate retention of “control” by a club upon whose premises a third party caterer serves liquor, for the purposes of the Registered Clubs Act.

Recommendation

67 That, in order to clarify that contract caterers in clubs are not prohibited from serving alcohol, OLGR develop and publish enforcement guidelines that clarify what measures and/or arrangements would, if implemented by a club, constitute an adequate retention of “control” by a club upon whose premises a third party caterer sells liquor, for the purposes of s17(1AA)(a)(v) of the Registered Clubs Act. Similar measures should be developed for hotels to ensure competitive neutrality.

13.5 Remove the prohibition on clubs providing off-site catering

Clubs are currently prohibited from providing catering anywhere off their premises at functions sponsored by and paid for people who are not members of the club.²⁵¹ ClubsNSW submitted that recently clubs have been encouraged to diversify into businesses such as aged care and child care, of which catering is an intrinsic part, yet clubs are still prevented from providing catering services to these businesses.²⁵²

OLGR advised, and reiterated at the second Sydney roundtable, that the prohibition is based on government policy to restrict clubs' activities to particular aspects of the liquor trade.²⁵³

IPART considers that this policy is no longer appropriate, given clubs' diversification into a wide range of non-core activities (such as fitness centres) where they compete with commercial providers.

Recommendation

68 That the Registered Clubs Act be amended to remove the prohibition on clubs providing off-site catering.

²⁵¹ Section 10 of the Registered Clubs Act captures many of the essential rules that underpin the democratic, not-for-profit nature operation of clubs. In particular, section 10(2)(b) of the Act states that a club will not be considered to be conducted in good faith as a club if it has engaged or advertised that it is prepared to engage in selling liquor or providing food for consumption away from the defined premises of the club at functions sponsored by and paid for by persons who are not members of the club.

²⁵² ClubsNSW, Sydney roundtable, 7 May 2008, p 48.

²⁵³ OLGR, Sydney roundtable, 7 May 2008, p 52.

14 | A framework for a management plan

The terms of reference ask IPART to develop a framework for a management plan that supports and guides a sustainable registered clubs industry for a 10 to 15 year period. This framework will help stakeholders within the industry to develop a detailed industry management plan, by mapping out the principles, processes and issues to be considered. The framework is also a means of drawing together the range of recommendations from this review.

The sections below outline IPART's proposed framework for the industry management plan by describing what the management plan is intended to do, how it might be developed, and what it might contain.

14.1 What is the management plan intended to do?

The management plan will build on the existing cooperative relationship between the registered clubs industry and the NSW Government by formalising an agreed set of principles and actions for supporting and guiding the clubs industry over the next 10 to 15 years.

The plan will help guide the actions of individual clubs, club organisations and the Government. It is intended to provide a blueprint for a flourishing clubs industry which continues to provide substantial and effectively targeted community support, without attempting to ensure the future of every individual club in its current form.

14.2 Proposed content for the management plan

14.2.1 Principles

IPART considered stakeholder responses to the four principles it suggested in its issues paper be included in the management plan, particularly ClubsNSW's longer list of suggested principles.²⁵⁴ IPART now proposes that the following draft list of principles should be considered for inclusion the management plan:

- ▼ The Government recognises the role of clubs in facilitating community involvement and building social capital.
- ▼ The Government should seek to create long-term certainty and consistency in policy-making that affects the registered clubs industry.

²⁵⁴ ClubsNSW submission, 31 July 2007, pp 164-166.

- ▼ Gaming revenue is central to the most common registered club model.
- ▼ That 13 per cent of registered clubs do not operate gaming machines and that this is also a legitimate model for registered clubs that should be supported.
- ▼ Clubs should strive to minimise harm from the social costs associated with some of their activities, including gaming and alcohol consumption.
- ▼ Volunteers are important to the registered club model.
- ▼ Clubs should be responsive to their members' and the wider community's needs.
- ▼ Clubs should seek to optimise their financial performance, but not with the sole aim of generating profit.
- ▼ Clubs should operate with sound corporate governance.
- ▼ Club organisations play an important role in club development, education, training and leadership.

14.2.2 A Clubs Charter

ClubsNSW suggested that a Clubs Charter be developed as part of the industry management plan, and that this charter should set out the overall vision, goals and obligations that are shared by both government and industry.²⁵⁵ IPART generally agrees with ClubsNSW's proposed elements of a charter, as outlined below.

The charter should set out the key principles that underpin the management plan (as outlined in section 14.3.1), and the broad obligations that apply to clubs in conducting their operations and to Government in regulating clubs.

The charter could state that the primary role of clubs in NSW is to provide a means for people to come together for the benefit of each other and the broader community. To this end, clubs strive to:

- ▼ provide a range of facilities and services according to the needs and desires of their members
- ▼ provide support to their communities in a targeted, effective way that meets the identified needs of those communities.

Under the charter, the responsibilities of registered clubs could be to:

- ▼ operate primarily for the benefit of their members, while having appropriate regard for the needs of local communities
- ▼ adopt governance and operational strategies to achieve compliance with the requirements of the Registered Clubs Act and other applicable legislation
- ▼ implement best practice in corporate governance, management, training and industrial relations

²⁵⁵ ClubsNSW submission, 31 July 2007, p 168.

- ▼ implement best practice in the responsible provision of liquor and gaming services
- ▼ treat club members respectfully and fairly.

Under the charter, the responsibilities of Government could be to:

- ▼ create a legislative and regulatory environment that allows for the sustainability of the registered clubs industry
- ▼ consult with the industry to determine the likely impact of any proposed changes to Government policy affecting the revenue stream from gaming machines
- ▼ facilitate research and data collection to inform policy-making
- ▼ recognise the diversity of clubs by size, location and purpose and develop policy that accommodates that diversity.

14.2.3 Other components of the management plan

The management plan should be constructed around IPART's recommendations for action for the industry and could include the following sections.

Enhancing clubs' social contribution

Actions should aim to encourage continuation of clubs' social contribution, enhance it, better target it and communicate it to the community. Actions could include:

- ▼ the Government and ClubsNSW making a commitment to the fundamentals of the current CDSE Scheme
- ▼ local government and clubs enhancing their promotion of the CDSE Scheme on council and club websites, including publicising CDSE-funded projects on club websites and in annual reports
- ▼ ClubsNSW encouraging smaller clubs below the CDSE threshold to participate in a CDSE local committee process
- ▼ OLGR providing greater support to CDSE local committees through an annual conference for committees and provision of support materials on such issues as priority-setting, decision-making and conflict resolution procedures, and information to clubs on valuing in-kind contributions.

Improving clubs' financial viability

Actions should aim to enhance clubs' financial viability, in accordance with the principle that clubs should seek to optimise their financial performance, but not with the sole aim of maximising profit.

Financial reporting and performance benchmarking

Actions should aim to improve clubs' financial reporting and use of benchmarking as a means of better understanding their financial positions, and could include:

- ▼ the implementation of system that includes a standardised reporting format for financial management accounts and compulsory benchmarking for clubs earning annual gaming machine revenue of less than \$5 million.

Club Viability Panel

Actions should aim to establish the Club Viability Panel as an advisory body to assist clubs with assessing their own financial viability and taking steps to address any weaknesses, and could include:

- ▼ establishing the Panel with members drawn from individual clubs, industry peak bodies, government and independent industry experts
- ▼ defining the Panel's role and tasks.

Corporate governance

Actions should aim to encourage a strong corporate governance culture within clubs that is supported by appropriate training, and could include:

- ▼ ClubsNSW enhancing its director training by offering more flexible delivery options, and more extensive promotion of existing programs.
- ▼ All boards of clubs being required to undertake a core level of professional development training, with exemptions that recognise prior learning.
- ▼ All clubs being encouraged to prepare a formal succession policy dealing with board renewal.
- ▼ Clubs being encouraged to remove board membership and voting eligibility restrictions in their constitutions by an amendment to the Registered Clubs Act to provide for the core features of a club to be protected by legislation and by ClubsNSW developing a model constitution for members to vote to adopt.
- ▼ ClubsNSW developing best practice guidelines on frequency of board elections, the roles of board and management and recruitment and performance assessment of management.

Making it easier for clubs to successfully diversify their operations

Actions should aim to assist clubs to better understand the benefits and risks associated with pursuing diversification initiatives, and could include:

- ▼ ClubsNSW (or the Club Viability Panel) developing material to assist clubs to understand the benefits and risks associated with pursuing diversification
- ▼ clubs being encouraged to explore, recognise and benefit from their collective strengths when thinking of diversification.

Making it easier for clubs to amalgamate

Actions should aim to encourage clubs to see amalgamation as a strategic move that can preserve a club's assets and identity, and could include:

- ▼ OLGR producing a comprehensive guide to the amalgamation process
- ▼ OLGR developing pro-formas for documents that need to be lodged with a club's application for amalgamation
- ▼ industry peak bodies educating clubs on both the benefits and risks of amalgamation.

Making it easier for clubs to be established

Actions should aim to remove identified barriers to club establishment, and could include:

- ▼ OLGR and ClubsNSW developing a guide to registration for clubs
- ▼ local government including an allowance for land that is suitable for the establishment of a registered club when planning new development areas
- ▼ new clubs continuing to have access to 10 free gaming machine entitlements until alternative measures are in place to assist establishing clubs.

Removing unnecessary regulatory restrictions on clubs

Actions should aim to remove identified unnecessary regulatory restrictions on clubs, and could include the following amendments to the Registered Clubs Act:

- ▼ removing the restriction on club membership numbers
- ▼ introducing a provision for seven day temporary memberships
- ▼ clarifying the circumstances in which contract caterers can serve liquor in clubs
- ▼ removing the prohibition on clubs providing off-premises catering.

14.3 Developing the management plan

ClubsNSW proposed that the Club Industry Working Group be charged with developing the management plan in accordance with the framework.²⁵⁶ This body was established in 2006 to pursue a number of reform initiatives that had been under discussion between the clubs industry and the Government and has representatives from both club organisations and government. IPART agrees that the Club Industry Working Group would be the most appropriate body to undertake the task, and it should do so in consultation with stakeholders. ClubsNSW also submitted that IPART should set a tight timeline to drive action.²⁵⁷ IPART is of the view that requiring a draft of the plan by the end of June 2009 is a reasonable timeline to make allowance for the consultation that will be required.

Recommendation

69 That the Club Industry Working Group develop a draft industry management plan by the end of June 2009. The Club Industry Working Group should consult widely with stakeholders in developing the plan.

14.4 Monitoring the management plan

IPART considers that ClubsNSW should report annually on progress on developing and implementing the management plan. The plan should be reviewed at regular intervals, to ensure it is still relevant and effective for the 10 to 15 year timeframe it is intended to serve.

²⁵⁶ ClubsNSW submission, 31 July 2007, p 164.

²⁵⁷ ClubsNSW submission, 4 April 2008, p 50.



Appendices

A Terms of reference

I, Morris Iemma, Premier of New South Wales, pursuant to Section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992*, request the Tribunal's assistance in reviewing and making recommendations on the role and performance of the NSW Registered Clubs industry, with the purpose of facilitating a sustainable Registered Clubs industry in the future.

The NSW Government acknowledges the valuable social and economic contribution made by registered clubs to the State's social infrastructure and services.

Social, demographic and commercial changes over the past 10 years have affected the Registered Clubs industry in many ways. Commitment to the overall industry appears strong. However the ability of individual clubs to provide services that meet the needs of members and the community while continuing to be financially viable, differs depending on location, size and many other factors.

The NSW Government wishes to assist the clubs industry to flourish, while stipulating that the industry meets its mutuality requirements, works co-operatively with Government and other community members in providing substantial community support that is effectively targeted, and operates in a commercial and professional manner.

I would appreciate the Tribunal's assistance in undertaking a review and making recommendations that will assist Registered Clubs to enhance their role in the community in an efficient and effective manner. The outcome for the review will be a framework for a management plan that supports and guides a sustainable registered clubs industry for a 10 to 15 year period.

In conducting the review, the Tribunal is asked to recognise the diversity of the constituents of the Registered Clubs industry and the diversity in the needs and expectations of members of individual Registered Clubs and communities in which Registered Clubs operate. It is also to recognise the different needs of clubs in metropolitan, regional and remote areas.

The Tribunal is asked to review and make recommendations on the following key issues:

Registered Clubs' role in the community

- ▼ The existing contribution of the Registered Clubs industry to the provision of social infrastructure and services and a methodology to identify and record the value of such provision both now and in the future.
- ▼ Employment and other economic opportunities afforded by the Registered Clubs industry and how the industry can enhance these opportunities, with special reference to regional and rural areas.
- ▼ Existing and proposed statutory requirements for the provision of assistance to the community and the effectiveness of current community expenditure by clubs, ways in which Clubs can best target expenditure towards identified community needs.
- ▼ Development of a Charter to support Registered Clubs, their members, and the wider community, defining Registered Clubs' roles and stakeholders' and the NSW Government's expectations of them. This should include consideration of ways of communication between clubs and the community about available services and support for the community.
- ▼ Options for the roles Registered Clubs might play in advancing the NSW Government's priorities as set out in the State Plan. Consideration should be given to opportunities for Registered Clubs and NSW Government agencies to work together to identify and pursue the best social outcomes of the community.
- ▼ Options for enhancing the social contribution of Registered Clubs in the future.

Financial viability and strengthening performance

- ▼ The financial viability of the Registered Clubs industry, specifically identifying areas where clubs are either prospering or declining and examining the reasons for any decline and how it might be reversed. The Tribunal should make recommendations on business efficiency performance measures for use by the industry, having regard to the diversity of the industry.
- ▼ Effective operations of Registered Clubs in the context of being community based, not for profit, entities and options for future diversification of business operations.
- ▼ Options for improving financial management including capital expenditure proposals, and support schemes (including ClubBIZ) to provide guidance, management, strategic planning and other assistance to clubs. Consideration should be given to the steps to be taken where a Registered Club is in financial difficulty. Consideration should also be given to successful financial management strategies that could be exercised by Registered Clubs.
- ▼ Training and development needs for the Registered Clubs industry and cost-efficient and effective ways for the provision of these needs.

- ▼ The procedure for amalgamations and movement of assets between Registered Clubs, while maintaining their status as community-based not-for-profit entities and ensuring the protection and preservation of community assets.
- ▼ Barriers to the establishment and relocation of Registered Clubs and how they could be reduced in order to encourage Registered Clubs to locate in areas that would most benefit from them.
- ▼ Existing and proposed legislative and policy objectives and possible changes that may be required to the regulatory framework to support industry development and reduce 'red tape'.
- ▼ Maintenance and development of a strong code of corporate governance (including risk management).
- ▼ Developing a shared vision between Government and the Registered Clubs industry on compliance issues, nature and levels of community service support and social responsibility.
- ▼ Any additional issues it identifies that would significantly improve the sustainability of the Registered Clubs industry.

Timing, Consultation and Deliverables

The Tribunal is asked to take into account the views of stakeholders in the Registered Clubs industry.

The Tribunal is also asked to release an issues paper to facilitate discussion, and to engage in community consultation.

The Tribunal is asked to provide its final report to the Minister for Gaming and Racing 15 months from the receipt of the Terms of Reference.

B Terms of reference checklist

Terms of reference	Report section
I would appreciate the Tribunal's assistance in undertaking a review and making recommendations that will assist Registered Clubs to enhance their role in the community in an efficient and effective manner. The outcome for the review will be a framework for a management plan that supports and guides a sustainable registered clubs industry for a 10 to 15 year period.	▼ Chapter 14 outlines IPART's recommendations concerning the framework for a management plan.
In conducting the review, the Tribunal is asked to recognise the diversity of the constituents of the Registered Clubs industry and the diversity in the needs and expectations of members of individual Registered Clubs and communities in which Registered Clubs operate. It is also to recognise the different needs of clubs in metropolitan, regional and remote areas.	▼ Section 1.1.3. IPART has undertaken an extensive review process with a high degree of stakeholder consultation. In particular, it conducted a series of club case studies with 16 clubs of varying size, type and location
The Tribunal is asked to review and make recommendations on the following key issues:	
Registered Clubs' role in the community	
▼ The existing contribution of the Registered Clubs industry to the provision of social infrastructure and services.	▼ Chapter 3
▼ A methodology to identify and record the value of such provision both now and in the future.	▼ Chapter 4
▼ Employment and other economic opportunities afforded by the Registered Clubs industry and how the industry can enhance these opportunities, with special reference to regional and rural areas.	▼ Section 3.2 and 3.3
▼ Existing and proposed statutory requirements for the provision of assistance to the community and the effectiveness of current community expenditure by clubs, ways in which clubs can best target expenditure towards identified community needs.	▼ Chapter 5
▼ Development of a Charter to support Registered Clubs, their members, and the wider community, defining Registered Clubs' roles and stakeholders' and the NSW Government's expectations of them. This should include consideration of ways of communication between clubs and the community about available services and support for the community.	▼ Section 14.2.2
▼ Options for the roles Registered Clubs might play in advancing the NSW Government's priorities as set out in the State Plan. Consideration should be given to opportunities for Registered Clubs and NSW Government agencies to work together to identify and pursue the best social outcomes of the community.	▼ Section 3.4.2

Terms of reference	Report section
▼ Options for enhancing the social contribution of Registered Clubs in the future.	▼ Chapter 3
Financial viability and strengthening performance	
▼ The financial viability of the Registered Clubs industry, specifically identifying areas where clubs are either prospering or declining and examining the reasons for any decline and how it might be reversed.	▼ Chapter 6 (specifically 6.1.5)
▼ The Tribunal should make recommendations on business efficiency performance measures for use by the industry, having regard to the diversity of the industry.	▼ Chapter 7 (specifically section 7.2.1)
▼ Effective operations of Registered Clubs in the context of being community-based, not for profit entities and options for future diversification of business operations.	▼ Chapters 2, 3, 6 and 10.
▼ Options for improving financial management including capital expenditure proposals, support schemes (including ClubBIZ) to provide guidance, management, strategic planning and other assistance to clubs. Consideration should be given to the steps to be taken where a Registered Club is in financial difficulty. Consideration should be given to successful financial management strategies that could be exercised by Registered Clubs. Consideration should also be given to the steps to be taken where a Registered Club is in financial difficulty.	▼ Chapters 6, 7, 8, 9, 10 and 11
▼ Training and development needs for the Registered Clubs industry and cost-efficient and effective ways for the provision of these needs.	▼ Chapter 9
▼ The procedure for amalgamations and movement of assets between Registered Clubs, while maintaining their status as community-based not-for-profit entities and ensuring the protection and preservation of community assets.	▼ Chapter 11
▼ Barriers to the establishment and relocation of Registered Clubs and how they could be reduced in order to encourage Registered Clubs to locate in areas that would most benefit from them.	▼ Chapter 12
The Tribunal is also asked to review and make recommendations on:	
▼ Existing and proposed legislative and policy objectives and possible changes that may be required to the regulatory framework to support industry development and reduce 'red tape'.	▼ Chapters 10, 11, 12 and 13
▼ Maintenance and development of a strong code of corporate governance (including risk management).	▼ Chapter 9
▼ Developing a shared vision between Government and the Registered Clubs industry on compliance issues, nature and levels of community service support and social responsibility.	▼ Chapter 14
▼ Any additional issues it identifies that would significantly improve the sustainability of the Registered Clubs industry.	▼ Chapter 8

C List of submitters, roundtable participants, case study clubs

C.1 Submissions to Issues Paper

	Organisation/Individual	Name
1	Aristocrat Technologies*	Guy Wood
2	Australasian Gaming Machine Manufacturers Association	Ross Ferrar
3	BetSafe Group	Paul Symond
4	Cabarita Beach Bowls & Sports Club Ltd	Phillip Mallon
5	Campbelltown Catholic Club - King of Clubs*	Michael Lavorato
6	Canterbury - Bulldogs Leagues Club Ltd	John Ballesty
7	Catalina Country Club	Richard Hogg
8	ClubsNSW	Peter Newell
9	Club Willoughby*	Craig Robertson
10	Gambling Impact Society (NSW) Inc	Kate Roberts
11	Gosford North Probus Club	Allan Kilpatrick
12	Goulburn Club	Roger Lucas
13	Individual*	Anonymous
14	Individual	Anonymous
15	Individual	Andrew Cathcart
16	Individual	J. P. Donellan
17	Individual	Ernest Goldberg
18	Individual	Tina Hormann
19	Individual	Sandra & Jim Horne
20	Individual	Julie & Bill McArthur
21	Individual	Don & Edna Macdonald
22	Individual	Gregg McKelvey
23	Individual	Jill Neville
24	Individual*	H. Pearce
25	Individual	Wayne Sampson
26	Individual	Len Sargant
27	Leagues Clubs' Association of NSW	Peter Turnbull
28	Licensing Court of NSW & Liquor Administration Board	D.B. Armati
29	NCOSS (Council of Social Service of NSW)	Dinesh Wadiwel
30	Newsagents Association of NSW & ACT Ltd	Gary Monks
31	NRL Limited	David Gallop
32	Penrith City Council	Erich Weller

	Organisation/Individual	Name
33	Panthers Entertainment Group**	Glenn Matthews
34	Responsible Gambling Fund Trustees	Rev. Harry Herbert
35	Royal NSW Bowling Association Inc*	Ray Tozer
36	RSL & Services Clubs Association of NSW	Graeme Carroll
37	Southern Cross University	Nerilee Hing
38	Turrumurra Bowling Club	Geoff Hamilton
39	Union, University & Schools Club of Sydney	Paul Sprokkreeff
40	Wesley Community Legal Service	Richard Brading
41	West's Ashfield Leagues	Andy Timbs
42	West's Campbelltown*	Tony Mathew

Note: *Submissions not publicly available due to confidentiality/other legal reasons. **Part of submission not publicly available due to confidentiality/other legal reasons.

C.2 Submissions to Draft Report

	Organisation/Individual	Name
1	Auburn RSL Sub-Branch (Parts 1 & 2)**	Ken Triggs
2	Australia Street Company	Alison Ziller
3	ClubsNSW	Peter Newell
4	Club Managers' Association Australia	Terry Condon
5	Gambling Impact Society	Kate Roberts
6	Gosford City Council	Terry Thirlwell
7	ISFM on behalf of South Sydney Football Club*	G Watson
8	Individual	Paul Crittenden
9	Individual	J. P. Donellan
10	Individual*	Clive Jensen
11	Individual*	Ron McLennan
12	Individual	Len Sargant
13	Leagues Clubs' Association of NSW	Peter Turnbull
15	RSL & Services Clubs Association of NSW (Parts 1 & 2)	Graeme Carroll
16	Tathra Beach Country Club Limited	George Alnis
17	Turrumurra Bowling Club Limited	Geoff Hamilton

Note: *Submissions not publicly available due to confidentiality/other legal reasons. **Part of submission not publicly available due to confidentiality/other legal reasons.

C.3 Attendees at Sydney Roundtable – 27 August 2007

	Organisation	Name
1	Aristocrat Technologies	Guy Wood
2	Australian Hotels Association (NSW)	Charles Shields
3	Australasian Gaming Machine Manufacturers Association	Ross Ferrar
4	ClubsNSW	Anthony Ball
5	ClubsNSW	Emma Cannen
6	ClubsNSW	David Costello
7	ClubsNSW	Wayne Krelle
8	ClubsNSW	Josh Landis
9	ClubsNSW	Peter Newell
10	Goulburn Club	Roger Lucas
11	Leagues Clubs' Association of NSW	Matt Cranney
12	Maritime Credit Union	Mark Genovese
13	NCOSS (Council of Social Service of NSW)	Linda Frow
14	Office of Liquor, Gaming & Racing	Michael Foggo
15	Office of Liquor, Gaming & Racing	David Greenhouse
16	Panthers Entertainment Group	Glenn Matthews
17	Panthers Entertainment Group	Barry Walsh
18	Panthers Entertainment Group	Rob Weaver
19	Revesby Workers Club	Edward Cammillen
20	Royal NSW Bowling Association Inc	Ray Tozer
21	RSL & Services Clubs Association of NSW	Graeme Carroll
22	RSL & Services Clubs Association of NSW	Luke Heard
23	Turrumurra Bowling Club	Geoff Hamilton

C.4 Attendees at Wagga Wagga Roundtable – 14 September 2007

	Organisation	Name
1	ClubsNSW	Anthony Ball
2	ClubsNSW	Emma Cannen
3	Griffith RSL Club	Gus Lico
4	Leagues Clubs' Association of NSW	Peter Turnbull
5	Leeton Bowling Club	David Campbell
6	Moama Bowling Club	Paul Barnes
7	Office of Liquor, Gaming and Racing	Michael Foggo
8	Office of Liquor, Gaming and Racing	David Greenhouse
9	Riverina Australian Football Club	Jack Jolley
10	Wagga RSL Club	Andrew Bell
11	Wagga Wagga City Council	Janice Summerhayes
12	Wagga Wagga Country Club	John Turner

C.5 Attendees at Armidale Roundtable – 21 September 2007

	Organisation	Name
1	Armidale City Bowling Club	Robert Adams
2	Armidale City Bowling Club	Phil Wheaton
3	Armidale Ex-Services Club	Doug Lennox
4	Cabarita Beach Bowls & Sports Club Ltd	George Davidson
5	Cabarita Beach Bowls & Sports Club Ltd	Phillip Mallon
6	ClubsNSW	Anthony Ball
7	ClubsNSW	Emma Cannen
8	Department of Community Services	Wendy Colyer
9	Gunnedah Services & Bowling Club	John Campbell
10	Gunnedah Services & Bowling Club	James Gallen
11	Leagues Clubs' Association of NSW	Rod Laing
12	Office of Liquor, Gaming and Racing	David Greenhouse
13	RSL & Services Clubs Association of NSW	Graeme Carroll
14	RSL & Services Clubs Association of NSW	Bryn Miller
15	Tamworth Services Club	Gil Swan
16	West Tamworth Leagues	Rod Laing

C.6 Attendees at Dubbo Roundtable – 12 October 2007

	Organisation	Name
1	ClubsNSW	Anthony Ball
2	Dubbo Railway Bowling Club	Garry Leo
3	Dubbo RSL Club	Matt Dover
4	Dubbo RSL Club	Geoffrey Holland
5	Dubbo RSL Club	John Millar
6	Forbes Services Memorial Club	Dennis Butler
7	Forbes Services Memorial Club	David Fitzgerald
8	Narromine Services Memorial Club	Bob Walsh
9	Office of Liquor, Gaming and Racing	Michael Foggo
10	RSL & Services Clubs Association of NSW	Graeme Carroll
11	West Dubbo Bowling Club	Rod Firth

C.7 Attendees at Sydney Roundtable – 7 May 2008

	Organisation	Name
1	Auburn RSL Club	Margaret Ward
2	Auburn RSL Sub-Branch	Ken Triggs
3	Auburn RSL Sub-Branch	Ron McLennan
4	Bowlers Club of NSW	David Conroy
5	Bowlers Club of NSW	Rocky Massaria
6	ClubsNSW	Anthony Ball
7	ClubsNSW	David Costello
8	ClubsNSW	Peter Newell
9	ECL	John Murray
10	Leagues Clubs' Association of NSW	Peter Turnbull
11	Individual	Len Sargent
12	NCOSS (Council of Social Service of NSW)	Alison Peters
13	Office of Liquor, Gaming and Racing	Jules Bastable
14	Office of Liquor, Gaming and Racing	David Greenhouse
15	Royal NSW Bowling Association Inc	Alan Rosenberg
16	RSL & Services Clubs Association of NSW	Graeme Carroll
17	Wagga RSL Club	Andrew Bell
18	Wagga RSL Club	David Gardiner
19	Wagga RSL Club	John Keyes

C.8 Case study clubs

	Organisation	ABS Division
1	Asquith Bowling and Recreation Club	Sydney
2	Bega RSL Club	South Eastern
3	Belmont Golf Club	Hunter
4	Bingara Sporting Club	Northern
5	Bowlers Club of NSW	Sydney
6	Club Old Bar	Mid North Coast
7	Mulwala & District Services Club (Clubmulwala)	Murray
8	Cronulla-Sutherland Leagues Club	Sydney
9	Tuggerah Lakes Memorial Club (diggers@the entrance)	Sydney
10	Glen Innes Golf Club	Northern
11	Hamrun Association (NSW) Incorporated	Sydney
12	Mount Pritchard & District Community Club (Mounties)	Sydney
13	Nowra Bowling & Recreation Club	Illawarra
14	Petersham Bowling Club	Sydney
15	Riverstone-Schofields Memorial Club	Sydney
16	Tathra Beach Country Club	South Eastern

C.9 Other clubs consulted by IPART

	Organisation
1	Armidale City Bowling Club
2	Coffs Ex-Services Club
3	Dubbo RSL Club
4	Guyra Bowling and Recreation Club
5	Mortdale RSL Club
6	Murwillumbah Services Memorial Club
7	Newcastle Golf Club
8	Panthers Entertainment Group
9	Richmond Club
10	Sussex Inlet Sailfish Club
11	Twin Towns Services Club
12	Wagga RSL Club

D Gambling expenditure and problem gambling in Australia

D.1 An interstate comparison of some gambling data

NSW Government policy over the last 10 years has focused on achieving a balance between the vast majority of those in the community who participate in gambling as an enjoyable and harmless pastime, and those for whom gambling causes significant problems²⁵⁸. In its 2004 report *Gambling: Promoting a Culture of Responsibility*, IPART noted both the benefits and harms associated with gambling and recommended an integrated policy framework to promote a culture of responsibility within the gambling industries.

Given this context, IPART identified that for this review of the registered clubs industry, the issue is whether clubs increase the amount of gambling (and therefore potentially increase the prevalence of problem gambling) or just affect the venue where it takes place.

The clubs industry in NSW is a key supplier of access to gaming machines to the gambling market (see Table D.1). Clubs in NSW provide around three-quarters of the state's gaming machines and 37 per cent of the country's.

Table D.1 Number of gaming machines by state 2005/06

Venue	NSW	Vic	Qld	SA	WA	Tas	ACT	NT	AUS
Casino	1,500	2,500	3,876	983	1,500	1,280	-	812	12,451
Clubs	74,280	13,490	22,024	1,595	-	183	5,066	706	117,344
Hotels	24,254	13,657	19,496	11,003	-	2,217	84	344	71,055
Total	100,034	29,647	45,396	13,581	1,500	3,680	5,150	1,862	200,850

Note: While more recent figures are available on the number of gaming machines by state, 2005/06 figures are used for comparison with per capita gambling expenditure in Table D.2 and Figure D.1, D.2 and D.3.

Source: Australian Gambling Statistics 24th edition 2007.

However, there are many other gambling products available across the country. The per capita gambling expenditures by state for various forms of gambling are shown in Table D.2.

²⁵⁸ *Gambling Legislation Amendment (Responsible Gambling) Bill 1999* – second reading speech.

Table D.2 Per capita gambling expenditure on different forms of gambling 2005/06 (\$)

	NSW	Vic	Qld	SA	WA	Tas	ACT	NT	AUS
Racing	144	157	102	88	153	75	107	629	138
Lottery	10	2	0	-	-	2	4	-	4
Lotto	78	92	90	72	135	67	59	99	88
Instant lottery	13	6	29	10	22	9	8	11	15
Pools	1	0	1	0	0	0	0	0	0
Casino	122	264	191	104	223	270	75	678	187
Minor gaming	-	-	-	9	14	-	-	-	2
Keno	16	2	28	11	-	55	3	-	13
Gaming machines	964	635	585	624	-	295	764	391	663
Interactive gaming	-	-	-	-	-	-	-	101	1
Total Gaming	1,204	1,000	924	831	393	699	914	1,281	974
Sports Betting	10	14	3	2	5	2	-	287	11
Total All Gambling	1,357	1,170	1,029	922	552	776	1,022	2,197	1,123

Note: Rows/columns may not add due to rounding.

Source: Australian Gambling Statistics 24th edition 2007.

The following points are noteworthy:

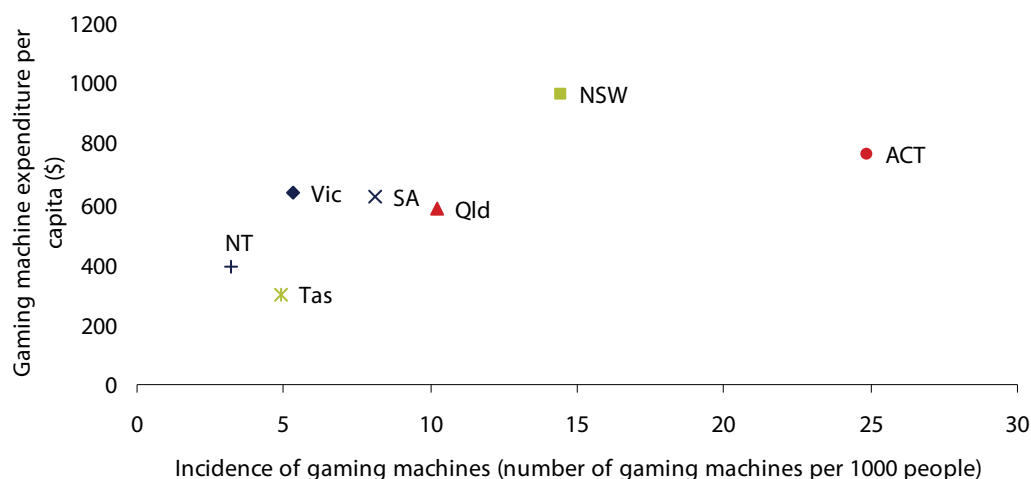
- ▼ NSW has the second-highest total gambling expenditure per capita (\$1,357), after the Northern Territory (\$2,197).²⁵⁹
- ▼ NSW has the highest total gaming expenditure per capita at \$1,204, compared with an Australia-wide per capita level of \$974. This is largely attributable to the contribution of gaming machines operated in hotels and clubs (80 per cent of gaming expenditure per capita in NSW is on gaming machines).
- ▼ Expenditure on gaming machines makes the greatest contribution to total per capita gambling expenditure in all states except WA and NT. This may be because in WA, gaming machines are only operated within the casino (see Table D.1), while in NT around 44 per cent of the state's gaming machines are operated within the casino.

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. Figure D.1 shows the gaming machine expenditure per capita by the number of people per gaming machine. 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

²⁵⁹ Although it should be noted that a significant portion of NT's expenditure can be attributed to people outside NT betting with bookmakers located within NT.

number of machines per 1000 people than Victoria (10 compared to six), yet has a lower level of per capita gaming machine expenditure (\$585 compared with \$635).

Figure D.1 Incidence of gaming machines and per capita gaming machine expenditure by state 2005/06



Data source: Australian Gambling Statistics 24th edition 2007 and IPART analysis.

IPART notes that ASC highlighted other studies that found that on a Local Government Area (LGA) level there was a strong correlation between the density of gaming machines per 1000 adults and net gaming machine expenditure.²⁶⁰ In addition, ASC presented data from two LGAs in NSW that show how over time, in areas with a high density of gaming machines, gaming profits have increased more rapidly than any increase in the number of adults in the population or increases in the number of machines in the area.

IPART does not dispute these findings and acknowledges the important operation of both the cap on gaming machine numbers in NSW as well as the SIA/LIA processes that limit the number of gaming machines that can be introduced into LGAs. These policies operate to limit the potentially harmful impacts that can result from an unacceptably high level of access to gaming machines. Clubs need to continue operating within the requirements of these processes and work with Government to minimise the potentially harmful effects that can result from the operation of gaming machines.

²⁶⁰ Livingstone, C, 2001, *Regional caps on poker machines: Impacts, potential impacts and issues*, Prepared for the City of Darebin, Melbourne, Australian Institute of Primary Care, La Trobe University; centre for Gambling research, 2004, *Gaming Machine Accessibility and use in Suburban Canberra: A Detailed Analysis of the Tuggeranong Valley*.

Table D.3 Profit and population trends in Fairfield LGA

Year	Profit (\$ m)	Adult pop	Density of gms in LGA	% Inc in profit	% Inc in adult pop.	% Inc in no. gms	Avg. exp. per adult in LGA	% Inc in avg exp per adult	Avg. Exp. Per Adult in NSW
2001/02	260.3	139,521							
2001/02 (CPI adj)	331.3						\$2,375		\$910
2006/07	340.4	133,245	34 adults per gm	2.7%	-4.5%	0.5%	\$2,554	7.5%	\$1,011

Source: ASC submission, 2 April 2008, p 5.

Table D.4 Profit and population trends in Campbelltown LGA

Year	Profit (\$ m)	Adult pop	Density of gms in LGA	% Inc in profit	% Inc in adult pop.	% Inc in no. gms	Avg. exp. per adult in LGA	% Inc in avg exp per adult	Avg. Exp. Per Adult in NSW
2001/02	84.0	103,617							
2001/02 (CPI adj)	96.6						\$932		\$910
2006/07	111.0	101,433	55 adults per gm	15%	-2.11%	2.6%	\$1,094	17.38%	\$1,011

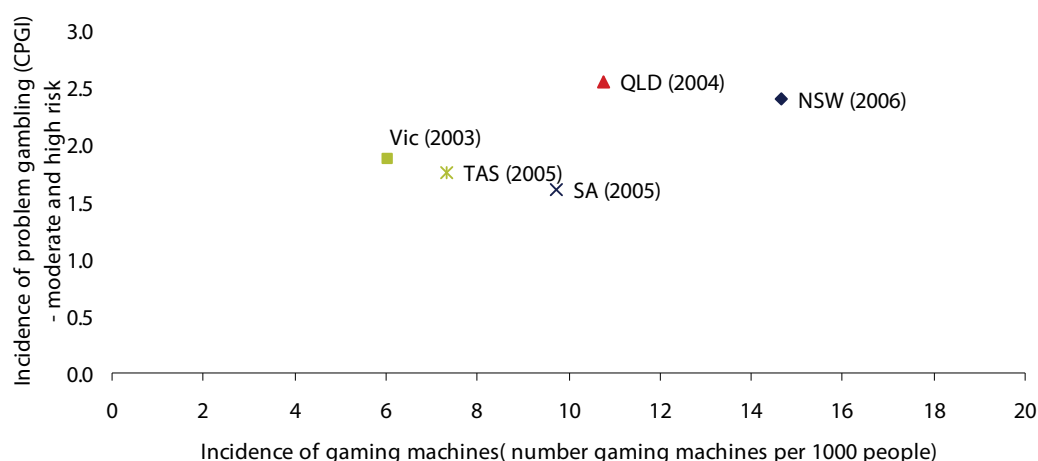
Source: ASC submission, 2 April 2008, p 5

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.

As pointed out by ASC,²⁶¹ IPART acknowledges that there are difficulties associated with the measurement of problem gambling. However, the CPGI is the preferred measurement tool for population-level research, and is now used by all Australian governments as the preferred measure of problem gambling. Using this index, the adult population can be classified as either problem gamblers, moderate risk gamblers or low risk gamblers. In its 2007 report into Prevalence of Gambling and Problem Gambling in NSW, OLGR combined the problem gambling and moderate risk gambling groups to form an 'at risk' gambling group. Figure D.2 shows the incidence of at risk (problem and moderate risk gamblers) from recent studies into problem gambling in other states. While NSW leads the country in access to gaming machines, its incidence of problem gambling is comparable to that of Queensland (which has a lower incidence of machines than NSW) and not much higher than that of the other states.

Figure D.2 Incidence of gaming machines and incidence of at risk gamblers

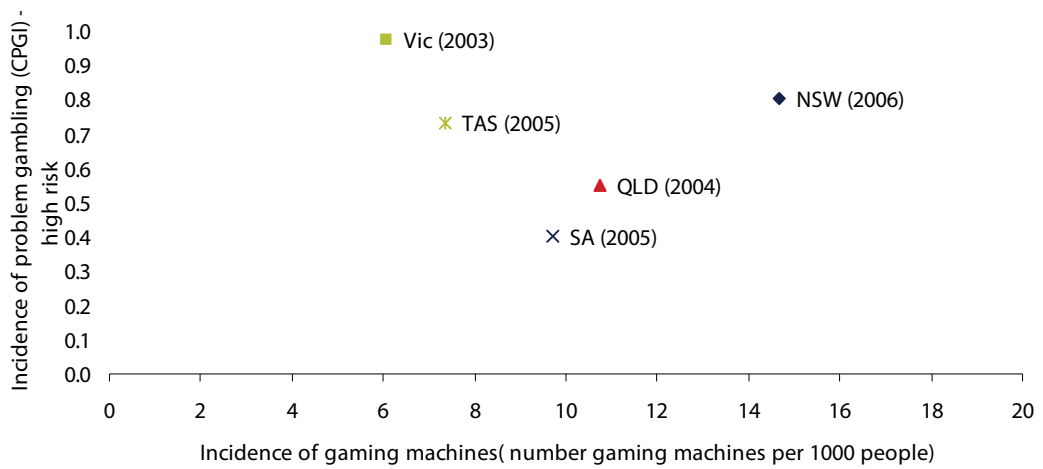


Data source: NSW: ACNielson Prevalence of Gambling and Problem Gambling in NSW – A Community Survey 2006; Victoria & Tasmania: Tasmanian Gambling Prevalence Study 2005; Queensland: Queensland Household Gambling Survey 2003-04 Factsheet; SA: Gambling Prevalence in South Australia Factsheet 2005.

When considering only the problem gambling group (Figure D.3), NSW has a similar incidence to Victoria and Tasmania, both of which have less than half the incidence of gaming machines than NSW.

²⁶¹ ASC submission, 2 April 2008, p 6.

Figure D.3 Incidence of gaming machines and incidence of problem gamblers



Data source: NSW: ACNielsen Prevalence of Gambling and Problem Gambling in NSW – A Community Survey 2006; Victoria & Tasmania: Tasmanian Gambling Prevalence Study 2005; Queensland: Queensland Household Gambling Survey 2003-04 Factsheet; SA: Gambling Prevalence in South Australia Factsheet 2005.

E IPART's methodology for recording and valuing clubs' social contribution

The terms of reference require IPART to review the existing contribution of the registered clubs industry to the provision of social infrastructure and services. The terms of reference also require IPART to develop a methodology to identify and record the value of such provision both now and in the future.

Under IPART's recommended approach, the total value of this provision is calculated as the sum of the following components:

- ▼ *Direct, cash* contributions made to charities, community and sporting related activities.
- ▼ *Direct, in-kind* contributions through provision and maintenance of community and sporting facilities and infrastructure (eg, bowling greens, gyms, tennis courts as well as meeting rooms and other venues).
- ▼ Contributions from club volunteers for activities not accounted for in direct in-kind contributions.

As discussed in Chapter 4, IPART's methodology acknowledges indirect contributions qualitatively rather than quantitatively.

E.1 Methodology for recording the provision of social infrastructure and services

E.1.1 An overview of the proposed methodology

ClubsNSW currently publishes the results of a four-yearly socio-economic impact study (SEIS) conducted by the Allen Consulting Group (ACG) on its behalf. The SEIS collects information from registered clubs through a comprehensive industry survey. The ACG uses this information for various analyses, including an assessment of industry contribution. ClubsNSW has provided IPART with data from the ACG survey to calculate its own estimate of the value of the clubs industry's contribution to the provision of social infrastructure and services.

IPART recommends that the value of the clubs industry's direct social contribution be calculated according to the following expression.

$$\begin{aligned}
 \text{Total direct social contribution} = & \quad \text{Total direct cash contributions} \\
 & \quad \quad \quad \textit{plus} \\
 & \quad \quad \quad \text{Total direct in-kind contributions} \\
 & \quad \quad \quad \text{through provision of club facilities} \\
 & \quad \quad \quad \textit{plus} \\
 & \quad \quad \quad \text{Total contributions from volunteers not} \\
 & \quad \quad \quad \text{accounted for in direct in-kind} \\
 & \quad \quad \quad \text{contributions}
 \end{aligned}$$

IPART recommends a market value based approach to determine the value of direct in-kind contributions. This approach focuses on the opportunity cost in revenue a club foregoes through its provision of these contributions. It calculates the difference between the commercial or market value of the product, less the price charged by the club, to determine the club's direct social contribution. Where a club provides the product at no charge, the commercial or market value represents the total direct social contribution.

The equation below illustrates how the market value approach is applied:

$$MV_X - SP_X = SC_X$$

where:

MV_X represents the market value of product X

SP_X is the club sale price for product X

SC_X represents the measure of direct in-kind social contribution for the provision of product X.

E.1.2 Measurement of representative club type contribution

IPART's valuation used data from ACG's survey of clubs to aggregate representative club contributions. As discussed above, indirect contributions are acknowledged qualitatively rather than quantitatively. Volunteer hours do not include those associated with the provisions of facilities and services valued in the total direct in-kind contributions term. IPART's valuation involved the following steps:

1. Developing representative club types (RCTs). IPART used 40 RCTs to represent the variations of four club types (bowling, golf, RSL and other), five commonly used size categories (which use gaming machine revenue (GMR) as a measure of club size) and either a country or metropolitan location. For example, RCTs were developed for country-based bowling clubs that generate between \$200,000 and \$1m GMR and metropolitan-based RSL clubs that generate between \$5m and 10m GMR. The number of RCTs was selected by balancing whether there were enough clubs sampled within a category and also whether combining categories would aggregate the contributions to a level where the number/type of facilities were not consistent with IPART's observations.
2. Calculating the value of direct cash contributions made by each RCT. IPART divided the total cash contributions made by the number of clubs surveyed in each RCT.
3. Calculating the value of the direct in-kind social contribution made by each RCT for the provisions of community infrastructure and facilities. IPART undertook the following four steps:
 - a) identifying market prices for each of the facilities provided by clubs
 - b) identifying the sale prices for each of the facilities provided by clubs
 - c) identifying the number of community facilities, such as bowling greens, meeting rooms, billiard tables, etc, provided by each RCT category
 - d) applying equation 1, and using club numbers in each RCT sample to estimate each RCT's 'typical' per club provision of community facilities.
4. Summing the value of direct cash contributions and direct in-kind contributions for each RCT to obtain an estimate of the total value of club contributions for each RCT.
5. Scaling up the result of the total social contribution for each RCT based on appropriate statistical weightings to obtain a value for the total industry social contribution.

IPART notes the following issues concerning this methodology:

- ▼ Market values for different products differ based on factors such as location, type and quality of product. Therefore, where appropriate, IPART developed a range of market values for metropolitan and country facilities.
- ▼ Market values cannot be estimated for some club-provided facilities. IPART recommends that no market values be attributed to these products and the contributions associated with them be acknowledged qualitatively.
- ▼ Club sale prices and annual sale quantities have not been collected by ACG as part of the survey. IPART therefore recommends an alternative calculation of direct in-kind social contributions.

The following sections explore how IPART has accounted for these difficulties.

E.1.3 Overcoming measurement difficulties with a representative club type contribution

Market values differ based on location, type and quality of product

IPART observed that the market prices of club-provided facilities vary based on location, type and quality of service. Ideally, there would be a survey of market prices for each of the facilities to develop an understanding of the distribution of market prices. Given that this was not practical, IPART accounted for these differences by reporting a range of market values for each of them. IPART obtained market prices for a sample in both metropolitan and country locations for each of the facilities. For some products (for example, tennis courts), very little difference was observed and thus similar market prices have been applied to metropolitan and country locations.

Based on this sample, IPART developed a high and low estimate range of market values. IPART notes that these values do not necessarily reflect the absolute low and high values for these facilities, but are likely to reflect the average low and average high prices for a typical club-provided facility.

IPART calculated and reported a total value based on the midpoint of the ranges estimated.

Market values cannot be estimated for some club facilities

For a variety of club-provided facilities, IPART was either unable or did not consider it appropriate to estimate a market value on a per facility basis. These facilities are listed in Table E.1.

Table E.1 Club provided facilities considered by IPART

Facilities for which market values have been estimated	Facilities for which no market values have been estimated
Bowling greens	Carpet bowls
Gyms	Boat/ski facilities
Sporting fields	Memorials
Golf courses	Playgrounds
Swimming pools	Library
Tennis courts	Other (sporting)
Squash courts	Other (non-sporting)
Billiard tables	
Meeting rooms/halls	
Entertainment venue/hall	
Accommodation	
Bars (aggregate level only)	
Bistro/restaurant (aggregate level only)	

IPART's reasoning for not estimating market values for these facilities are as follows:

- ▼ Memorials: these typically commemorate the contributions made by the servicemen and women of the country in RSL/services clubs. IPART believes they should be acknowledged together with indirect contributions and recorded by clubs through a qualitative approach.
- ▼ Playgrounds and libraries: these are typically provided free of charge by council/other government organisations and therefore a market value is not observable. IPART believes they should be acknowledged in the same manner as an indirect contribution and recorded by clubs through a qualitative approach.
- ▼ Carpet bowls: market prices for these facilities were not observed as they are generally only provided by clubs. Additionally, carpet bowling generally occurs within existing club facilities, such as meeting rooms, halls or entertainment venues (although some clubs do have custom-built carpet bowling facilities). IPART believes carpet bowling activities should be acknowledged in the same manner as an indirect contribution and recorded by clubs through a qualitative approach.
- ▼ Boat/ski facilities: IPART's view is that the heterogeneity of what is provided in this category makes it difficult to estimate a meaningful value range. ACG has advised that this category ranges from a pair of water skis, up to the provisions of fishing/ski boats and moorings. In the absence of better data/information on the provision of goods and services within this category, IPART believes this contribution should be acknowledged qualitatively.

The rationale for only calculating an aggregate market value for bars/bistro/restaurants (rather than market values on a per facility basis) is that, as outlined below, in the absence of a detailed club survey, observing market prices and quantities for the meals and beverages provided by clubs is problematic. However, the provision of low-cost meals and beverages has been one of the contributions most widely acknowledged by stakeholders. IPART therefore accounted for this contribution at an aggregate industry level, rather than on a per RCT basis. ACG has estimated that, on average, these products are provided at a 20 per cent discount to the market price (reflecting a range of 15-25 per cent). Using the total industry revenue for bars, bistros and restaurants and assuming an average level of discount of 20 per cent, IPART estimated the industry's total contribution in providing these facilities.

Club sale prices and annual sale quantities have not been collected by ACG as part of its survey

ACG collects data on the number of facilities provided by each of the clubs that it surveys. It does not collect club sale prices and annual sales quantities. In addition, ACG does not collect information on sources of revenue by the facility types identified in Table E.1. This means it is not possible to calculate the social contribution value for each type of facility for each RCT as in equation 1.

To deal with this, IPART calculated the market values (and not the social contribution) of facilities for each RCT. The value of direct in-kind contributions can then only be calculated on an industry-wide level by subtracting the revenue received by clubs for the provision of their facilities.

IPART used the following approach to assign market values to the community facilities identified by the ACG survey:

- ▼ Market values for services provided by bowling greens, golf courses, tennis courts, squash courts and swimming pools were estimated by using the ABS NSW sport participation and frequency rate, the market value (ie, typical price) for annual participation and the number of facilities in NSW. IPART estimated the market value of services provided by the sports facility, such as a golf course or tennis court (the market value being equivalent to the annual sum of revenue generated using market values for participation). This is expressed through the equation:

$$(1) \quad (PF_{ABS} \times MV_{AP}) / N_{SF} = V_{SF}$$

where:

PF_{ABS} is the ABS participation and frequency rate

MV_{AP} is the market value for annual participation

N_{SF} is the number of the sports facilities in NSW

V_{SF} is the annual market value per single facility.

- ▼ Market values for the provision of gymnasiums were estimated by multiplying the average gym membership (Australian figure available only) with the market value for annual participation, where IPART's estimated market value is equivalent to the annual sum of revenue generated per gymnasium. This is expressed through the equation:

$$(2) \quad (AM_{FA} \times MV_{AP}) = V_G$$

where:

AM_{FA} is the average gym membership size (as reported by Fitness Australia)

MV_{AP} is the market value for annual participation (ie, annual gym membership)

V_G is the annual market value per gymnasium.

- ▼ Market values for the provision of billiard tables were estimated based on an assumption of 20 hours of usage per table per week and an observed hourly market rate for billiard table use. IPART estimated the annual market value for a billiard table by multiplying the weekly usage for a table by the hourly market rate, accounting for the 52-weeks in a year. The estimated market value is equivalent to the annual sum of revenue generated. This is expressed through the equation:

$$(3) \quad WU_{PT} \times HR \times 52 = V_{BT}$$

where:

WU_{PT} is the estimated usage per table per week

HR is the hourly market rate

V_{BT} is the annual market value per billiard table.

- ▼ Market values for the provision of meeting rooms/entertainment halls and accommodation were estimated by multiplying the ABS room occupancy rate with the market value for the meeting/motel room rate (based on three star accommodation for motel rooms), accounting for the 365 days per year. The estimated market value is equivalent to the annual sum of revenue generated per meeting/motel room. This is expressed through the equation:

$$(4) \quad OR_{ABS} \times MV_{RR} \times 365 = V_{PR}$$

where:

OR_{ABS} is the ABS room occupancy rate

MV_{RR} is the market value room rate

V_{PR} is the annual market value per room.

The resulting low, midpoint and high market values are shown in Tables E.2 (metropolitan values) and E.3 (country values).

Table E.2 Estimated market value of club facilities – metropolitan

Facility	Market value per facility (\$'000)		
	Low	Midpoint	High
Bowling green	30	45	60
Gym	558	1,059	1,560
Sporting field	14	57	100
Golf course	1,589	2,868	4,147
Swimming Pool	258	314	369
Tennis court	10	16	22
Squash court	12	20	29
Billiard table	6	6	6
Meeting room/hall	41	84	126
Entertainment venue/hall	41	84	126
Accommodation	26	37	48

Table E.3 Estimated market values of club facilities – country

Facility	Market value per facility (\$'000)		
	Low	Midpoint	High
Bowling green	7	14	22
Gym	558	1,059	1,560
Sporting field	4	45	85
Golf course	68	142	216
Swimming Pool	74	210	347
Tennis court	10	16	22
Squash court	12	20	29
Billiard table	6	6	6
Meeting room/hall	46	57	69
Entertainment venue/hall	46	57	69
Accommodation	17	27	37

Recognition of volunteer hours

ACG also collected information on the total number of volunteer hours for each of the clubs surveyed. IPART included an allowance for these hours in the total social contribution value.

As discussed in Chapter 4, IPART's approach to valuing direct in-kind contributions implicitly incorporates a value for the volunteer time associated with the provision of certain club facilities. For example, a club may make use of volunteers in the maintenance and upkeep of its golf course. As a result of this volunteer involvement, the club can reduce its green keeping expenses and is then able to charge a lower sale price than would otherwise be required if commercial labour were used. Hence, only volunteer time that is not spent on the provision of facilities already valued through the market value-based approach should be included.

Thus the volunteer time associated with sporting and trading activities of clubs are accounted for in the direct in-kind component of the approach and should not be included here. The value of volunteer labour from directors and volunteers involved in other activities of clubs is included.

E.2 An estimate of the clubs industry's social contribution

Based on the above methodology, IPART estimated the following range for the value of the registered clubs industry's social contribution.

Table E.4 Value of social contribution (\$ million)

Industry values	Low	Mid	High
Direct cash contributions	91	91	91
Direct in-kind contributions			
Market value of facilities	764	1,244	1,724
Less revenue received by clubs for their facilities	568	568	568
Volunteer hours	44	44	44
Total value of social contribution	331	811	1,291

Note: Rows may not add due to rounding.

F ACG's approach to measuring the benefits the community derives from club-provided goods and services

As Chapter 4 discussed, ClubsNSW supported using a 'willingness to pay' approach to identify the value of clubs' social contributions. ACG used this approach in its recent socio-economic impact study of clubs in NSW, undertaken on behalf of ClubsNSW, to measure the benefit communities derive from the community services that clubs deliver.

Essentially, such a measure estimates the aggregation of satisfied demand above the levels (prices) at which club goods are bought (ie, where consumers' willingness to pay for club goods exceeds the prices at which these goods are traded in the market). In its study, ACG used a choice modelling approach to do this, and estimated that the NSW community is willing to pay between \$59 million a year and \$224 million a year (through a direct household contribution) to prevent a decline in club-provided community services. The following sections provide more details of this methodology.

F.1 ACG's choice modelling approach

Choice modelling is a stated preference technique that involves eliciting people's preference or choices for different options in a representative setting to ascertain how much they are willing to pay for those options.²⁶² ACG noted that choice modelling does not attempt to estimate the total value of the social contribution made by registered clubs. Instead, the technique measures community members' willingness to pay to maintain or increase certain community services that clubs deliver.

ACG surveyed over 1000 adults (of 18 years or older) in September 2007 to achieve three outcomes:

- ▼ identify respondents' perspectives and attitudes towards registered clubs
- ▼ understand respondents' preferences to changes in existing social services provided by clubs

²⁶² Allen Consulting Group 2007, *Valuing the Social Contribution of Registered Clubs to the NSW Community, Final Report to ClubsNSW*, Sydney, p viii.

- ▼ estimate the amount people are willing to pay to increase the level of various social services provided by clubs.²⁶³

Before conducting the survey, ACG ran focus groups (of general community members) to identify and select the non-monetary attributes that guide consumers' preferences for club provision of goods. Usually between three and five non-monetary attributes are chosen for such an exercise. ACG selected five, as well as a monetary attribute that ACG defined as an annual tax payment or local government levy to fund or increase club contributions to the community.²⁶⁴ The five non-monetary attributes used in the choice modelling exercise are outlined in Table F.1.

Table F.1 Non-monetary attributes that ACG used in its choice modelling exercise

Attribute	Description
Quality of life for the elderly	Registered clubs provide a meeting place for the elderly – both a social outlet and a place for friendship support. Some clubs also employ welfare officers who provide specific help to those in need, such as meals on wheels.
Safe environment for families	Many clubs aim to cater for families and provide a safe environment for young and old. Children are cared for in a number of ways, including crèches, safe outdoor play areas and special activities. Some clubs provide low-cost child care for members.
Volunteer opportunities	Clubs provide a supportive environment for people to get involved in volunteer activities – eg, running sporting activities – helping build better communities. Volunteers can benefit from the self-esteem and leadership values gained through volunteering.
Affordable meals and entertainment	Clubs enable people to have an enjoyable night out at an affordable price – offering in particular affordable meals and entertainment. This is particularly beneficial for people on low incomes.
Sport, health and mental well-being	Sport improves people's health, fitness and mental state. Almost all registered clubs provide some form of sporting facilities – eg, gyms and bowling greens. In many towns, these sporting facilities are maintained by clubs and are available to the public.

Source: Allen Consulting Group 2007, *Valuing the Social Contribution of Registered Clubs to the NSW Community, Final Report to ClubsNSW*, Sydney, p 15.

²⁶³ Allen Consulting Group 2007, *Valuing the Social Contribution of Registered Clubs to the NSW Community, Final Report to ClubsNSW*, Sydney, p ix.

²⁶⁴ Allen Consulting Group 2007, *Valuing the Social Contribution of Registered Clubs to the NSW Community, Final Report to ClubsNSW*, Sydney, p 14.

The focus groups were used to develop and refine the survey's questionnaire format, which was then sent to more than 1000 community members. The survey elicited respondents' preferences through a series of questions (called choice sets), which were used to rank the attributes in accordance with their preferences. Describing their preferences in terms of the defined set of attributes, respondents differentiated the alternative attributes from each other, demonstrating their willingness to trade one for another. Using the monetary attribute (ie, the local government levy or state tax payment), ACG made dollar estimates for changes in attribute levels and calculated consumers' willingness to pay to maintain or secure additional units of the attributes.

From its results, ACG noted that people with the following characteristics were more likely to support the maintenance of and/or improvement to community services provided by clubs:

- ▼ females
- ▼ respondents in older age groups
- ▼ respondents with lower education levels
- ▼ frequent visitors to clubs
- ▼ respondents with higher levels of income.²⁶⁵

Table F.2 shows ACG's estimates of community members' willingness to pay to prevent a decline in current services levels.

²⁶⁵ Allen Consulting Group 2007, *Valuing the Social Contribution of Registered Clubs to the NSW Community, Final Report to ClubsNSW*, Sydney, pp 22-23.

F ACG's approach to measuring the benefits the community derives from club-provided goods and services

Table F.2 Willingness to pay (WTP) to prevent a decline in existing service levels

Attribute	Current Level	Hypothetical decline in services by 2017	Value of a one unit change (\$/person)	Annual WTP to prevent the decline (\$/person)
Quality of life for the elderly	25 per cent of clubs provide services for the elderly	Reduce to 20 per cent of clubs	\$0.96 per cent change	\$4.80
Safe environment for families	20 per cent of clubs provide family friendly facilities	Reduce to 15 per cent of clubs	\$1.26 per cent change	\$6.30
Affordable meals and entertainment	Meals and entertainment are approximately 20 per cent cheaper in clubs than pubs and restaurants	Reduce size of discount to 10 per cent	\$1.94 per cent change	\$19.40
Sport, health and mental well-being	30 per cent of the NSW population participates in club-organised or funded sport	Reduce level of participation to 20 per cent	\$1.26 per cent change	\$12.60
Total				\$43.10

Source: Allen Consulting Group 2007, *Valuing the Social Contribution of Registered Clubs to the NSW Community, Final Report to ClubsNSW*, Sydney, p 26.

Table F.3 shows ACG's estimates of community members' willingness to pay to increase current service levels.

Table F.3 Willingness to pay (WTP) to increase existing service levels

Attribute	Current Level	Hypothetical increase in services by 2017	Value of a one unit change (\$/person)	Annual WTP for total increase (\$/person)
Quality of life for the elderly	25 per cent of clubs provide services for the elderly	Increase to 45 per cent of clubs	\$0.96 per cent change	\$19.20
Safe environment for families	20 per cent of clubs provide family friendly facilities	Increase to 30 per cent of clubs	\$1.26 per cent change	\$12.60
Affordable meals and entertainment	Meals and entertainment are approximately 20 per cent cheaper in clubs than pubs and restaurants	Increase average discount to 25 per cent	\$1.94 per cent change	\$9.70
Sport, health and mental well-being	30 per cent of the NSW population participates in club-organised or funded sport	Increase participation to 40 per cent	\$1.26 per cent change	\$12.60
Total				\$54.10

Source: Allen Consulting Group 2007, *Valuing the Social Contribution of Registered Clubs to the NSW Community, Final Report to ClubsNSW, Sydney*, p 25.

Extrapolating these findings to estimate the NSW population's aggregate willingness to pay, ACG estimated that the NSW community is willing to pay between \$59 million per year and \$224 million per year (through a direct household contribution) to prevent a decline in club-provided community services.²⁶⁶ To improve club-provided community services (in line with Table F.2), ACG estimated that the NSW community is willing to pay between \$73.4 million per year and \$281 million per year.²⁶⁷

²⁶⁶ Allen Consulting Group 2007, *Valuing the Social Contribution of Registered Clubs to the NSW Community, Final Report to ClubsNSW, Sydney*, p 26.

²⁶⁷ Allen Consulting Group 2007, *Valuing the Social Contribution of Registered Clubs to the NSW Community, Final Report to ClubsNSW, Sydney*, p 24.

F.2 Why is ACG's estimate of benefits different from IPART's estimate of the value of clubs' social contributions?

ACG's estimate of the benefits the community derives for club goods and services differs from IPART's estimate of the value of clubs' direct social contributions because of the fundamental difference in what the two methodologies are measuring. As discussed in section 4.1.3, choice modelling measures the **benefit** communities derive from the consumption of club-provided goods. On the other hand, IPART's approach estimates the **value** of clubs' provision of social infrastructure and services, which necessarily involves a valuation, using some form of market or cost-based approach. For this review, the terms of reference require IPART to record the **value** of the club provision of social infrastructure and services.

In other words, ACG has estimated the benefit to the community of maintaining the services provided by clubs, whereas IPART has estimated the total social contribution made by clubs.

G ClubsNSW - steps to establishing a registered club

1. The first step requires a group of citizens with a common purpose to get together with the intention of establishing a club. Their intentions should be expressed by way of some form of memorandum of intent which sets out the objects of the club and their short, medium, and long- term objectives. All participants should sign this document.
2. The foundation group does not need to be very large (say 10-15 people) but they all need to be committed and hardworking.
3. The foundation group needs to appoint a foundation committee which will be the first board of directors (once the club is incorporated) but which in the meantime is charged with the task of steering the club through its formation towards incorporation and ultimately registration under the Registered Clubs Act.
4. The foundation committee needs to create a constitution for the club. The constitution must comply with the Registered Clubs Act, the Corporations Act and be in a form appropriate for a company limited by guarantee.
5. Once the foundation committee has created a constitution it can then apply to have the club incorporated as a company limited by guarantee pursuant to the Corporations Act. This is done by way of filing various documents with ASIC.
6. Once the club is incorporated the foundation committee must have regular meetings and maintain proper minute books and accounts and registers of members.
7. Also once incorporated the club can start attracting members and carrying on activities for members consistent with the objects of the club. At this stage, the club is not subject to the requirements of the Registered Clubs Act in relation to the holding of meetings, the procedures for admitting new members and the maintenance of books and records etc. Nevertheless, it is considered essential that these requirements be followed. This is necessary to establish the appropriate track record of compliance prior to the club applying for its certificate of registration.
8. Legal costs associated with preparing a new constitution and applying for incorporation will typically be approximately \$10,000.

9. Fundraising for a club before it is registered under the Registered Clubs Act (and indeed afterwards) is very difficult. The fundraising provisions of the Corporations Act require disclosure statements or a document in the form of a prospectus together with a variety of compliance issues. These are all prohibitively complex and expensive. Accordingly the usual forms of fundraising for clubs seeking to become registered are those generally available to community and charitable organisations such as sausage sizzles, donations, membership fundraising nights etc. This was not the case prior to clubs being required to incorporate in 1972.
10. It is also possible for the club at this stage to apply for a functions licence under the *Liquor Act 1982*. A functions licence will allow the club to sell liquor at specific functions conducted by the club on 26 occasions each year (one every two weeks). A functions licence will give the club:
 - experience in the sale of liquor and in responsible service of alcohol
 - a modest but reasonably regular revenue stream.
11. It is recommended (and almost essential) that the club trade for at least 18 months after incorporation before making application for a certificate of registration under the Registered Clubs Act. The reasons for this are as follows:
 - The club needs to have at least 200 members (100 members outside the metropolitan area) before it can make an application to the court.
 - The club has to acquire suitable premises of which it is the bona-fide occupier and which are maintained from the funds of the club (see point 13 below).
 - The club will need to demonstrate to the Licensing Court that it has kept correct accounts and books in respect of the financial affairs of the club and that the board meets at least once a month and maintains proper minutes of those meetings.
 - The club needs to appoint an auditor.
 - The club needs to demonstrate to the Licensing Court that it is and will continue to be financially viable. A period of 18 months of trading and operating will help.
 - The club needs to have a good track record in relation to the sale of alcohol and generally in relation to its activities.
 - The Corporations Act requires the club to have its first annual general meeting within 18 months of incorporation. This annual general meeting will demonstrate the ability (or otherwise) of the club to provide for the orderly election of its governing body and satisfy the statutory reporting requirements to members and the ASIC requirements imposed on a public company.
 - The club will have to appoint a Secretary (either on an employed or honorary basis) who has completed all necessary educational requirements, has the requisite RSA and Gaming Machines Act certificates and understands his/her responsibilities as the Chief Executive Officer of the club and who will ultimately be the approved secretary (licensee).

- The club must also be prepared to demonstrate that its existence meets a genuine and substantial need (Registered Clubs Act section 25(1)(c)).
12. Obtaining the premises for a new club can be problematic. It is very rare for a new club to acquire or lease existing premises that are suitable and have council consent for use as a club. Generally new premises will have to be either built or old premises will have to be significantly renovated so that they will meet the requirements of the Registered Clubs Act and satisfy the local council or other consent authority. All of this generally requires substantial funds (see above in relation to the difficulty in raising funds). More specifically the premises must:
- Contain accommodation appropriate for the purposes of the club (Section 10(1)(g)).
 - Have a properly constructed bar room (Section 10(1)(h)).
 - Not be in the immediate vicinity of a place of public worship, a hospital or a public school (Section 25(1)(f)).
 - Be capable of being adequately managed by the governing body and management of the club.
 - Not be situated where the activities of the club will or will be likely to disturb the quiet and good order of the neighbourhood (Section 25(1)(e)).
 - Be approved by the local council or other consent authority to be used for the purposes of a members club. This will involve a development application.

Councils and local consent authorities usually impose conditions on the granting of development consent. Some of these, such as limitations on trading hours could effect the long-term operations of the club. Without development approval the club will not have council-approved plans of its premises. These are an essential prerequisite for an application to the court under Section 7 of the Registered Clubs Act.

13. When the above steps are completed the club will probably be in a position to make an application under Section 7 of the Registered Clubs Act for a certificate of registration. Commonly, obtaining Council approval involves not just a development application but first a rezoning application. By its nature, a rezoning application is a very politicised process.
14. An application for a certificate of registration is a substantial application to the Licensing Court requiring evidence covering all the matters referred to in Section 10 and in appropriate cases anticipating and where necessary dealing with potential grounds of objection indicated in Section 25. The new club must have an initially approved secretary who holds RSA (and RCG, if gaming machines are proposed), certification.
15. The application is filed with the Licensing Court and is then advertised both in a local newspaper and in a state-wide newspaper. A copy of the application is also displayed on the premises of the club.

16. Objections can be taken to the application under Section 25 of the Registered Clubs Act. An objector can be the Commissioner of Police, the Director of Liquor & Gaming and a local council or other consent authority. Also the owner or lessee of any land or any person who ordinarily resides on any land within two kilometres of the club's premises (if the premises are located in an area covered by the Local Government Act) or within eight kilometres of the premises in any other area may object.

An objection can also be taken by any person who alleges that his or her interests financial or other are likely to be adversely affected by the granting of the application. Accordingly local hotels, restaurants, reception centres etc can file objections. A major concern in relation to any application concerning a club or a new club is the potential for objections ultimately found to be frivolous or without reasonable foundation to delay applications for a considerable time and cause considerable uncertainty and additional expense. As demonstrated by many applications for liquor licences, an objector who can cause delay will often succeed in substance merely by having caused the delay.

Not only is there scope for a frivolous objector to delay the application at first instance, the delay can be continued by appeal proceedings even though they might ultimately be unsuccessful.

17. Notwithstanding the comments in relation to the problems with club premises above, there has been at least one instance of the Licensing Court granting a certificate of registration conditionally without the club having any premises but on the basis that council-approved plans were submitted with the application which were approved by the court. Once the premises were constructed a further application could be made for a final order in relation to the certificate of registration. Ironically, that club was not able to proceed as it could not raise the funds to construct the clubhouse. It has now merged its activities with a large registered club.

18. The issue of getting a conditional grant of a new certificate of registration without first committing to building costs is partially alleviated by the existing section 18 which allows a conditional application where the new club proposes to have 'new premises'.

19. Once an application for a certificate of registration under Section 7 is granted the club will:

- Be able to sell liquor in its premises to members and guests of members.
- Be able to apply to the Liquor Administration Board for the 10 free gaming machine entitlements available under the Gaming Machines Act. However it will still have to purchase or lease the gaming machines in respect of each of those entitlements. Once again this raises issues of finances and cash flow.

20. The legal costs from the first step to the last will approach \$35,000 and conceivably be much more if difficulties such as problems with Council and objectors in the Licensing Court are experienced. This does not include the cost of the premises construction, renovation or business and operational costs.

Glossary and Abbreviations

ABS	Australian Bureau of Statistics
ACG	The Allen Consulting Group
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
CDI	Club Directors Institute
CDSE	Community Development and Support Expenditure
CLGCA	Casino, Liquor and Gaming Control Authority
ClubsNSW	The Registered Clubs Association of NSW
CMAA	Club Managers' Association Australia
CPGI	Canadian Problem Gambling Index
Dissolved club	A club which has transferred its members and assets to another club through an amalgamation and has been dissolved.
DOCS	NSW Department of Community Services
EBIT	Earnings before interest and income tax
EBITDA	Earnings before interest, income tax, depreciation and amortization
EBITDAR	Earnings before interest, income tax, depreciation, amortization and rent
EBITDARD	Earnings before interest, income tax, depreciation, amortization, rent and donations
EBITDARD %	EBITDARD as a percentage proportion of revenue
EOI	Expression of interest
FTE	Full time equivalent
GIS	Gambling Impact Society (NSW) Inc
GMR	Gaming machine revenue
Guidelines	ClubsNSW Best Practice Guidelines
KPI	Key performance indicator
LAB	NSW Liquor Administration Board
Leagues Clubs' Association	Leagues Clubs' Association of NSW
LGA	Local government area
LIA	Local Impact Assessment
Licensing Court	Licensing Court of NSW
Minister	NSW Minister for Gaming and Racing
MOU	Memorandum of Understanding
NCOSS	Council of Social Services of NSW
Bowls NSW	Royal NSW Bowling Association Incorporated

NSW Golf	NSW Golf Association
OLGR	NSW Office of Liquor, Gaming and Racing
Other club	A club which is transferring its members and assets to another club through an amalgamation.
Panel	Club Viability Panel
Parent club	A club which is taking over the members and assets of another club through an amalgamation.
PEG	Panthers Entertainment Group
RCG	Responsible Conduct of Gambling
RCT	Representative club type
Registered club	A club which has been granted a certificate of registration under the Registered Clubs Act.
RSA	Responsible Service of Alcohol
RSL	Returned and Services League
RSL & Services Clubs Association	RSL and Services Clubs Association Limited
SEIS	Socio-economic impact study
SCU	Southern Cross University
SIA	Social Impact Assessment