



Impact of new casinos on Queensland community clubs

May 2016

Synergies Economic Consulting Pty Ltd
www.synergies.com.au

Disclaimer

Synergies Economic Consulting (Synergies) has prepared this report exclusively for the use of the party or parties specified in the report (the client) for the purposes specified in the report (Purpose). The report must not be used by any person other than the client or a person authorised by the client or for any purpose other than the Purpose for which it was prepared.

The report is supplied in good faith and reflects the knowledge, expertise and experience of the consultants involved at the time of providing the report.

The matters dealt with in this report are limited to those requested by the client and those matters considered by Synergies to be relevant for the Purpose.

The information, data, opinions, evaluations, assessments and analysis referred to in, or relied upon in the preparation of, this report have been obtained from and are based on sources believed by us to be reliable and up to date, but no responsibility will be accepted for any error of fact or opinion.

To the extent permitted by law, the opinions, recommendations, assessments and conclusions contained in this report are expressed without any warranties of any kind, express or implied.

Synergies does not accept liability for any loss or damage including without limitation, compensatory, direct, indirect or consequential damages and claims of third parties, that may be caused directly or indirectly through the use of, reliance upon or interpretation of, the contents of the report.

Executive Summary

This report assesses the overall impact on existing community clubs (clubs) of the three new proposed Integrated Resort Developments (IRDs), which combine accommodation, entertainment, catering and casinos in a large precinct development. The report examines the impacts on community clubs in **Brisbane**, the **Gold Coast** and **Cairns** where IRDs are currently proposed. By assessing the state of the gaming market in Queensland (that is, its future growth prospects) and the likelihood of local patrons switching their gaming from clubs to the new casinos, we have determined the financial impact on community clubs to be severe with gaming revenue losses of more than \$100 million. Further 63 clubs are at serious financial risk with approximately \$38 million likely to be foregone in community contributions and over \$36 million lost in club taxation revenue for the State. This study also assesses the impact of the new developments on the Queensland economy as a whole.

The Queensland Government approved the development of three IRDs, each with a casino licence, for Brisbane, the Gold Coast and for Yorkeys Knob, near Cairns. Each are expected to offer a large number of electronic gaming machines (EGMs), significantly increasing supply in this market. Although the casinos state that their target customers are international tourists, past experience suggests that they will compete directly with community clubs for patrons. The Aquis project at Yorkeys Knob is now moving forward without a casino licence, which is expected to come later or at another site or region of Queensland.

The task of evaluating the impact of these developments on existing clubs is complicated by the fact that there is very little detailed public information about the IRDs and, in particular, the assumptions underpinning their business models. Only the Queens Wharf development in Brisbane has reached contractual close with the State Government. The timeframe for the development of the other two IRDs is not known.

Impacts during construction

Post the mining construction boom, business investment in Queensland has fallen. The development of large integrated resorts provides a boost to business investment and adds to Queensland's tourism infrastructure.

A whole of economy model was used to assess the impact on the Queensland economy from the construction and operation of a new casino development. The modelling shows that:

- the construction phase of a large scale integrated resort development will provide a significant boost to economic activity and will provide net economic benefits to

Queensland, although, it can crowd out investment in other sectors by increasing construction costs;

- effectively reducing rates of return on investment (hurdle rates) and potential revenue for clubs given increased construction costs;
- the operation of a large IRD significantly increases activity and employment in the hospitality sector, but over time this will result in a lower value of economic output than would otherwise be the case; and
- the addition of new gaming facilities is likely to have significant impacts on existing clubs and casinos, particularly if the proposed integrated resorts fail to attract sufficient international gamblers to absorb this additional supply. In this case, casinos are highly likely to endeavour to attract local patrons of existing clubs. This intensification of competition for the local market will be particularly strong where there is an existing casino (ie Gold Coast) and if the casino has a licence to operate EGMs.

In this study, we have used economic analysis to predict the likely impact that such developments will have on the clubs sector in Queensland. We have made a number of assumptions to model the impacts. The size of the impacts will be sensitive to the assumptions. However, the direction of impacts will only change if the business model used by the casinos is vastly different to the model observed in existing casinos.

The contribution of clubs

Clubs in Queensland are membership-based not-for-profit organisations that exist to provide services to members and the local community. The surplus generated by clubs are used to deliver important and highly valued services in their surrounding communities and to visitors to their region. This support includes cash contributions, non-cash benefits, community assets and the mobilisation of volunteers.

The most recent estimates (2009) show that community clubs made \$223 million in cash contributions to the Queensland community, mobilised 4.83 million volunteer hours, valued at \$104 million and maintained community assets worth \$1.8 billion. Community clubs in Queensland employ close to 27,000 people.

Clubs rely on gaming revenues to fund the services they provide to the community. In fact, this was the primary reason gaming was introduced to the club sector - namely, that surpluses derived would assist Queensland's communities through improved community club infrastructure, facilities, a diverse offering of services and support for charitable causes.

Impacts on existing gaming providers

The entry of new firms and an increase in competition would normally be expected to deliver benefits to players by lowering prices and/or improving products. For electronic gaming this appears through higher player returns, improved gaming areas, player inducements and rewards.

However, gaming markets are managed and controlled by Government through legislation. Entry into the market can only occur with the consent of Government. Importantly, the capacity to compete is affected by regulation.

Clubs operate in a highly competitive environment. Clubs compete with each other, hotels, restaurants and the many other outlets for gambling and recreational expenditure that exist in the community. However, in terms of EGMs, competition narrows to hotels and casinos. Competition is an important driver of good economic outcomes and clubs operate with a competitive mindset. However, a key finding of this study is that there is not a level playing field for clubs and hotels competing against casinos.

Clubs are at a significant competitive disadvantage in responding to this intensification of competition for EGM patrons. They face a range of regulatory restrictions which do not apply to casinos. These include caps on EGM numbers, restrictions on the types of games, maximum bet limits and returns to player, TITO limits and higher rates of taxation (for larger clubs). Also, unlike casinos, clubs are subject to the new lockout laws. This uneven competitive landscape places clubs at a significant competitive disadvantage and constrains their ability to respond effectively to this increased competition from casinos.

The addition of three new casinos will significantly increase gaming capacity in Brisbane, the Gold Coast and Cairns, see Table 1. However, gambling demand is not growing. Total gambling expenditures peaked in Queensland in 2005-06 and has remained flat ever since. With a growing population and flat total expenditure, the spending per person on gambling has fallen. This suggests that the gaming market in Queensland is at a mature stage.

Under these market conditions, demand is unlikely to increase in response to an increase in supply. Operators of EGMs will need to compete intensely to attract players away from competitors.

Table 1 EGM numbers and expected revenues for proposed casino developments

	New EGMs	Revenue/EGM	New capacity (revenue)
Aquis Great Barrier Reef Resort	1500	\$ 92,595	\$ 138.89 million
Queens Wharf redevelopment	800	\$ 92,595	\$ 74.08 million
Gold Coast Integrated Resort	1000	\$ 92,595	\$ 92.60 million

Source: Synergies estimates, *Responsible Gaming and Casinos, 2015*, report commissioned by Gambling Research Australia and prepared by the South Australian Centre for Economic Studies, University of Adelaide, Australian Gambling Statistics., 31st edition, August 2015, Queensland Government Statisticians Office, Queensland Treasury

Gambling activity in casinos and clubs can be segmented into two main sub-markets – table gaming and EGMs. In casinos, the EGMs tend to be played by local patrons and not international visitors, who are more likely to play table games. As such, the competition between clubs and casinos will be for EGM patrons, most of whom reside in the local community.

A relatively small number of high value players provide the majority of EGM revenue for clubs. These high value customers attend clubs primarily for the purpose of gaming and are less attached to particular gaming establishments than other players, making it financially worthwhile for casinos to target this group in their marketing strategies.

Clubs would be highly vulnerable should a significant proportion of this high value gaming market switch to the new casinos.

Impacts on clubs

A large number of clubs can expect to be impacted by competition from the new casinos, especially those in Brisbane and the Gold Coast. Competition will be most intense for those larger clubs that are closer to the casinos. This is because patrons of these clubs will be more likely to switch because of the shorter distance to travel to enjoy the new gaming facilities on offer to high value players. EGM gaming in casinos may also be seen as a closer substitute for clubs with a large number of EGMs than smaller clubs because of the number and variety of EGMs available, the quality of the gaming lounge facilities and higher level of service provided to high value players.

Club level financial modelling suggests that the new casino operations could put 63 community clubs at serious financial risk, with a total of \$104.6 million in revenue loss to the casinos. This would reduce the financial surpluses available to clubs, which are used to provide the services for which the clubs exist, and would reduce the financial and in-kind contributions clubs make to other not-for-profit community organisations.

It will also result in foregone tax revenue. The combined value of community contributions and tax revenues at risk is \$75 million per annum. The regional split of community and tax revenues foregone is \$30.3 million in Brisbane, \$ 33.9 million for the Gold Coast and \$10.4 million for Cairns.

These results suggest that many clubs will struggle to survive in an environment where new casinos actively pursue domestic high value players. For bigger clubs (for the purposes of this report more than 100 gaming machines), expanded casino operations are likely to result in large revenue losses, putting at risk profitable gaming operations. For smaller, less profitable clubs, even small revenue losses are likely to make gaming operations unviable.

Table 2 Summary of impacts on community clubs by region

	Brisbane	Gold Coast	Cairns
Total revenue loss to casino	\$37.5 million	\$53.1 million	\$14.1 million
“Very high risk ^a of failure	7	25	5
“High risk ^b of failure	16	5	5

a: very high risk is defined as earnings falling below costs

b: high risk is defined as EBITA falling below 12% of revenues

Note: financial risks are based on average club data and, as such, are indicative only

Source: Synergies modelling

Impacts are likely to be largest in Brisbane and the Gold Coast. This is because there are a large number of clubs that are close to the proposed new casinos in each region, so that it is convenient for players, particularly high value players, to visit the new gaming offerings provided by casinos. Club managers (and casino managers) identify high value players through loyalty programs. These players currently play in clubs and casinos and are sensitive to differences in the return to player rates and the quality of the gaming facilities. The aim of competition is to encourage these players to play more in your facility.

Community clubs on the Gold Coast are particularly at risk given that the existing gaming and hospitality market is already crowded and a second casino is likely to spark an aggressive battle for market share by the existing Jupiters casino. The beneficiaries will largely be the high value players of EGMs that are seeking newer and arguably better product in the one location. The losers will be the community groups and club members who value the community services funded by community clubs from financial surpluses. Additionally, the displacement cost of hundreds of thousands of club members that currently enjoy participation via the community club model would be significant.

Recommendations

Currently, the Government has decided to provide an additional three casino licences, with the Queens Wharf project already reaching contractual close with the Government. At this stage, there has been little consideration of the impact this will have on existing clubs and the communities they support.

The analysis in this report shows that the financial risk for a large number of clubs in the geographic regions where new casino licences have been granted is severe. It should also be noted that should casino licenses be utilised in other regional areas, similar impacts would be realised.

Given the immediate and long term impacts highlighted in this report, the Government should reconsider the issuing of additional licences beyond the Queens Wharf project. However, there are also a range of potential concessions which can be pursued with the State Government including for example tax relief and regulatory change.

The financial risk will vary widely across clubs. Larger clubs in close proximity to new and existing casinos are assessed to be most disadvantaged. Noting that the impacts to clubs are not uniform, tax relief could be used to correct the pre-existing anomalies in the way gaming is taxed and/or indexed. This is discussed further below. Also any restructuring of clubs should be exempt from duty where it is related to restructuring to compete with casinos in IRDs.

The reform of regulation affecting the ability of clubs to compete with casinos is the course of action most likely to produce a sustainable outcome for clubs and should be used to provide a suite of measures that will assist the ongoing viability and sustainability of clubs as no one measure will combat the intense level of competition from casinos.

The competitive landscape between community clubs and casinos is tilted in favour of casinos. Differences in trading hours, the regulation of player returns, regulations on the conduct of play and taxation suggest that competitive neutrality, an important principle of the Australian competition policy landscape accepted by all Australian Governments, is not being achieved in Queensland. The precise effects of the many differences in regulation and taxation on the ability of community clubs to compete with casinos will require further detailed consideration. Certainly, at face value, community clubs look to be significantly disadvantaged. As we highlight in this report, competition in EGM play is intense. The decision to allow casinos to expand supply of EGMs, in what is a mature market, can only intensify competition, especially for high value players, on whom the financial future of many community clubs rests.

It is recommended that the Government task an appropriate body to review and recommend changes to existing regulation and taxation arrangements to achieve competitive neutrality in the EGM market in Queensland. The Terms of Reference should be broad and investigate all regulation and taxation arrangements which impact differently on community clubs and casinos. The Terms of Reference should include addressing a number of anomalies which community clubs have sought to change, including for example, but not limited to:

- increasing the Ticket In/card input limit;
- increase the return to player levels in line with casinos;
- introducing multi terminal games;
- increasing maximum bet limits;
- community clubs that have multiple venues be treated as separate entities for tax purposes;
- remove the additional tax bracket implemented by the former Government; and
- index tax thresholds on community club gaming revenue.

It is recommended that an existing institution conduct the review rather than a one-off committee to preserve independence. The bodies who could conduct the review are:

- **Queensland Productivity Commission; or**
- **Red Tape Reduction Advisory Council.**

The review should commence in 2016 and report in early 2017. Although the expansion in supply of Casino EGMs will commence from 2022, the competitive disadvantages identified are presently impacting the viability of community clubs and their decisions to invest.

It is further recommended that the evaluation of future casino licenses be subject to a more transparent evaluation processes. In preparing this report, there was very limited publicly accessible information on the impacts of the proposed integrated resort developments. Economic developments of the scale of the IRD containing casinos are normally subject to review processes which include the opportunity for stakeholder input. Subjecting the granting of future casino licenses to such a process, similar to Environmental Impact Assessment in which social, economic and environmental impacts can be assessed, will ensure that decision makers are aware of the full consequences of their decision.

Contents

Executive Summary	3
Recommendations	8
Introduction	12
1 Clubs sector in Queensland	14
1.1 Financial profile of community clubs	15
1.2 Structural change in the club and gaming market	16
1.3 Regulatory environment for clubs and casinos	18
2 Assessment of the potential impacts on community clubs in Queensland	21
2.1 Will international players take up new capacity?	21
2.2 Can the domestic market expand?	23
2.3 To what extent might existing patrons switch to casino gaming?	24
2.4 Case study - Star City Casino	27
3 Impacts of new casino developments on the Queensland economy	28
3.1 Key results	28
4 Club level impacts	32
4.1 Quantified impacts	33
4.2 Case studies	39
5 Conclusions and recommendations	41
5.1 Conclusions	41
5.2 Mitigating impacts	42
5.3 Recommendations	44
Appendices	
A Market saturation	46
B Impact of new casino developments on community clubs	52
C Modelling the impact of new casinos on Queensland economy	73
D Modelling club level impacts	86

E	Elasticity of demand for gambling services	90
F	The SYNGEM model	93
G	Summary of Consultation	100
H	Enlarged Maps	102

Introduction

Community clubs in Queensland are membership based, not-for-profit associations that provide significant support to the communities in which they operate. Survey data (2009) show that community clubs made \$223 million in cash contributions to the Queensland community, mobilised 4.83 million volunteer hours, valued at \$104 million and maintained community assets worth \$1.8 billion.

Community clubs provide a range of services - including entertainment, food and beverage service and gaming - which generate the revenue to support their operations, including a range of community services.

As not-for-profit organisations, their surpluses are either re-invested in their facilities or used to support the broader community through cash and in-kind contributions. With around 1000 licensed community clubs throughout Queensland (459 with gaming offers), the sector plays a very important role in providing funding or supporting services which benefit the Queensland community. The type of activities supported by community clubs is wide ranging and includes diverse activities such as equipment for volunteer lifesavers, remembrance services, returned service personnel support, youth development programs, and sporting infrastructure and competitions.

Community clubs operate in competitive hospitality markets. There are many alternative providers of the services sold by community clubs to their members and guests. In this report the focus is on competition for players of electronic gaming machines (EGMs) since funding for community services are primarily derived from surpluses from club EGM operations.

Against this background, the Queensland Government's decision to approve the development of three new Integrated Resource Developments (IRDs) in Queensland, each with a casino licence and including the operation of a large number of EGMs, will have significant implications for the community club sector. The IRDs, and associated casinos, are to be located in Brisbane, the Gold Coast and Cairns.

As proposed, the three IRDs would add \$19 billion to Queensland's tourism and entertainment facilities:

- the Destination Brisbane Consortium is developing the \$3 billion Queen's Wharf IRD in Brisbane, which is expected to open in 2022. The existing Treasury Casino will no longer operate, however the Brisbane casino will have significantly expanded gaming operations;
- Aquis at the Great Barrier Reef Pty Ltd has the right to develop an IRD at Yorkeys Knob, 13 kilometres north of Cairns. This project is to be completed in two stages

with a total budget of \$8.15 billion. Aquis announced in late March 2016 that it will not seek a casino license for its resort. The State government is now open to other offers for the casino licence. It was expected to apply for 1,500 EGMs. The impact of a new casino in the region is included in the analysis on the basis that another developer could apply for the casino license; and

- ASF Consortium Pty Ltd has the right to develop an IRD on the spit at the Gold Coast. There is currently little information publicly available about this project.

The construction and operation of the IRDs are large economic activities, which can have both positive and negative economic impacts. The purpose of this study is to assess the likely impacts on the Queensland economy, community clubs and communities likely to be affected by the introduction of new IRDs.

The increase in EGMs associated with the IRDs will intensify competition in the local gaming markets in Brisbane, the Gold Coast and Cairns and the impacts will differ in each market. In general, increased competition results in lower prices and reduced surpluses for existing firms. The report aims to show what the reduced surpluses for clubs will mean in each of three regions.

This report is structured as follows:

- Part 1 provides an overview of the role and contribution to the Queensland economy and local communities made by community clubs;
- Part 2 examines the key factors likely to determine the extent to which the new casino developments will impact community clubs;
- Part 3 assesses the economy-wide impacts of the three new casino developments;
- Part 4 provides a quantitative assessment of the effect the casino developments will have on existing community clubs; and
- Part 5 considers implications from the analysis and makes policy recommendations.

More detailed analysis including the data and methodologies used to construct the conclusions reached in this report is provided as appendices.

1 Clubs sector in Queensland

Community clubs in Queensland are not-for-profit organisations established to achieve a social purpose. For example, surf clubs provide equipment for beach patrols, Returned Services League (RSL) clubs provide support for veterans and their families and ceremonial activities such as ANZAC day services and sporting clubs support their particular activity or team, including maintaining playing fields and facilities. In order to fund these community services, clubs offer a range of other goods and services to their members and guests, including gaming, wagering, keno, food and beverage services and live entertainment.

Community clubs play an important role in the social and economic fabric of Queensland. They provide access to community services across the State and provide facilities for various sporting and recreational activities. Many sporting and community groups rely on community clubs to fund their operations. Community clubs also play a central role in mobilising the volunteers that support these sport teams and community welfare activities.¹

A 2009 study showed the social and economic profile of clubs with a liquor licence in Queensland. The key results are:² in 2008, there were 939 community clubs operating with some type of liquor licence. These clubs generated total revenues in the order of \$1.9 billion in 2008;

- total memberships held in clubs was estimated at 3.48 million;
- in 2008, clubs operating gaming machines contributed \$273 million in gaming taxes (state taxes plus GST on gaming machine revenues remitted back to the state via the federal government). Total taxes and levies amounted to \$377 million in 2008;
- cash contributions to local communities were estimated at \$222.8 million with in-kind contributions estimated at \$22.4 million;
- the replacement value of community assets created, managed and maintained by clubs was valued at \$1.78 billion; and
- clubs employed 26,900 staff members directly and engaged a further 3,400 contracted personnel.

¹ Dickson-Wohlsen Strategies and Clubs Queensland (2009). The Social and Economic Profile of Community Clubs in Queensland, June 2009.

² Ibid

Direct community contributions from Queensland clubs operating over 50 EGMs totalled nearly \$50 million³ in 2013 (cash and non-cash), which represents approximately 4% of total club revenue. While these contributions are voluntary and discretionary, they are aligned with each club's constitutional objectives and are focused on the betterment of improving their local community.

1.1 Financial profile of community clubs

Community clubs in Queensland are dependent on revenues from EGMs, particularly larger clubs. Gaming revenue as a percentage of total licensed revenues ranges from 30% for smaller clubs (20-40 EGMs) to 65% for larger clubs (over 250 EGMs). Conversely, bar and food revenue tend to be more important for smaller clubs. Financial benchmarks, for Queensland clubs operating gaming machines is given in Table 3.

Table 3 Gaming machine operations in clubs in Queensland at 31 December 2015

	20-40 machines	41-80 machines	81-150 machines	151-250 machines	Over 250 machines
Gaming machine revenue – average revenue per machine (incl GST)	\$15,000	\$24,000	\$48,000	\$60,000	\$70,000
Gaming revenue as a percentage of total licensed revenues	30%	50%	55%	60%	65%
Bar revenues as a percentage of total revenues	45%	30%	25%	18%	15%
Food/catering revenues as a percentage of total revenues	20%	15%	16%	19%	17%
Other licensed revenues (eg TAB commissions, memberships)	5%	5%	4%	3%	3%
Bar gross profit	55%	58%	62%	63%	65%
Food/catering gross profit	50%	52%	60%	62%	63%
Total wages as a percentage of total revenue	30%	25%	23%	22%	20%
<i>EBITDA</i>	5%	12%	15%	18%	21%

Source: DWS and Astute BI

The EBITDA (earnings before interest, tax, depreciation and amortisation) levels for clubs vary from single digit levels for smaller clubs with few gaming machines to as high as 30% of revenues for larger clubs and surf clubs.

³ Total contribution from community clubs is much greater than this, since most clubs have less than 50 gaming machines.

It is estimated that clubs require 12% EBITDA to revenue in order to adequately replace capital, particularly gaming machines, which have an economic life of only 4-5 years.⁴ Clubs with margins below 12% are unlikely to be sustainable in the long term.

For most clubs, a 10% reduction in gaming revenues will lead to a 25% decline in EBITDA. If the average EBITDA for a mid-range club is 16% of revenues, a 25% reduction would reduce EBITDA to an unsustainable level in the longer term.

The likely impacts that new casino developments would have on revenues and profitability for existing clubs is explored in later chapters in this report.

1.2 Structural change in the club and gaming market

The market for EGM play is characterised by a high level of competition and a declining market.

The number of community clubs is falling. Since 2011, 69 community clubs in Queensland have closed. The largest number of closures was 22 in Brisbane. In February 2013, there were 495 clubs operating 23,468 EGMs. In January 2016, there were 459 establishments (a 7% decline in numbers) operating 23,154 (a very minor decline) EGMs.

The majority of community clubs in Queensland are relatively small, with 391 clubs having less than 100 EGMs and 71 clubs having more than 101 EGMs.⁵

Existing casinos operate a further 3037 EGMs, but also offer a wider range of other gaming options.⁶

One factor driving structural change is declining demand. Expenditure on gambling in Australia peaked in 2006-07 at \$22,066 million. Since then, total gambling expenditure has declined in real gross terms by 0.3% per annum. Spending per person on gambling has declined since 2001-02 at an average annual rate of 1.7%⁷ Gambling expenditures in Queensland have followed a similar trend.

Evidence shows that, in recent years, there has been a relinquishment of gaming machines in the club sector in the smaller end of the market (clubs operating 40 machines or fewer). Smaller clubs are leaving the EGM market for several reasons:

⁴ Personal communication with DWS.

⁵ Qld Office of Liquor and Gaming Regulation

⁶ DWS, 2015.

⁷ Real 2014 dollars. Note that this excludes: minor gaming products (art unions, raffles, bingo and luck numbers – estimated to be \$500M annually); internet gambling and social media gambling (estimated to be \$943.8M on gambling products within on-line casinos and gambling environments in 2010); and international ‘mega’ lottery ticket purchases.

- from 1998, hotels in the State were able to operate more than the previous cap of 20 machines per site. By December 2015, there were 327 hotels operating 30 machines or more with this cohort accounting for 13,062 (68%) of the operational machines in hotels in Queensland;
- the cost of compliance has increased, reducing operating surpluses for many smaller clubs with machines operating at low utilisation rates;
- low utilisation rates at smaller clubs make it uneconomic to replace machine stock, making it difficult for them to compete with larger gaming establishments with the latest EGMs; and
- the introduction of a trading scheme for gaming machine entitlements for clubs in November 2009 has provided some clubs with the incentive to exit the market through the sale of licences to other clubs.

The nature of competition in the gaming market has also evolved over time. Many community clubs compete with casinos in their region for the domestic gaming market. It is known that casinos derive a significant proportion of their income from EGMs, with one study estimating this to be as high as 78% in 2007-08.⁸ While empirical data on this topic is limited, Markham (2016), suggests that EGMs are a major source of profits for casinos:⁹

“A careful reading of the Productivity Commission’s estimates and Crown’s annual reports shows that pokies are more important to Crown Melbourne’s bottom line than high-rollers. Profits from pokies amounted to an estimated A\$376 million in 2008-09 compared to \$330 million from high-rollers.

Similarly, the Crown Casino groups’ decision to expand its gambling infrastructure at its Burswood Casino included an additional 500 EGMs.¹⁰ This is an indication of the emphasis casinos now place upon EGMs as an important contributor to casinos’ profit.

The advent of on-line gambling is another market development with the potential to further undermine the financial model of both clubs and casinos. Whilst this is not within

⁸ The Allen Consulting Group (2009). Casinos and the Australian economy, Report to the Australasian Casino Association, April 2009, p. 11. ‘Gaming’ in this study reflects all gambling activity, including EGMs and table games.

⁹ Markham, F (2016). “This Time it’s Different; The Local Costs of Cairns New Casino” <https://theconversation.com/this-time-is-different-the-local-costs-of-cairns-new-casino-30253>

¹⁰ See, Trenwith, C. (2012) “New \$568 M Hotel to be built at Burswood” <http://www.watoday.com.au/wa-news/new-568m-hotel-to-be-built-at-burswood-20120801-23exo.html>

the scope of this report, online gambling is another threat to the sustainability of the community club sector.

1.3 Regulatory environment for clubs and casinos

EGM limits and venue caps apply to clubs in Queensland. There is a cap of 24,705 EGMs for clubs in the State, with clubs able to operate up to 300 EGMs in one site, 450 machines across two sites and 500 EGMs across three or more sites, with not more than 300 at any one site. Hotels are capped at 20,000 EGMs, with a single hotel able to operate up to 45 machines.

Individual community clubs operate relatively small numbers of EGMs compared with the average size for casino operations.

There are a number of differences in the regulatory arrangements that apply to clubs and casinos in Queensland. Clubs generally face greater restrictions than casinos in terms of the types of games they can offer as well as maximum jackpots and 'returns to player'. An overview of the key regulatory differences between clubs and casinos in Queensland is given in Table 4.

A notable difference is the legislated return to player (RTP) percentages for machines in community clubs and hotels. The maximum RTP for those machines is 92%. Queensland is the only Australian jurisdiction with a maximum RTP on machines in clubs and hotels. This restriction, combined with the \$5 maximum bet, is a significant limitation for clubs competing with casinos where the RTP is not capped at all and the maximum bet is unlimited.

The maximum amount of cash that can be loaded into an EGM at any one time in a community club or hotel is \$199.¹¹ There is no limit for casinos.

The maximum jackpot on club and hotel gaming machines is \$25,000 with no such limit at casinos.

Table 4 Key regulatory differences – clubs, hotels and casinos in Queensland

Regulatory area	Clubs	Hotels	Casinos
Number of gaming machines	300 in one venue 450 in two venues 500 in three or more	45 machines in any one venue	Limit specific to legislation for each site. Eg. Queens Wharf is expected to hold a licence for 2,500 EGMs.
Table games and table simulation games	No table or table simulation games	No tables or table simulation games	Full table capability plus electronic casino games

¹¹ EGMs in clubs will accept only a single \$100 note, however it is possible to insert a \$100 note and other denominations up to \$99.

Regulatory area	Clubs	Hotels	Casinos
Maximum bet on gaming machines	\$5	\$5	No limit
Maximum return to player	92%	92%	No maximum
Minimum return to player	85%	85%	85%
Maximum cash feed into machines	\$199	\$199	No limit
Maximum jackpot	\$25,000	\$25,000	No maximum
Trading hours	10am-2am for liquor 10am-3am if in entertainment precinct with 1am lockout Proposed to allow gaming to 4am from July 2016	10am-2am for liquor 10am-3am if in entertainment precinct with 1am lockout Proposed to allow gaming to 4am from July 2016	24 hours for gaming and liquor

The gambling tax rates which apply to community clubs and casinos are listed in Tables 5 and 6. It is difficult to provide a direct comparison of the tax rates paid by casinos and community clubs since the rates for community clubs vary with monthly metred win. Nevertheless, it would appear that some larger community clubs pay a higher rate of tax than casinos, despite club surpluses being reinvested locally into communities for community benefit.

While many smaller community clubs are taxed at lower rates than casinos, most clubs with more than 15 machines would pay between 30.91% and 35% on their marginal monthly metred win.¹² Casinos pay a flat rate of 30% in Brisbane and the Gold Coast and 20% in Cairns and Townsville.

Table 5 Gaming machine monthly taxes (GST adjusted)

Premises type	Monthly taxable metered win (\$)	Gaming machine tax (% of monthly taxable metered win)
Licensed clubs (category 2 licensed premises)	0-9,500	Nil
	9,501 – 75,000	17.91%
	75,001 – 150,000	20.91%
	150,001 – 300,000	23.91%
	300,001 – 850,000	25.91%
	850,001 – 1,400,000	30.91% (This is a new tax bracket introduced by the former LNP Government).
	>1,400,000	35%
Hotels (category 1 licensed premises)	All amounts	35% + health service levy if applicable

Source: Fees and charges: Queensland gaming licensing, Office of Liquor and Gaming Regulation

¹² Based on average gaming machine revenues for pubs and clubs. Australian Gambling Statistics, 31st edition, Qld Government Statistician's Office, Queensland Treasury

Table 6 Casino fees and taxes

Casino	Licence fee (per quarter in advance)	Tax rate
Jupiters Casino (Gold Coast)	\$222,000	20% on tables, Keno and FATGs 10% on junket revenue 30% on EGM play
Jupiters Treasury Casino (Brisbane)	\$222,000	20% on tables, Keno and FATGs 10% on junket revenue 30% on EGM play
Reef Casino Cairns	\$222,000	10% on tables, Keno and FATGs 10% on junket revenue 20% on EGM play

Note: Tax is reduced by the amount of global GST credit, and is levied on gross revenue

Source: Fees and charges: Queensland gaming licensing, Office of Liquor and Gaming Regulation

Trading hours are restricted in clubs and hotels, with the earliest commencement time for gaming at 10am and closing times dependent on their approved liquor license times (generally no later than 4am). Clubs and hotels are restricted in terms of trading on Good Friday, Christmas Day and part of ANZAC Day (except RSL clubs).

Casinos are also exempt from the lock-out laws recently passed in Queensland and have 24 hour, 7 days per week license conditions.

Each instance of regulatory difference puts community clubs and hotels at a distinct disadvantage when competing with casinos for players. With limited jackpots, capped returns to players, capped machine input limits and restricted trading hours, clubs and hotels already have a significant disadvantage in a highly competitive market, which will be exacerbated once the IRDs commence operation.

2 Assessment of the potential impacts on community clubs in Queensland

The impact that the addition of new casino developments would have on existing community clubs with gaming operations will depend on:

- whether new international players take up the additional gaming capacity introduced by the casino developments;
- whether local demand for playing EGMs is likely to grow; and
- whether gaming services provided by clubs and casinos are close substitutes.

This section assesses each of these factors.

2.1 Will international players take up new capacity?

The proposed new casinos have an announced intention to attract international visitors. For example, the proponents for the proposed Aquis casino development in Cairns state that they expect to attract up to one million guests per year, with 74% of these visitors from overseas.¹³ Similarly, the Queen's Wharf casino expects to attract 1.39 million additional tourists per year, with a high proportion of these expected to be from overseas.¹⁴

The projected number of international visitors is high, relative to current international visitation rates. According to the international visitor survey, 1.1 million international visitors travelled to Brisbane in 2015 (compared to the 1.39 million additional tourists the Queens Wharf expects to attract). Current tourism forecasts¹⁵ also suggest that international tourism growth will slow over the next few years.

International visitors spend, on average, only a very small proportion (around 0.5%) of their total budget on gambling.¹⁶ As shown in Table 7, in absolute terms, international gamblers spend relatively little in Queensland (total spending in casinos in Queensland in 2013-14 was almost \$560 million).

¹³ Aquis Great Barrier Reef Resort, Project Fact Sheet. Available at: <http://aquiscasino.com/> [Accessed 4 March 2016]

¹⁴ Rohrig, Shedding light on the impact of Queen's Wharf, WATT, 28 October 2015

¹⁵ Tourism Research Australia, Tourism Forecasts, 2015.

¹⁶ Tourism Research Australia & AusTrade, (2016). *International Visitor Survey Results 2015*.

Table 7 International visitor spending on gambling

	Tropical NQ	Brisbane	Gold Coast
Gambling spend per visitor	\$5.76	\$7.63	\$5.99
Total gambling spend	\$4,494,811	\$8,585,975	\$5,401,537

Note: TNQ was the closest region available for Cairns

Source: *International Visitor Survey Results 2015, (2016)* Tourism Research Australia & AusTrade. Synergies' calculation

Table 8 shows that most visitors to a casino are residents of the city and State in which it operates. International visitors make up only a small proportion of the total patronage.

Table 8 Casino patronage, selected years

	2002-03		2007-08	
	millions	share	millions	share
Same City/State	35.2	85.9%	42.3	85.3%
Interstate	4.3	10.5%	4.9	9.9%
International	1.5	3.7%	2.4	4.8%
total	41		49.6	

Source: *Casinos and the Australian Economy, 2009*, Allen Consulting Group

Even in the Crown casinos in Melbourne and Perth, which are run as integrated resort style casinos with a focus on international players, international visitors made up only 5% of total visits, although they do appear to contribute around 43% to revenues.¹⁷

The ability of any new casino to attract international visitors also needs to be considered in the context of the broader international gambling market, and the high level of competition that exists for international VIP players (or high rollers).

The international casino gaming market, particularly in Asia, is highly competitive and is becoming more crowded. The integrated resort sector in Asia has been growing rapidly since the early 2000s, with casinos now operating in a range of countries, including Macau, Singapore, Hong Kong and Japan. There are numerous integrated resorts planned in Northern Asia (Taiwan, South Korea and potentially Japan), in Southern Asia (including a further 8 resorts in Macau) and major resorts planned in Russia.¹⁸

There are also currently 13 casinos operating across Australia (14 with the completion of Crown Casino in Sydney). The proposed new Queensland casinos will compete with these Australian and international casinos for international visitors.

¹⁷ KPMG, 2012, *Integrated Resorts and Asian Tourism – the role of Crown Melbourne and Crown Perth*

¹⁸ South Australian Centre for Economic Studies, 2015, *Responsible Gaming and Casinos*.

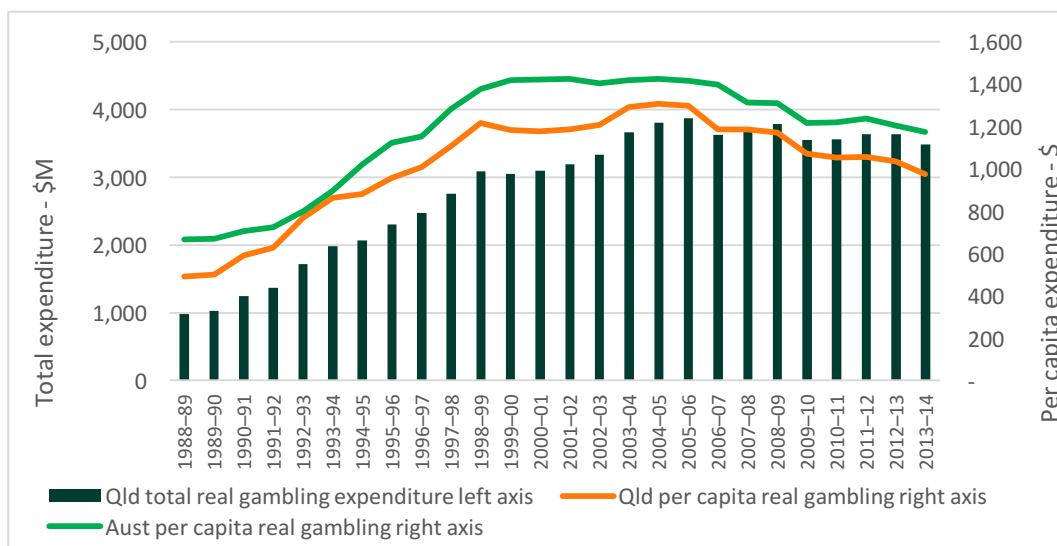
One of the key issues for this study is the preferences of international visitors for table games and EGMs. Consultation with ECHO confirmed, at least for its Treasury Casino, that players of EGMs and table games are distinct groups. International visitors' preferences are for table games, whereas EGM players will come from the domestic population, either residents or visitors.

2.2 Can the domestic market expand?

Markets typically develop in stages, with new markets growing rapidly and then slowing as they mature. A step beyond the mature stage is that of market saturation. This is where consumer demand has peaked or stalled and has become resistant to the normal drivers of demand such as price, advertising and new entrants. In periods of market saturation individual firms grow primarily through a re-distribution of the existing market, rather than by attracting new customers.

As noted in Section 1.2 gambling demand is not growing. Total gambling expenditures peaked in Queensland in 2005-06 and have remained flat ever since. With a growing population and flat total expenditure, the spending per person on gambling has fallen. This suggests that the gaming market in Queensland is at a mature stage.

Figure 1 Gambling expenditure, actual and trend, 1988-89 – 2013-14



Data source: Australian Gambling Statistics., 31st edition, August 2015, Queensland Government Statisticians Office, Queensland Treasury

Measures of market saturation (see Appendix A for detail) show that gaming in general is at or near saturation in Queensland.

Table 9 presents the results of an analysis using composite saturation indexes for the gaming industry in Queensland. Three different weightings were used to combine partial measures into a composite index. The composite index is largely unaffected by changing the weightings.

The index values show that the market is nearing saturation (an index value of 0 indicates no saturation and a value of 1 indicates complete saturation).

Table 9 Saturation Index for the gaming industry in Queensland using Composite Technique and assigned weights

Weight structure ¹⁹	Saturation Index
Weight set 1	0.70
Weight set 2	0.74
Weight set 3	0.76

Source: Estimated from Gambling Statistics Australia, edition 31 and ABS State Accounts

Given the existing state and trends in domestic gambling expenditure, it is unlikely that the domestic demand for the EGM market will increase following the addition of EGMs in Brisbane, the Gold Coast and Cairns.

Rather, the expansion of existing casino capacity and/or the construction of new facilities is likely to result in competition for existing customers who play EGMs in community clubs and hotels.

2.3 To what extent might existing patrons switch to casino gaming?

In a saturated market, the impacts on community clubs from an expansion of gaming capacity will depend on the extent to which existing club members will switch a proportion of their current EGM play (up to 100%) to casinos. This will depend on:

- preferences for the gaming products on offer in casinos compared to those in community clubs;
- the relative cost of attending a casino compared to a community club (including travel time and parking costs); and

¹⁹ Weight set 1: 40%, 40% 20%; weight set 2: 30%, 30%, 40%; weight set 3: 33%, 33%, and 34%. The partial indicators to be weighted were all assumed to be approximately of equal importance (for example, as in the third weight set) the other two were allowed variations around the 33% level of importance to test for sensitivity.

- the ability of casinos to induce patrons away from existing clubs.

Gaming products

Casinos offer a range of table games in addition to EGMs. They will win players from community clubs (who are limited to EGM gaming) by either convincing EGM players in clubs to switch to table gaming or to play EGMs at the casino.

There is little available literature on consumer preferences for gaming types. The available evidence, however, seems to suggest that the demographic groups who prefer table gaming are different to EGM players.²⁰ This was confirmed through consultations with community club managers. This would suggest that, although the expansion of casino gaming capacity may cause some substitution towards table gaming, the predominant impact for community clubs is increased competition for EGM players.

Community clubs and casinos are close competitors for EGM players. Apart from ancillary services on offer (including accommodation and food and drinks, but also the friendliness of staff or other personal touches that may be offered), the actual EGM play is similar across both clubs and casinos, making them close substitutes. Some larger clubs, in particular, offer a large number and wider variety of EGMs that are more like the EGM playing experience offered by casinos. This makes large clubs' service offerings even closer substitutes for those of casinos.

Although the competitive advantages of community clubs will vary considerably from club to club, it is reasonable to conclude that EGM play at casinos would be a close substitute for EGM play in clubs, making it likely that expansion of EGM capacity in casinos would have significant impacts on community clubs.

Cost of attending casinos

The extent to which individual community clubs may be vulnerable to competition from a new casino will depend, at least in part, on the relative costs of gaming, including the cost of travel.

Mapping of clubs and their distance from the proposed new casinos in each region shows that a large number of clubs are close to the proposed new casinos, particularly in Brisbane and the Gold Coast (see Appendices B and H). This close geographic proximity means that existing club patrons do not face large travel costs to attend the

²⁰ Table games predominantly attract younger, male players, while EGM's are more likely to be used by an older demographic, who are more likely to be female. Source: *Responsible Gambling and Casinos*, 2015, South Australian Centre for Economic Studies, University of Adelaide. Confirmed through interviews with club managers.

new casino, and so are more likely to switch should the casino offer an improved gaming environment or other incentives. Other factors are discussed further below.

Table 10 Community clubs within 10 km of proposed casino developments

	Brisbane	Gold Coast	Cairns
0-49	36	16	3
50-99	6	7	1
100-199	2	3	0
200+	4	2	0
Total	48	28	4

Source: Synergies estimates

Gold Coast clubs appear particularly vulnerable. Not only are a large number of clubs in close proximity to the proposed casino, many are also sandwiched between the proposed casino and the existing Jupiters casino. Given that the proposed casino is likely to attract some custom from the Jupiters casino, this will increase the level of competition for domestic patronage.

Ability of casinos to attract patronage

Consultation revealed that a relatively small number of regular, high value players provide a high proportion of revenue for community clubs. These high value customers are more likely attend a range of gaming establishments, including casinos. These customers also attend clubs primarily for the purpose of gambling (rather than the other ancillary services on offer), making them more sensitive to the effective 'price' of gaming (including pay-out rates and any other incentives gaming establishments might offer).

These high value customers are very likely to be targeted by casinos using aggressive marketing strategies. Firstly, their high gaming expenditures makes it financially worthwhile for casinos to target this group. Secondly, this group is likely to be responsive to these marketing strategies.

While it is not possible to be definitive about the preferences of these higher value players, it is reasonable to conclude that, given the more competitive nature of the gaming market expected after new casino entry, clubs will face enhanced competitive pressures from casinos for these gaming customers. In this highly competitive environment, casinos will adopt strategies to attract existing customers from community clubs. This could include strategies such as loyalty programs offering discounts on food and beverage services, accommodation and free transport. The view of club managers consulted was that clubs could not currently compete with casino loyalty programs.

Although community clubs typically engage in a range of operations, including food and beverage sales, many community clubs are highly dependent on gaming revenues

to support their current community contributions. This means that the impact of casino developments on community clubs will be highly dependent on the response of its customers, and in particular, the extent to which casinos will aggressively target these regular, high value customers.

2.4 Case study – Star City Casino

The Star City Casino in Sydney officially opened in November 1997 with 1,500 gaming machines and 210 gaming tables. The opening of the casino was touted as a major tourist attraction and a destination for overseas “high rollers”.

Despite this, data suggest that only 9% of all visitors to the Star Casino are from overseas.²¹ The predominant users of the casino are local residents, who make up the vast majority (65%) of all visits to the Star Casino with the remainder being domestic residents from out of town.

Unsurprisingly, the opening of the Star Casino has had a significant impact on existing community clubs, particularly those in close proximity to the new casino.

In the three years following the opening of the Star Casino, gaming revenues for clubs in inner Sydney LGA’s fell by around 25% relative to the rest of NSW metropolitan areas. This loss of revenue hit the bottom line of existing clubs with 48 community clubs (47% of the total) having closed in Sydney and Eastern Sydney since 2000.²²

²¹ Analysis by Dickson Wohlsen Pty Ltd

²² Data sourced from Clubs NSW

3 Impacts of new casino developments on the Queensland economy

The proposed IRDs will impact the Queensland economy through the value of the construction works required and the operational workforce once completed. While IRDs are likely to provide benefits for the State, they are also likely to have negative impacts on sectors that compete for skilled labour and capital (what is referred to as crowding out).

During the construction phase, other building projects competing for construction work are likely to face higher costs and find it more difficult to find skilled construction workers. Once construction is complete, the positive impacts will depend on the extent to which new gaming operations are able to attract foreign players, as opposed to simply competing with existing domestic operators.²³

An economic model of the Queensland economy was used to provide insights on two key issues:

- will the construction and operation of IRDs have adverse impacts on other sectors of the economy?
- what are the implications if new gaming operations are developed and they fail to attract sufficient levels of international visitors to provide a sufficient return on investment?

The construction of a single representative²⁴ casino was modelled to determine the economic impacts because of the paucity of detailed information publicly available for any of the IRDs. Two scenarios were considered: (1) where all new gaming capacity is taken up by international visitors; and (2) only 50% of new gaming capacity is taken up by international visitors.²⁵

3.1 Key results

A summary of the key modelling results are given below. A more detailed explanation is provided in Appendix C.

²³ To shed some light on these issues, modelling has been conducted using Synergies in-house CGE model, SynGEM. See appendices C and F.

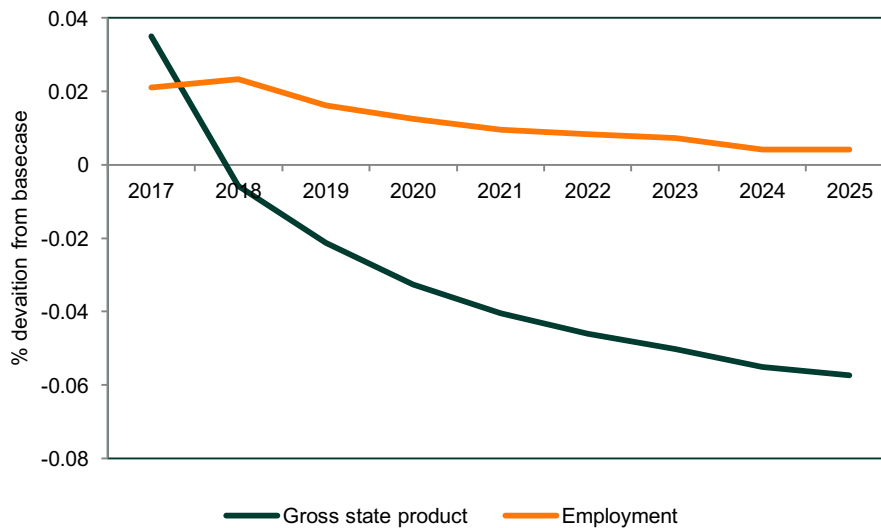
²⁴ Given the number of unknowns in relation to the proposed casino developments a representative scenario has been modelled to illustrate the likely economic impacts. The representative scenario only includes the casino element of the IRD since this is the component that will compete with community clubs.

²⁵ It is highly possible that less than 50% of new gaming capacity would be taken up by international visitors. Currently, few, if any Australian casinos generate 50% of total revenues from foreign visitors.

Simulation 1: all additional gambling capacity used by foreigners

The results of the modelling show that, during construction, the casino developments provide a stimulus to employment and Gross State Product (GSP) (Figure 2).

Figure 2 Impacts on Employment and Gross State Product, assuming all additional gambling capacity if used by foreigners, % deviation from basecase.



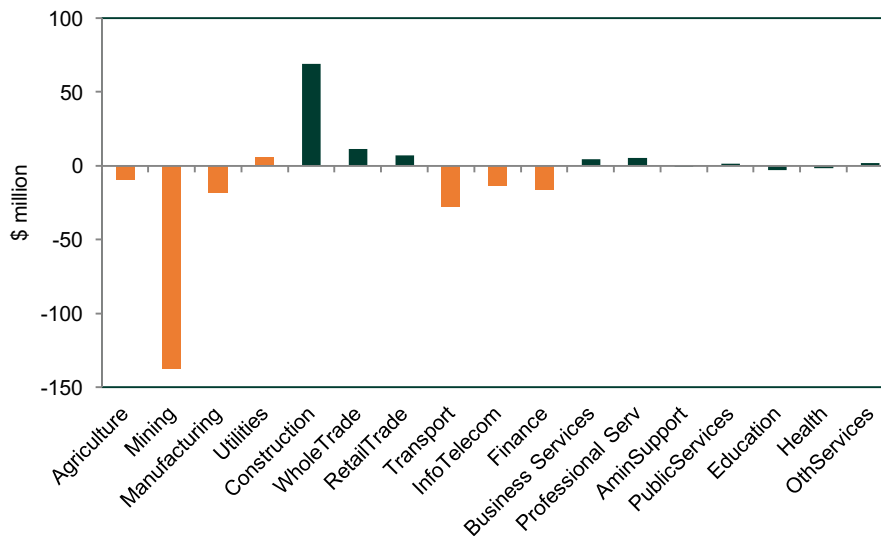
Data source: SynGEM modelling results

After construction, employment slowly returns to business as usual. In the long term, there is no boost to employment. GSP contracts slightly due to ‘crowding out’ of investment in other industries. In particular, it causes a shift away from high productivity industries (mining) towards lower productivity industries (hospitality).

The contraction in GSP occurs because the construction of a large tourism facility causes a compositional shift in economic activity away from capital intensive, high productivity industries where workers receive high wages (such as mining) towards industries with lower measured productivity (namely the hospitality industries) where wages are significantly lower.

These compositional effects are illustrated in Figure 3. It shows that the construction of a billion dollar gaming complex would result in almost \$140 million less investment in the mining sector (around 1% of total mining investment), which is the industry with the highest labour productivity in Queensland.

Figure 3 Indirect impacts on investment during casino construction, 2017\$ million



Note: industries with higher than average levels of labour productivity are highlighted in orange.
Data source: SynGEM modelling results

Simulation 2: only 50% of additional gambling capacity is used by foreigners

Under the second scenario where only 50% of the new gaming capacity is used by international visitors, the significant spare capacity in the gaming market results in a decline in profitability of the sector (clubs, hotels and casinos).

In line with our research findings (see section 2.2), we assume that the domestic gaming market is at saturation point. This means that the domestic market cannot absorb the additional levels of capacity that are made available as a result of the gaming investments, without large falls in the “price”²⁶ of gaming.

A lower than expected level of overseas visitors playing EGMs results in significantly less gaming expenditure than in the first scenario (Figure 4).

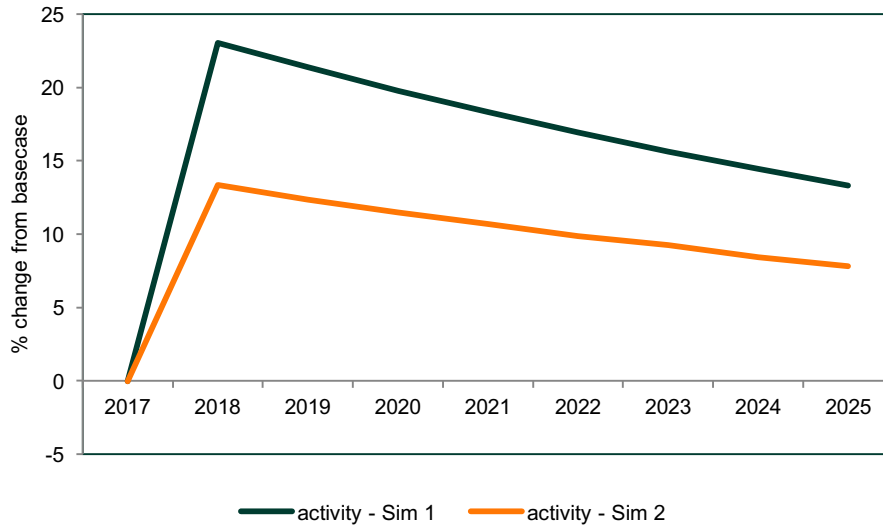
The expansion of gaming capacity, without a corresponding increase in demand, reduces profitability of clubs, hotels and casinos. These falls are expected to be significant, with profitability falling by almost 25% across the industry immediately after construction is completed.

Losses incurred across the industry from a single casino development would be around \$55 million in 2018.²⁷

²⁶ The effective price of gaming includes the return to players as well as any other incentives offered to players.

²⁷ It is outside of the scope of this exercise to estimate the profit on the gambling component of all gaming activities across the State. For this reason, this estimate should be treated as an approximation only.

Figure 4 Impacts on gaming expenditure comparison of simulations 1 and 2, % deviation from basecase.



Note: Changes in activity are measured as the changes in real value added

Data source: SynGEM modelling results

Although the model does not distinguish between various types of gaming operations (casinos, clubs and hotels), it is clear that a major proportion of these losses would be incurred by existing community clubs because they are the largest provider of EGMs in Brisbane, the Gold Coast and Cairns. The likely impacts on clubs are explored further in section 4.

4 Club level impacts

The introduction of new casinos into the Queensland market will significantly increase gaming capacity in the domestic market. As discussed in the previous section, impacts on community clubs are most likely to result in increased competition in the EGM gaming market, where clubs compete directly with casinos.

It is expected that the new casinos will add 3200 EGMs into the market. Based on average casino EGM revenues, it is expected that these 3200 EGMs will increase total gaming capacity by around \$305 million per year. Given the fact that the market is already saturated and that this capacity is unlikely to be utilised by international visitors it is expected that this would result in significant revenue losses across existing community clubs.

Table 11 EGM numbers and expected revenues for proposed casino developments

	New EGMs	Revenue/EGM	New capacity (revenue)
Aquis Great Barrier Reef Resort	1500	\$ 92,595	\$ 138.89 million
Queens Wharf redevelopment	800	\$ 92,595	\$ 74.08 million
Gold Coast Integrated Resort	1000	\$ 92,595	\$ 92.60 million

Source: Synergies estimates, *Responsible Gaming and Casinos, 2015*, report commissioned by Gambling Research Australia and prepared by the South Australian Centre for Economic Studies, University of Adelaide, Australian Gambling Statistics., 31st edition, August 2015, Queensland Government Statisticians Office, Queensland Treasury

Larger community clubs are particularly vulnerable to competition with casinos, and as a result they are likely to suffer larger revenue losses than smaller clubs. Smaller clubs, however, may be vulnerable to small losses of revenue since they generate only low surpluses through gaming operations (Table 12). As discussed in section 1.1, community clubs a need to generate around 12% EBITDA/revenue to be financially viable over the long term.

Table 12 Profitability of gaming machine operations at 31 December 2015

	20-40 machines	41-80 machines	81-150 machines	151-250 machines	Over 250 machines
EBITDA/revenue	5%	12%	15%	18%	21%

Source: DWS and Astute BI

In order to quantify the impacts on community clubs, Synergies has constructed a club-level spreadsheet model. It uses a range of geographic, financial, behavioural and gaming information to provide an assessment of the potential impacts on community clubs from an expansion of casino activity on the Gold Coast, Brisbane and Cairns (more detail is provided in a D).

4.1 Quantified impacts

The modelling shows that community clubs are likely to lose around \$105 million of gaming revenues across the State should all three proposed casinos proceed.²⁸ This is likely to put 63 clubs at serious financial risk, significantly reducing their ability to deliver services, infrastructure and community grants in their local communities.

Table 13 Summary of impacts on community clubs by region

	Brisbane	Gold Coast	Cairns
Total revenue loss to casino	\$37.5 million	\$53.1 million	\$14.1 million
"Very high risk ^a of failure	7	25	5
"High risk ^b of failure	16	5	5

a: very high risk is defined as earnings falling below costs

b: high risk is defined as earnings falling below 12% of revenues

Note: financial risks are based on average club data and, as such, are indicative only

Source: Synergies modelling

The largest impacts on revenue are likely to be felt by larger community clubs (Table 14). This reflects the fact that these clubs have a high proportion of revenue from regular high value players and that casinos will find it easiest to attract these players. However, smaller clubs are also likely to be impacted somewhat (particularly those with more than 50 machines).

Table 14 Total revenue losses by size of club

Club size	Gold Coast		Brisbane		Cairns	
	\$ million	proportion	\$ million	proportion	\$ million	proportion
<50	1.6	3%	0.5	1%	0.8	5%
50-99	4.0	8%	3.2	9%	1.4	10%
>99	47.5	89%	33.8	90%	11.9	85%
total	53.1	100%	37.5	100%	14.1	100%

Note: revenue losses are indicative only

Source: Synergies modelling

These results suggest that many community clubs will struggle to survive in an environment where new casinos actively pursue domestic high value EGM players. For

²⁸ Impacts on individual community clubs are indicative only. A full financial and competitive analysis is required to fully account for the likely impacts on each club.

The assessment of financial impacts is based on club-average per EGM revenue data, allowing for the relative size and location of each community club.

Community contribution estimates are also derived from current average club level data, accounting for the relative size and location of each community club.

The majority of impacts on clubs will not occur until casino developments become operational. At the time of writing only Queens Wharf has an expected completion date (2022).

bigger clubs, expanded casino operations are likely to result in large revenue losses, putting at risk existing profitable gaming operations. For smaller, less profitable clubs, even small revenue losses are likely to make gaming operations unviable.

Revenue losses for clubs will have significant impacts on the communities that they serve. Community clubs currently make significant contributions to the broader community both in terms of cash and non-cash contributions. The majority of cash contributions are currently funded from gaming operations.

Should revenue losses of the size estimated in the modelling occur, this would put the financial viability of 63 clubs at serious risk and threaten the estimated \$38 million of annual cash contributions they make.

Table 15 provides a regional breakdown of the potential losses of community contributions from clubs. It should be recognised that the impacts on the community would likely be greater than this since clubs currently also provide a range of non-cash contributions such as access and maintenance of sporting facilities and the coordination of volunteer effort.

Table 15 Potential cash and in-kind loss of community contributions from clubs

Region	\$ million (annual)
Brisbane	\$17.2
Gold Coast	\$15.4
Cairns	\$5.4
Total	\$38.0

Note: results are indicative only

Source: Synergies modelling

Communities will be further affected through losses of gaming taxes currently paid by community clubs. Tax revenues foregone from affected community clubs are estimated to be around \$37 million. A regional breakdown of impacts is provided in Table 16.

Table 16 Potential loss of gaming tax revenues from community clubs

Region	\$ million annual
Brisbane	\$13.1
Gold Coast	\$18.6
Cairns	\$4.9
Total	\$36.6

Note: results are indicative only

Source: Synergies modelling

It is beyond the scope of this exercise to examine the impacts on employment or downstream industries. Nevertheless, it is our assessment that, while club closures will

affect individuals, the net impacts on employment are likely to be neutral. That is, any staff losses associated with clubs closing gaming operations are likely to be offset by new casino operations or other competing businesses.

4.1.1 Brisbane

The expanded casino offering associated with the Queens Wharf redevelopment is likely to threaten the financial viability of 23 community clubs in Brisbane. The modelling suggests that 7 of these clubs are at very high risk (with revenue falling below costs under current operations), while the other 16 are likely to become unsustainable over the long term (with EBITDA falling below 12% of revenue).

Table 17 Community clubs at financial risk following casino activity expansion, Brisbane

Community Club	Number of EGM's	Distance from casino
Very high risk (revenue falls below costs)		
Broncos Leagues Club Ltd	280	3.6
Eastern Suburbs Leagues Club Ltd	300	4.0
Yeronga Services Club	80	4.7
Brothers Grange Community Sports Club	76	5.8
Gallopers Sports Club	91	6.6
Gaythorne RSL Sub-Branch	136	7.6
Sherwood Services Club	184	8.9
High risk (EBITDA falls below 12%)		
Coorparoo RSL & Community Club	50	4.2
Carina Leagues Club Limited	300	8.1
Norths Devils Leagues Club	75	8.7
Pacific Golf Club Inc	43	9.4
Kedron-Wavell Services Club	300	9.7
Arana Leagues Club	212	10.0
Moreton Bay Sports Club	70	10.0
Southern Cross Sports Club	86	10.4
Southside Sport & Community Club Inc	185	11.3
Geebung Zillmere RSL & Services Memorial Club Inc	122	11.6
Souths Sports Club	66	11.7
Wynnum Manly Workers Sports Club	58	12.0
Aspley Leagues Club Limited	146	12.4
Zillmere Sports Club	57	12.5
Bunya Sports	48	12.7
Aspley Australian Football & Sporting Club Ltd	148	13.0

Note: Financial risks are based on average club data and are indicative only

Source: Synergies modelling

Revenue losses are likely to be highest for larger clubs in close proximity to the Queens Wharf redevelopment.

4.1.2 Gold Coast

The addition of a second casino on the Gold Coast is likely to cause significant financial distress to community clubs on the Gold Coast. The modelling shows that the gaming operations in 30 community clubs would face a high risk of financial failure after the introduction of a second casino (Table 18).

Table 18 Community clubs at financial risk following casino activity expansion, Gold Coast

Community Club	Number of EGM's	Distance from casino
Very high risk (revenue falls below costs)		
Southport RSL Memorial Club Inc	180	1.5
CSi - Club Southport Inc. (formerly Southport Workers Community Club)	265	1.7
Musgrave Hill Bowls Club Inc	100	3.3
Labrador AFL Sports Club	50	4.2
Surfers Paradise RSL	70	4.3
Southport Aust Rules Football	300	4.3
Gold Coast Commerce Club	39	4.4
BMD Northcliffe Surf Life Saving Supporters Association	58	5.2
Beenleigh Sports Club Inc	100	6.5
Runaway Bay Jr League Club Ltd	70	6.7
Club Broadbeach	30	7.3
The Surf Club Kurrawa	63	7.3
Emerald Lakes Golf Club	39	7.9
Mermaid Beach Bowls Club	32	9.4
Paradise Point Bowls Club Inc	72	9.6
Nerang RSL and Memorial Club Inc.	188	9.6
Nerang Community Bowls Club Inc.	33	9.9
Club Helensvale	210	10.3
Nobby's Beach SLSC Supporters Club Inc	30	10.7
Burleigh Heads Rugby League Football Club	220	11.1
Burleigh Sports Club	60	12.9
Surf Club Burleigh Heads	35	14.2
Tallebudgera SLS Supporters Assoc	59	15.5
Palm Beach Soccer Club Ltd	37	16.8

Community Club	Number of EGM's	Distance from casino
Currumbin-Palm Beach RSL & Services Memorial Club	199	19.8
	High risk (EBITDA falls below 12%)	
Southport SLS Supporters Club Inc.	45	1.3
North Burleigh SLS Supporters Club	41	12.4
Palm Beach Surf Lifesaving Club Supporters Club Inc.	50	17.8
Coolangatta SLS Supporters Club	57	25.0
Coolangatta-Kirra Sports Club	45	25.4

Note: Financial risks are based on average club data and are indicative only

Source: Synergies modelling

Like Brisbane, the large clubs that are close to the proposed casino are expected to be most heavily impacted. However, the model also shows that, because of competition with the existing Jupiters Casino, large community clubs further away from the proposed casino (like the Currumbin-Palm Beach RSL club) are also at significant risk.

A large number of smaller community clubs are also expected to face significantly increased levels of financial risks following the entry of the proposed casino. These occur because a large number of these clubs are already operating with revenues that barely cover expenses. For these clubs, even very small losses of revenue are likely to threaten the viability of their gaming operations. Again, the geographical spread is larger than in Brisbane because of the combined impacts from increased competition from both the new casino and the existing Jupiters casino.

4.1.3 Cairns

This analysis was completed prior to the media announcements that the developer will not be seeking a casino license. The analysis is presented as it shows the competitive impact of a large IRD in the region on community clubs, which may still be constructed by Aquis or another proponent at a future time.

Unlike the other regions, the proposed Aquis Casino is geographically isolated²⁹ from other clubs, with the closest large gaming establishment in Cairns, almost 14 km from the proposed location of the new casino. There are also significantly fewer competing gaming operators in the region. This means that the Aquis casino would need to offer much higher discounts or other incentives to encourage players to change gaming location than in other regions. Even where inducements offered are equivalent to 15% of the cost of gaming, this would fail to attract sufficient domestic players to fill the expected new capacity on offer at the casino (1500 machines).

²⁹ The modelling accounts for the fact that regional consumers have a higher propensity to travel.

As such, the modelling assumes that the casino does offer large effective discounts to domestic players, but only captures a small proportion of revenue from the domestic market.

If this occurs then the model shows that ten community clubs would face significant financial risk, with five of these at very high risk (with revenue falling below costs under current operations). The higher propensity of rural residents to travel, combined with the higher incentives likely to be offered by Aquis, means that geographical spread of impacts is likely to be greater than in Brisbane or the Gold Coast.

Table 19 Community clubs at financial risk following casino activity expansion, Cairns

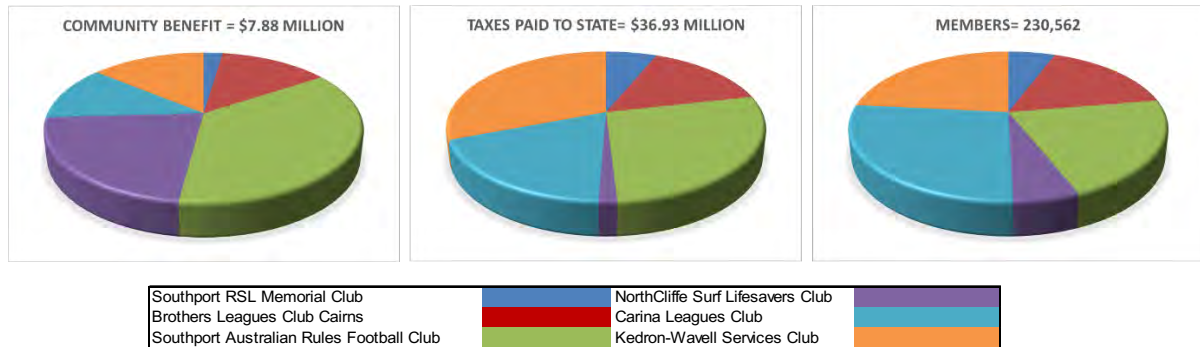
Community Club	Number of EGM's	Distance from casino
Very high risk (revenue falls below costs)		
Trinity Beach Sports Club	75	2.6
Brothers Leagues Club Cairns	188	13.5
Cazalys Cairns	300	15.6
Fretwell Park Sporting Assoc Ltd	60	23.0
Fuller Sports Club	108	24.9
High risk (EBITDA falls below 12%)		
Yorkeys Knob Boating Club Inc	45	0.8
Cairns RSL Club Ltd	48	17.8
Mareeba RSLA Services Club	46	37.4
Mareeba Leagues Club	54	38.4
Atherton International Club Inc.	60	57.9

Note: Financial risks are based on average club data and are indicative only

Source: Synergies modelling

4.2 Case studies

Six of the heavily impacted clubs were further analysed to provide a snapshot of the likely impacts on these clubs and the communities they support.



GOLD COAST

Southport Australian Rules Football Club – the club has been established since 1961, currently serves almost 50,000 members and employs 246 staff. The club has a large gaming operation with a licence for 300 EGMs. The club provides just under \$3 million in benefits (including a community benefits fund, a junior AFL competition and support for the Gold Coast Hospital Foundation) to the local community annually and paid \$10.2 million in taxes to the State Government last financial year. The club is located 4.3 km from the proposed integrated resort development and will be highly vulnerable to increased competition from a second casino. Modelling suggests the gaming operations of the club would become unviable should a second casino on the Gold Coast proceed.

Southport RSL Memorial Club – The club was first established in 1957, has 13,160 members and employs 81 staff. Last financial year, the club provided \$183,000 in benefits to the local community and paid almost 2.3 million dollars in taxes to the State Government. The club is located only 1.5km from the proposed new casino development and it would be exposed to significant completion from a second casino. Modelling suggests that the club’s current gaming operations, the contributions and taxes these operations support, would become unsustainable following the development of the second casino on the Gold Coast.

BMD Northcliffe Surf Life Saving Club – The club was established in 1947 as a volunteer lifesaving club and currently provides beach patrolling services as well as activities for members of all ages. The club operates a small gaming establishment with 58 EGMs which support these services and employs 79 staff. Last financial year the club made community contributions equivalent to \$1.74 million and paid just under \$600,000

in taxes to the State Government. The small size of the club's gaming establishment means that it operates with relatively low margins. The club's proximity to the proposed casino, combined with the relatively low earnings per EGM, mean that their gaming operations are likely to be at serious risk should a second casino be established on the Gold Coast.

BRISBANE

Carina Leagues Club - The Carina Leagues club operates a gaming facility with 300 EGMs. The club has been established since 1971, has a membership base of over 62,000 and makes a large contribution to the local community through its junior football club and donations to schools, sporting organisations and community organisations. In the last financial year the club contributed almost \$1 million to the community and paid just under \$7 million in taxes to the State Government. The club employs 123 people. The club's gaming operations are expected to become significantly less profitable following the expansion of Brisbane casino operations. As a result, it is likely the club will have to significantly wind back the size of its gaming operations and reduce the level of support it provides to the community.

Kedron-Wavell Services Club - The Kedron-Wavell Services Club was established in 1970 to provide support to returned service men and women as well as the broader community, currently has 54,000 members and employs 178 people. These services are underpinned by gaming operations, with the club licenced to operate 300 EGMs. Last financial year the club provided \$1.1 million to the community and contributed \$11.4 million dollars to State Government taxes. The expansion of casino activity in Brisbane is expected to significantly affect the profitability of the club's gaming operations and threaten the services it provides to its members and the broader community.

CAIRNS

Brothers Leagues Club Cairns - The Carina Leagues club operates a gaming facility with 188 EGMs and employs 115 people. The club has been established since 1976, has a membership base of over 38,000 and makes a large contribution to the local community through the promotion and development of sporting activities and donations to schools, sporting organisations and community organisations. In the last financial year the club contributed over \$1 million to the community and paid \$5.6 million in taxes to the State Government.

The club is expected to come under intense competition from any new casino developments. Modelling suggests that the clubs current gaming operations would become unsustainable following the development of a casino at Yorkeys Knob.

5 Conclusions and recommendations

5.1 Conclusions

It seems highly likely that the introduction of significant new gaming capacity in each of the three regional markets of Brisbane, the Gold Coast and Cairns will have a significant impact on local community clubs in those regions. This is because the market for gaming in Queensland is already saturated, meaning that individual market participants can only grow at the expense of other suppliers in the market.

An assessment of the likely extent of 'switching' from clubs to casinos by patrons shows that a significant number of clubs are vulnerable to a loss of customers through those customers switching to the new casinos, particularly in Brisbane and the Gold Coast. In addition, those clubs that are closer to the new casinos and larger clubs are likely to be most affected.

As community clubs rely heavily on EGM revenue to fund their community contributions – in particular, they're heavily reliant on a relatively small group of high value patrons who are most likely to switch – they are extremely vulnerable to competition from casinos for gaming patrons. For those clubs most affected, this increased competition would pose a material threat to their financial viability and their ability to return surpluses back into the community as modelling indicates community clubs are likely to lose an estimated \$100 million in gaming revenues if all three casinos proceed.

To the extent community clubs lose revenue or even close as a result of this increased competition, the communities they service will be adversely affected by withdrawal of financial support. These community activities, while difficult to quantify, have an important social value and would seriously threaten an estimated \$38 million of annual community contributions.

In terms of the overall impact on the Queensland economy, the construction phase of a large scale IRD will provide a significant boost to activity and will provide net economic benefits to Queensland, particularly in the hospitality sector, but will crowd out investment in other sectors by increasing construction costs. It is also likely to result in a shift in economic growth away from high-productivity industries such as mining to the lower-productivity hospitality industry. Over time, this results in lower levels of economic activity (GSP) than would otherwise be the case.

In summary, while the new IRDs and their associated casinos provide a boost to economic activity in the short-medium term, the impact over the longer term is more complicated. The entry of the new casinos into the three regional markets is expected to

significantly increase competitive pressure on community clubs and has the potential to adversely impact the financial position of many clubs. This is particularly the case on the Gold Coast where the existing market is already crowded and competition for high value players is high.

What is presently unknown is the competitive strategy of the new casinos and the responses of clubs. Currently available information on the IRDs indicates that they expect their operations to be supported by a high proportion of international visitors. However, given that the regional gambling market is already highly competitive and currently few, if any, Australian casinos have been able to generate sufficient international visitation to support their operations, there is a material risk these international visitor numbers will not eventuate. In this event, it can be expected that casinos will target domestic high value gamblers (as occurred in Sydney following the opening of the Star Casino).

Clubs can be expected to respond to these market changes through adopting competitive strategies of their own (such as loyalty programs etc). However, the ability of community clubs to respond to aggressive marketing strategies by the casinos is constrained by the highly regulated environment in which they operate. In particular, clubs must operate within a number of constraints which do not apply to casinos (such as minimum and maximum 'return to player' ratios, maximum wagers, trading hours etc). This highlights that competitive neutrality is an important issue for clubs in being able to respond to the threat posed by new market entry by casinos.

5.2 Mitigating impacts

Currently, the Government has decided to provide an additional three casino licences, with the Queens Wharf project already reaching contractual close with the Government. At this stage, there has been little consideration, if any, of the impact this will have on existing clubs and the communities they support.

The analysis in this report shows that the impacts on community clubs will be severe in the geographic regions where new casino licences have been approved.

While it would be ideal if the Government chose not to proceed with the issuing of additional casino licences outside of Brisbane, there are a range of potential concessions which can be pursued with the State Government including tax relief and regulatory change.

5.2.1 Taxation changes

The case for tax relief is premised on reducing costs to be able to compete with casinos, although it must be noted that the impacts across clubs are not uniform. Given the expected magnitude of financial impacts, reductions in Pay-roll Tax would not be sufficient to significantly offset lost revenue. Further, gambling taxes are already structured to reduce the tax rates if revenues fall significantly.

However, it must be noted that gaming tax thresholds have not been indexed against CPI since their introduction in 1997 (almost 20 years ago). Specifically the impact of this is bracket creep, particularly given gaming is now a volume business that operates on slim margins.

Further, in 2012, the LNP Government introduced a new gaming tax threshold (\$850,001-\$1,400,000 at 30.91%), which has also significantly impacted a large number of clubs that hold multiple entities or have larger scale gaming operations. It is these clubs that are most at risk from the construction of the new IRDs.

Another consideration is the restructuring of taxes paid for amalgamated entities or diversification projects as clubs try and remain sustainable by reducing their reliance on gaming revenues. The taxation requirements for community clubs currently stymie the commercial consideration to either diversify via amalgamation or develop new club greenfield site opportunities. The additional rate of tax paid by some amalgamated entities is up to as much as \$400,000 per annum due to the inconsistent application of taxation with the taxation anomaly currently affecting 18 clubs. Since 1997, there has not been a new club developed and with the trend of 13-17 clubs closing per annum, it is clear that there must be changes in order to bolster investment and retain important community assets.

Alternatively community clubs could seek a rise in the tax rate applied to casinos. A greater proportion of the profit from EGMs in casinos should be directed to Government and used to provide funding for the community services provided by clubs, given there will be a large gap in community funding should these three casinos proceed without any changes to the regulatory or taxation framework for community clubs.

5.2.2 Regulatory change

There are clear differences in the regulation of clubs and casinos that will directly impact their ability to attract and retain high value players. These changes would apply to all clubs, not just those affected by new casinos. Proposals to change the major regulatory impediments on community clubs would need to adequately address potential community concerns about the impacts on problem gambling.

5.3 Recommendations

The financial risk will vary widely across clubs. Larger clubs in close proximity to new and existing casinos are assessed to be most disadvantaged. The reform of regulation affecting the ability of clubs to compete with casinos is the course of action most likely to produce a sustainable outcome for clubs, inclusive of taxation. The competitive landscape between community clubs and casinos is tilted in favour of casinos. Differences in trading hours, the regulation of player returns, regulations on the conduct of play and taxation suggest that competitive neutrality, an important principle of the Australian competition policy landscape accepted by all Australian Governments, is not being achieved in Queensland.

The precise effects of the many differences in regulation and taxation on the ability of community clubs to compete with casinos will require further detailed consideration. Certainly, at face value, community clubs look to be significantly disadvantaged. As we highlighted in this report, competition in EGM play is intense. The decision to allow casinos to expand supply of EGMs, in what is a mature market, can only intensify competition, especially for high value players, on whom the financial future of many community clubs rests.

Recommendation 1

It is recommended that the Government task an appropriate body to review and recommend changes to existing regulation and taxation arrangements to achieve competitive neutrality in the EGM market in Queensland. The Terms of Reference should be broad and investigate all regulation and taxation arrangements which impact differently on community clubs and casinos. The Terms of Reference should include addressing a number of anomalies which community clubs have sought to change, including for example, but not limited to:

- increasing the Ticket In/Ticket Out input limit;
- increase the return to player levels in line with casinos;
- introducing multi terminal games;
- maximum bet limits;
- community clubs that have multiple venues be treated as separate entities for tax purposes;
- remove the additional tax bracket implemented by the LNP; and
- index tax thresholds on community club gaming revenue.

It is recommended that an existing institution conduct the review rather than a one-off committee to preserve independence. The bodies who could conduct the review are:

- Queensland Productivity Commission; or
- Red Tape Reduction Advisory Council.

The review should commence in 2016 and report in early 2017. Although the expansion in supply of Casino EGMs will commence from 2022, the competitive disadvantages identified are presently impacting the viability of community clubs.

Recommendation 2

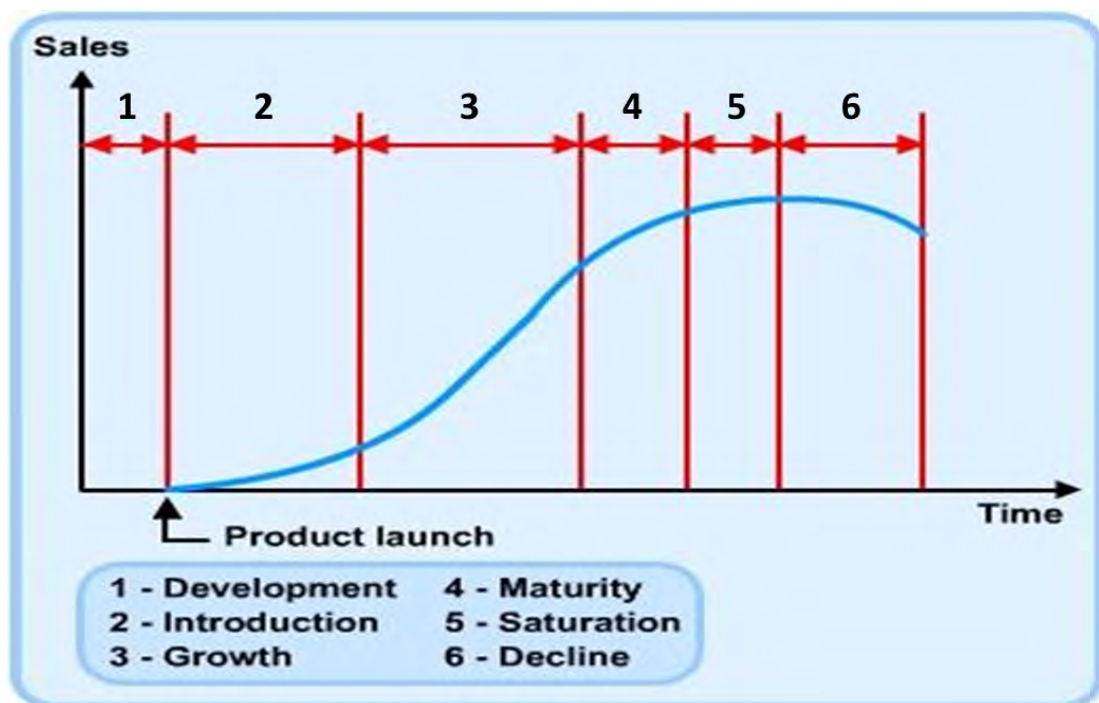
It is further recommended that the evaluation of future casino licenses be subject to a more transparent evaluation processes. In preparing this report, there was very limited publicly accessible information on the impacts of the proposed integrated resort developments. Economic developments of the scale of the IRD containing casinos are normally subject to review processes which include the opportunity for stakeholder input. Subjecting the granting of future casino licenses to such a process, similar to Environmental Impact Assessment in which social, economic and environmental impacts can be assessed, will ensure that decision makers are aware of the full consequences of their decision.

A Market saturation

A.1 Introduction

Markets are continually changing (Figure 5). The entry of new players, the exit of others and the advent of new technologies and competing products means that markets continue to change in size and products range in response to changing consumer preferences. However, markets are normally subject to stages of development ranging from the early or youthful stage, with rapid percentage growth in sales, to the more mature stage where the overall sales growth, but not necessarily the distribution between suppliers, is either stable or displaying slow growth. One step beyond the mature growth stage is that of market saturation. Market saturation may be defined as a situation where consumer demand has peaked or stalled and has become resistant to the normal drivers of demand such as price, advertising and new entrants. At the point of saturation, further market growth can only be achieved through a rise in overall consumer demand.

Figure 5 Stages of market development



In periods of market saturation individual firms grow primarily through a redistribution of the existing market either because they are more efficient or because they enjoy other sources of competitive advantage. In the former case an increase in efficiency

would be expected improve economic welfare since it leads to higher wages, improved profits and/or better services for consumers.

There are, however, social and economic costs associated with a market redistribution. These costs occur since the redistribution of market share to new entrants or exiting players displaces existing firms and workers.

A.2 The gambling market

The gambling market consists of casino based products, gaming machines (EGMs located in clubs and hotels), instant lottery, interactive gaming, KENO, lotteries, lotto, minor gambling and pools.³⁰ In 2014/15 the total expenditure on gambling in Queensland was \$3.8 billion. EGMs and casino products accounted for 76% of total expenditures in 2014/15.³¹

Real per capita expenditure on gambling peaked in 2005-06 and has declined ever since. Given that the availability of gambling products has remained readily accessible in Queensland, this may be a sign that the market is mature and may even have reached saturation point.

A.3 Measuring market saturation

Market saturation occurs at a point at which a market is no longer generating new demand for a firm's products due to competition, decreased need, obsolescence or other factors at a rate that is comparable with past performances or with default standards such as the corresponding industry or economy-wide standard. In essence it is a concept principally concerned with the relative performance of a firm or industry over time.

The relative performance of firms is difficult to measure and changes over time since it relates to expectations surrounding particular markets with regards to "normal" performance in revenue, sales or profits.

Most measures of market saturation are simple ratios comparing the outcomes (rates of change in sales, profits, employment) between the market or sub-market in question and the economy wide average. For example, the rate of growth in a products sales volume relative to the rate of growth in the number of potential customers, expressed as a percentage. Where there are distinct sub-markets in an industry, for example, EGMs within the overall gambling industry, it is possible to use the industry average rate as

³⁰ Queensland Office of Liquor and Gaming. Liquor and Gaming Annual Report, 2014-15.

³¹ ABS (2015) p. 148

the default or comparison value. All of these partial measures provide good insight into the level of market saturation, especially when considered in aggregate.

Market growth rate in sales, revenue or turnover (year on year) is often considered the most important single indicator of market saturation. It is estimated by comparing the relative change in a characteristic of the industry or sub-industry under consideration with the corresponding average characteristic for the economy or the total industry respectively and adjusting this to fit in a scale running between 0 and 1,³² where 0 indicates no market saturation and 1 indicates high levels of market saturation and/or market saturation.

The same type of measure may be applied to other measures like profit (or surplus), revenue and employment. Market saturation indices based on these other variables provide similar information to that provided by an index based on market share but are not as easily understood. An index based upon employment change may indicate slow growth and a potentially saturated market or it may simply indicate technical change in the industry which reduces the need for employment growth. Therefore, it is necessary to take care in choosing the indicator of market saturation and in the interpretation of the results.

Finally, it is important to ensure that the indices are actually robust measures of market saturation. This is important since it is possible that other temporary factors might distort the data. For example, a slowing of gaming expenditures might be caused by a temporary slowdown in economic growth, rather than a maturing of the market. For this reason, saturation in one market is usually measured relative to other markets or the general economy.

A.3.1 Partial indices

In Table 20, a partial market saturation index is estimated for gaming (in clubs, hotels and casinos):

- changes in expenditure;
- changes in per capita expenditure; and
- changes in share of consumer expenditures.

As part of an additional check on the state of the market, it is informative to see how spending on gambling has moved in comparison to changes in household disposable income (called the income elasticity of demand). While other factors independent of

³² The index is constrained to 1 (100%) for ease of consideration

income may also affect gaming expenditures, the strength of the relationship between changes in the spending on gambling and changes in the level of household incomes provides a useful partial indicator of market saturation. If the percentage change in gambling expenditure is less than the percentage change in disposable household income then this may indicate a level of market saturation with existing gambling products as consumers are spending less, proportionately, on gaming despite having more money. Our estimated data of 0.24 for the income elasticity of demand (see Table 20) suggests that the increase in gaming expenditure following a rise in National income will be less than proportional.

Table 20 Partial market saturation indices for the Queensland gaming industry

Category	Rate of change in expenditure ^a	Rate of change in per capita spend ^b	Relative market share of consumer market	Income elasticity ^c
Total gaming	0.24	1 ³³	1	0.24

^a Total gaming, gaming machines and casino data from Australian Gambling Statistics, edition 31, Data for Queensland overall from ABS State Accounts Cat 5220

^b Data from Australian Gambling Statistics, State of Queensland Treasury 2015

^c Using arc elasticity over the period 2008/9-2013/14

For gaming as a whole, market saturation measured by the rate of change in expenditure (see Table 20) suggests relatively low market saturation, but conversely the saturation indices for relative per capita spend and relative market share of consumer spending suggests a more heavily saturated market. The low income elasticity of demand estimate further supports that gaming is a mature market with little chance of rapid growth even in an economic upturn.

This conclusion is reinforced by examining data on the percentage of household disposable income devoted to gaming. This data is shown below in Table 21. The data shows that the percentage of household disposable income devoted to gaming machines fell consistently over the period with percentage decline being 31% between 2005/6 and 2013/14. Along with the relatively low estimate of income elasticity shown in Table 20, while this data does not show the causes of this decline it does indicate that the market demand is not experiencing the same income effect that would be expected with rising incomes. This is consistent with, but not proof of, a saturated market, but does reinforce the conclusions drawn above. If this is the case, the addition of 5000 additional gaming machines to the Queensland market from the new casinos will produce an over-supply of capacity.

³³ The index is constrained to 1, indication of full market saturation, the absolute value may exceed 1

Table 21 Gaming machine expenditures as a percentage of household disposable income

Year	Average per capita spend on EGM's as a percentage of HDI
2005-6	1.461
2006-7	1.224
2007-8	1.205
2008-9	1.113
2009-10	1.029
2010-11	1.035
2011-12	1.034
2012-13	1.026
2013-14	1.011

These results indicate that the gaming market in Queensland is at a high level of saturation. Therefore, it is likely new entry into the market, while possibly expanding the total market, will also look to grow at the expense of existing suppliers in the market. While such competitive entry is a normal occurrence in market economies, it may have additional implications within the gambling market in Queensland. As noted earlier in this report, the number of community clubs in Queensland is declining. As well, the gambling industry is adjusting to changes in preferences for gambling, particularly on-line play and sports betting.

The main limitation with using single indicators to measure market saturation is that each index is affected by factors other than saturation and some indicators may move in opposite directions. For example, sales and net profit may move in opposite directions where a company is chasing market share and the increased selling costs used to boost sales may actually reduce profit.

A.3.2 Composite indices

Composite indices serve to counteract potentially misleading results of individual partial indicators, because they smooth out the data and, in so doing, adjust for outliers. In doing so, they provide a more representative or balanced overview of the prevailing conditions, in this case the level of market saturation in the Gaming industry. Specifically, a composite index is a means of combining partial indicators to provide a more robust single indicator that is less sensitive to outside variation. It is a standardized way of providing a useful statistical measure of overall market or sector performance over time. To produce a composite index, a number of steps need to be undertaken.³⁴

³⁴ (1) Select the partial indicators that are going to be combined in the composite index; (2) Determine the relative weights to be assigned to each indicator. For example, if growth in sales revenue is considered to be more important than growth in number of patrons, it would be assigned a higher weight; (3) Standardise indicators using commonly used standardisation techniques; (4) Use composite index formula to produce composite index

Table 22 provides the composite saturation index for the gaming industry in Queensland using different weightings.

Table 22 Saturation Index for the gaming industry in Queensland using Composite Technique and assigned weights

Weight structure³⁵	Saturation Index
Weight set 1	0.70
Weight set 2	0.74
Weight set 3	0.76

Source: Estimated from Gambling Statistics Australia, edition 31 and ABS State Accounts

The results are similar to the partial indicators. The index, as most composite or smoothing indices do, suggests slightly lower levels of market saturation for the gaming industry as a whole than that suggested by some of the partial indicators. Nevertheless, the levels of market saturation shown above are at the higher end (much closer to 1 than 0), suggesting that new entry into the industry will be potentially disruptive in the short run.

The partial and composite saturation indices estimated here indicate that gaming in general is at or near saturation within Queensland. In this context, the expansion of existing casino capacity and/or the construction of new facilities, in the short run at least, will come at the expense of existing providers.

³⁵ Weight set 1: 40%, 40% 20%; weight set 2: 30%, 30%, 40%; weight set 3: 33%, 33%, and 34%. The partial indicators to be weighted were all assumed to be approximately of equal importance (for example, as in the third weight set) the other two were allowed variations around the 33% level of importance to test for sensitivity.

B Impact of new casino developments on community clubs

The purpose of this report is to ascertain the economic impacts on existing community clubs of three new casino licences proposed to be granted in Brisbane, Cairns and the Gold Coast. This requires an assessment of the market for gaming in Queensland - in particular, the extent to which community clubs and casinos compete with each other for gambling patrons and, accordingly, the degree to which the 'services' provided by community clubs and casinos are substitutes for each other. This allows an assessment of the extent to which customers would be expected to switch from community clubs to casinos in response to the development of the proposed new casinos in Queensland.

B.1 Our approach

Community clubs in Queensland are not-for-profit organisations established to achieve a social purpose. For example, surf clubs provide beach patrols, Returned Services League (RSL) clubs provide support for returned service personnel and ceremonial activities (such as ANZAC day services), surf lifesaving clubs (SLSC) support surf lifesaving patrols at beaches, and sport clubs support their particular activity or team including maintaining playing fields and facilities. In order to fund these community services, clubs offer a range of other goods and services to their members and guests, including gaming, food and beverage services and live entertainment. There is also an intangible social benefit that some people may experience by joining a club where they have common interests with other members.

There is considerable overlap in the goods and services provided by clubs and casinos, with the major areas of competition being the provision of EGMs and food and beverage services. However, there are also differences in the provision of gaming services between community clubs and casinos. Gaming at tables - which is offered by casinos - is not provided by community clubs. Also, clubs/hotels have a regulated maximum bet of \$5 per spin, whereas casinos have no limit. Clubs/hotels have a minimum return to player (RTP) of 85-92%, with casinos having a minimum RTP of 85%. The maximum RTP for clubs/hotels is 92%, whereas no limit is specified for casinos.³⁶

The proposed new casinos are also part of IRDs which, in addition to gaming and other gambling, also provide high-end retail, dining and hotel accommodation. While this range of service offerings will appeal to some patrons, others may not use these services and instead will visit a casino purely for gaming. There may be some complementarities

³⁶ The values for minimum and maximum RTP are set out in the Australian/New Zealand Gaming Machine National Standard 2015. These values differ between states and territories.

in demand between these offerings (i.e. the demand for one is positively related to the demand for others. For example, the demand for dining at the casino may increase with the demand for gaming or live entertainment which will affect, to some degree, the extent of substitution.

B.2 Extent of substitution

Because they compete with each other in the provision of gaming, increasing the supply of gaming by adding casinos will potentially result in some substitution away from clubs. The key task here is to assess the extent of substitution that is likely to occur from existing community clubs to the new casinos. This is done by considering the following:

- *Market dimension* – the extent to which new casinos will compete in the domestic market will depend on the extent to which they are able to draw in additional international tourists to fill the additional gaming capacity the new casinos bring to market;
- *Product dimension* – there is a wide range of distinct gambling products which may be substitutes for each other, such as EGMs, table games, keno and online and conventional sports betting;
- *Geographic dimension* – the substitution possibilities will in part be defined by geographical distance. It is expected that clubs that are closer to the proposed new casinos will be affected more than clubs at a greater distance; and
- *Consumer behaviour* – drawing on the literature and industry consultations, we have assessed the likely consumer response to the addition of new gaming capacity.

B.2.1 Market dimension

The impact that new casino development will have on community clubs will depend on the extent to which they target the domestic market (which clubs operate in) versus the international market.

The proposed new casinos, as part of IRDs, have a clear strategy to attract international visitors. For example, the proponents for the proposed Aquis casino development in Cairns state that they expect to attract up to one million guests per year, with 74% of these visitors from overseas.³⁷ Similarly, the Queen's Wharf casino expects to attract 1.39

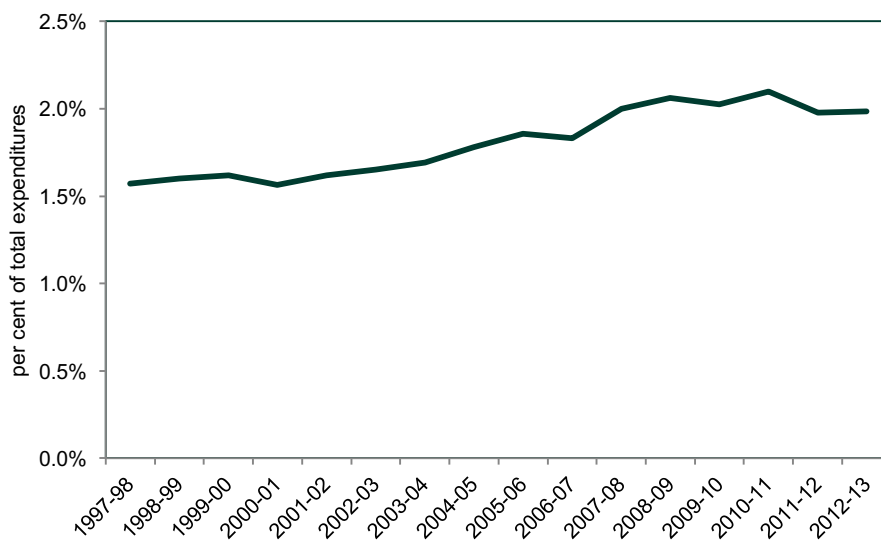
³⁷ Aquis Great Barrier Reef Resort, Project Fact Sheet. Available at: <http://aquiscasino.com/> [Accessed 4 March 2016]

million additional tourists per year, with a high proportion of these expected to be from overseas.³⁸

While it is impossible to make a definitive assessment of these claims, it is likely that new casino developments, particularly those in Brisbane and the Gold Coast, will have a significant domestic focus.

Firstly, a closer examination of the proponent claims, in regards to increased international visitation, would appear to be optimistic when compared to current visitation rates. For example, according to the international visitor survey 1.1 international visitors travelled to Brisbane in 2015 (compared to the 1.39 million additional tourists the Queens Wharf expects to attract), who spent, on average, only 2% of their expenditure on gambling (Figure 6).

Figure 6 Proportion of expenditure on gambling by International tourists

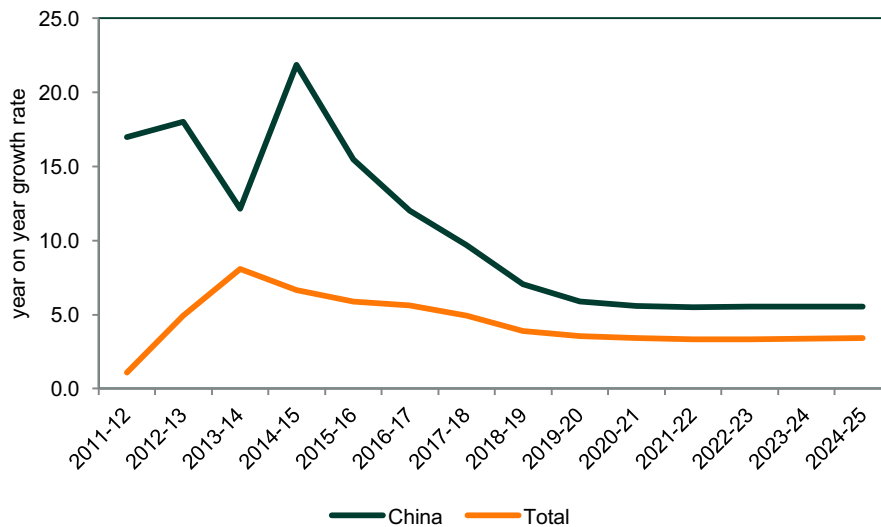


Data source: ABS, 5249.0, Tourism Satellite Account, 2012-13

It would take a very large increase in current international tourist visitation rates to fill all the new gaming capacity introduced by the proposed new casinos. Current forecasts by the Tourism Research Council (Figure 7) suggest that international tourism growth will slow over the next few years. This is particularly true for the Chinese market (which is commonly cited as having the largest potential for gambling tourism), which is forecasted to slow to around 5 per cent annual growth, down from over 20 per cent growth.

³⁸ Rohrig, Shedding light on the impact of Queen’s Wharf, WATT, 28 October 2015

Figure 7 Forecast international tourism growth



Data source: Tourism Research Australia, 2015

Although it is impossible to be definitive about the extent to which new casino developments might need to rely on the domestic market for revenues, an analysis of market, as it currently exists, shows that international patrons make up only a small proportion of total visits and a minority of total expenditures.

The majority of patrons for existing casinos are sourced from the local market (Table 23) with more than 85% coming from the same city or state the casino is located in. Although casinos have been successful in attracting more international visitors over time, they still make up a very small share of overall patronage.

Table 23 Casino patronage

	2002-03		2007-08	
	millions	share	millions	share
Same City/State	35.2	85.9%	42.3	85.3%
Interstate	4.3	10.5%	4.9	9.9%
International	1.5	3.7%	2.4	4.8%
Total	41		49.6	

Source: Casinos and the Australian Economy, 2009, Allen Consulting Group

While international patrons spend considerably more than domestic patrons, revenue from international tourists appear to make up a relatively low proportion of total casino

revenue. As shown in Table 24, revenue from international VIP players made up less than 18% of total revenue.³⁹

Table 24 Casino revenue from international VIP program players

	2002-03	2007-08
Revenue	462	553
% of total gaming revenues	18.3%	17.5%

Source: Allen Consulting Group, 2009, *Casinos and the Australian Economy*

The Crown casinos in Melbourne and Perth offer some useful insights, since they fit the key characteristics of the integrated resort style casino proposed in Queensland. Like the proposed Queensland casinos, the Crown casinos are large scale developments, backed by global operators, offer significant accommodation and retail facilities, and have a strong foreign visitor focus.

Recent data for the Crown casinos are shown in Table 25. It shows that despite the focus on the international market, international visitors made up only 5% of total visits and contributed less than 50% to casino revenues in 2012.

Table 25 Visitor numbers and expenditure for Crown casinos

Origin of Patron	Visitors (m)	Share of visits	Expenditure (\$m)	Share of revenue
Local	36.7	83%	1,323	48%
Interstate	5.3	12%	241	9%
International	2.1	5%	1,178	43%
Total	44.2	100%	2,741	100%

Source: KPMG, 2012, *Integrated Resorts and Asian Tourism – the role of Crown Melbourne and Crown Perth*

The ability of any new casino offering to attract international visitors also needs to be considered in the context of the broader international gambling market, and the high level of competition that exists for international VIP players (or high rollers).

The international casino gaming market, particularly in Asia, is highly competitive and is becoming more crowded. The integrated resort sector in Asia has been growing rapidly since the early 2000s, with casinos now operating in a range of countries, including Macau, Singapore, Hong Kong and Japan. There are numerous integrated resorts planned in Northern Asia (Taiwan, South Korea and potentially Japan), in Southern Asia (including a further 8 resorts in Macau) and major resorts planned in Russia.⁴⁰

³⁹ While there is no data available on spending by non-VIP international players, there is no reason to expect that their spending profile would be significantly different than domestic players. Given their small numbers, it is unlikely they make a significant contribution to casino revenue.

⁴⁰ South Australian Centre for Economic Studies, 2015, *Responsible Gaming and Casinos*.

There are also currently 13 casinos operating across Australia (14 with the completion of the Crown Casino in Sydney). The proposed new Queensland casinos will need to compete with these Australian and international casinos for international visitors.

While a strategy to attract international visitors is integral to the proposed Queensland IRDs, to the extent this does not occur, the casinos will look to other sources of customers. This will include interstate as well as local gaming customers.

This highlights a potential risk for the new Queensland casinos' business models, with consequent risks for local clubs if the new casinos seek to address revenue shortfalls by targeting local gaming customers at existing clubs.

B.2.2 Product dimension

Casinos and clubs compete in a market for gambling. Within that market, there is a wide range of distinct gambling products, some of which are offered by both clubs and casinos, but not all. The provision of gambling products in clubs and casinos in Queensland is summarised in Table 26 below.

Table 26 Gambling products in Queensland

Type of gambling product	Clubs ^b	Casinos
Table games	✗	✓
EGMs	✓	✓
Keno ^a	✓	✓
Conventional sports betting (e.g. TAB)	✓	✓
Online sports betting	✗	✗
Lotteries	✗	✗
Bingo	✓	✗

^a The Keno game offered by casinos differs to that offered by clubs.

^b Not all of these gambling products are provided in all clubs.

In terms of gambling products, it is the provision of EGM services that is the greatest area of competitive rivalry for clubs and casinos. This is where there is a possibility of patrons switching from using EGMs at clubs to those at the new casinos. Whether they do so will depend on the 'price' of using these machines and their attractiveness to patrons.

It is important to be clear on the meaning of 'price' when referring to gaming. The 'price' of gaming reflects the difference between the average amount put through a machine and the winnings it pays out. This is usually referred to in the literature as the 'take-out rate', which is the proportion of a unit bet which is, on average, retained by the operator.

The price, or take out rate, is, in effect, the price the operator receives in return for the entertainment provided to the player.⁴¹

Consumer behaviour in response to a change in the price of gaming (i.e. the price elasticity of demand), is discussed in section C.2.3.

Consultations with the club industry have shown that clubs' gaming customers have a strong preference for the 'latest' EGMs. This has meant that clubs invest quite significantly in updating their EGMs to retain their customer appeal. Industry sources indicate that the layout of gaming rooms needs to be refreshed every 4 years, meaning that it is a combination of machines, games on machines and décor that players demand. This is supported by evidence in a 2011 Australia-wide club industry census. This found that the average capital expenditure per club in Queensland in 2011 was approximately \$200,000. Expenditure on new buildings, refurbishment and EGMS comprised the greatest share of capital expenditure for clubs in Queensland in 2011.⁴²

This would appear to be relevant for casinos also. A national study of casinos in 2009 found that casinos in Australia planned a number of major capital works projects over the next 3 years (from 2009) valued at just under \$1.6 billion. Nearly 88% of this is on expansion of facilities and redevelopments and refurbishments.⁴³ This suggests that renovation and keeping up to date with tastes in gaming machines and other modes of gambling is important in sustaining demand in the sector.

In addition to the possibility of club patrons switching from using EGMs at clubs to those at the new casinos, there is a possibility that club patrons will switch to other forms of gambling that are offered by the casinos – namely, table gaming. Clubs do not provide table gaming and so do not compete with casinos on this product.

Complementary products

Gaming products are often combined with complementary service offerings by both clubs and casinos. These include:

- food and beverage services;

⁴¹ The concept of 'price' is not obvious in gaming – a player who places a series of bets expects to receive some money back in the form of prizes. The concept of 'quantity' in gaming is also not straightforward. Two separate bets are not necessarily equal as one may be for much higher stakes than the other. As a result, the concept of 'number of bets' is a poor measure of quantity. The commonly used approach is to measure quantity demanded by the amount staked per period. This is called the 'number of unit bets'.

⁴² KPMG (2012). National Club Census 2011. Report on the economic and social contribution of licensed clubs in Australia, July 2012, p. 64

⁴³ Allens Consulting Group (2009). Casinos and the Australian economy, April 2009, Report to the Australasian Casino Association, p. 13

- accommodation (casinos only);
- nightclubs;
- live entertainment;
- retail (casinos only);
- loyalty programs – this could comprise a combination of these other related services, as well as transport, rewards etc.); and
- sporting facilities (some clubs only).

The large-scale IRDs of which casinos form a central part offer greater scope for ‘bundling’ these complementary services in a way that is attractive to patrons given the wider range of products available.

Apart from EGMs, community clubs offer a variety of food and entertainment to their members, and this seems to be an important reason for joining a club. However, it is important to recognise that this is likely to be less important for the higher value players of EGMs who are more attracted to the gaming facilities.

Casinos offer a different experience to clubs as they offer a much wider range of games, including table games. As noted above, they also have the potential to bundle a number of complementary services, such as dining and accommodation (particularly casinos in IRDs). Some larger-scale clubs may offer patrons a more casino-like experience due to the fact they offer a larger number and variety of games, and so will compete more closely with casinos.

For patrons who value the casino-like experience, the entry of a new casino in the market may cause them to switch from their local club to the casino (for at least some of their demand for gaming). For patrons who prefer the small club gaming experience, switching is less likely to occur. This is simply a matter of consumer preference. We do not have detailed data on the way in which different customer groups with particular preferences are likely to behave in response to new casinos or changes in the price of gaming. We have therefore assumed that all customers respond in the same way as the average or typical gambling customers.

B.2.3 Geographic dimension

Geographic factors affect the substitution between clubs and casinos. The distance from existing clubs to the new casino in each region increases the cost of switching. For example, for clubs within a 5 kilometre radius, travel costs for their current patrons to get to the new competing venue would not add substantially to the cost the patron bears

to get to the new venue.⁴⁴ However, the greater the distance existing clubs are from the new casino, the less likely that their patrons will switch given much higher travel costs.

The decision to switch to a new casino will depend on the cost (including time) of travelling to the casino relative to the club they usually attend, accounting for any inducements (such as free courtesy buses) and any differences in amenities valued by patrons. Travel cost reflects the distance travelled (time taken), as well as costs such as fuel and parking. This will vary depending on the routes people take and parking options. Given these factors, it is not possible to be definitive about a clear geographic boundary beyond which switching from clubs to the new casino will not occur. However, we can say that the closer the club is to the new casino, the greater the likelihood that patrons will switch to the casino (all other things being equal). The mapping of clubs in relation to the new casinos provided in this section give an indication of the number of clubs likely to be most affected.

To assess the likely extent of substitution, we have mapped the existing clubs in each of the three regions of Brisbane, the Gold Coast and Cairns in terms of 'distance bands' from the location of the proposed new casino in each region. The clubs are colour coded for size – that is, number of EGMs. These have been categorised into the following size bands:

- 0-49 EGMs;
- 50-99 EGMs;
- 100-199 EGMs; and
- 200+ EGMs.

Queen's Wharf – Brisbane

Figure 8 shows that there is a very large number of clubs - 148 - within 50 kilometres of the proposed Queen's Wharf casino, with 48 clubs being within 10 kilometres. The most intense competition will be faced by the 21 clubs within 5 kilometres of the casino. The largest grouping (54) is within the 10-20 kilometre distance band.

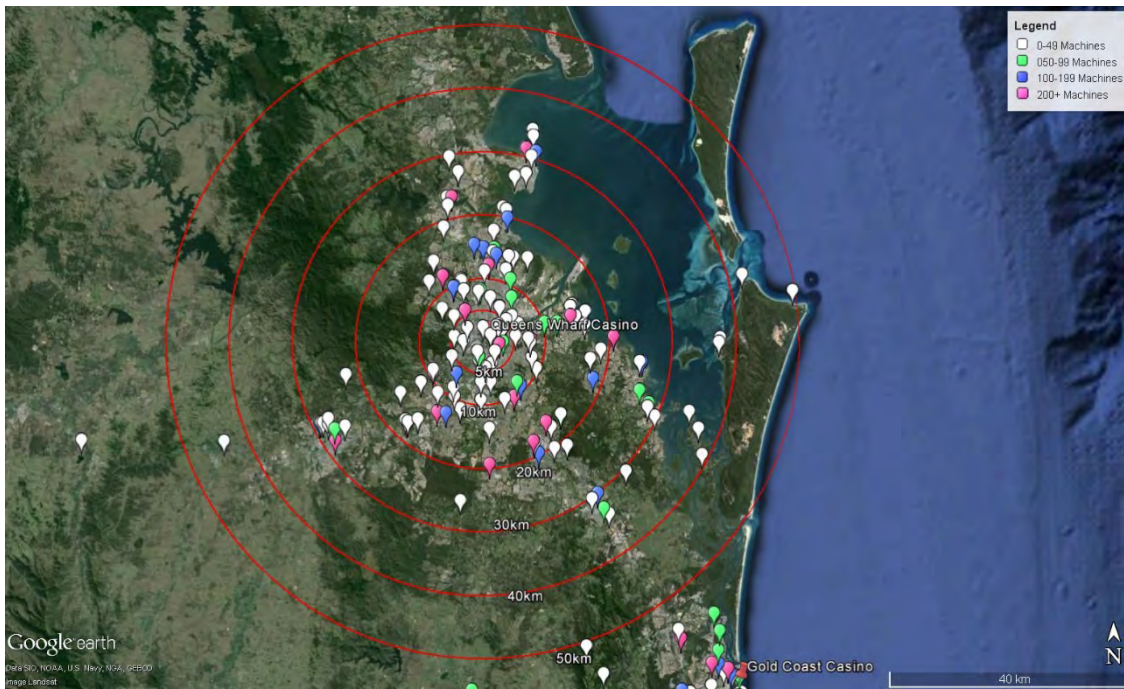
Of the 48 clubs within 10 kilometres of Queen's Wharf, nearly all (42) are smaller clubs with less than 100 EGMs. Of these, 36 are very small clubs with less than 50 EGMs.

There are 6 large clubs of 100+ EGMs within the 10 kilometre distance band. These large clubs (4 of which are very large with over 200 EGMs) provide an experience that is closer

⁴⁴ Travel costs include both the monetary costs of travel and the non-monetary costs, such as the time or inconvenience associated with travel.

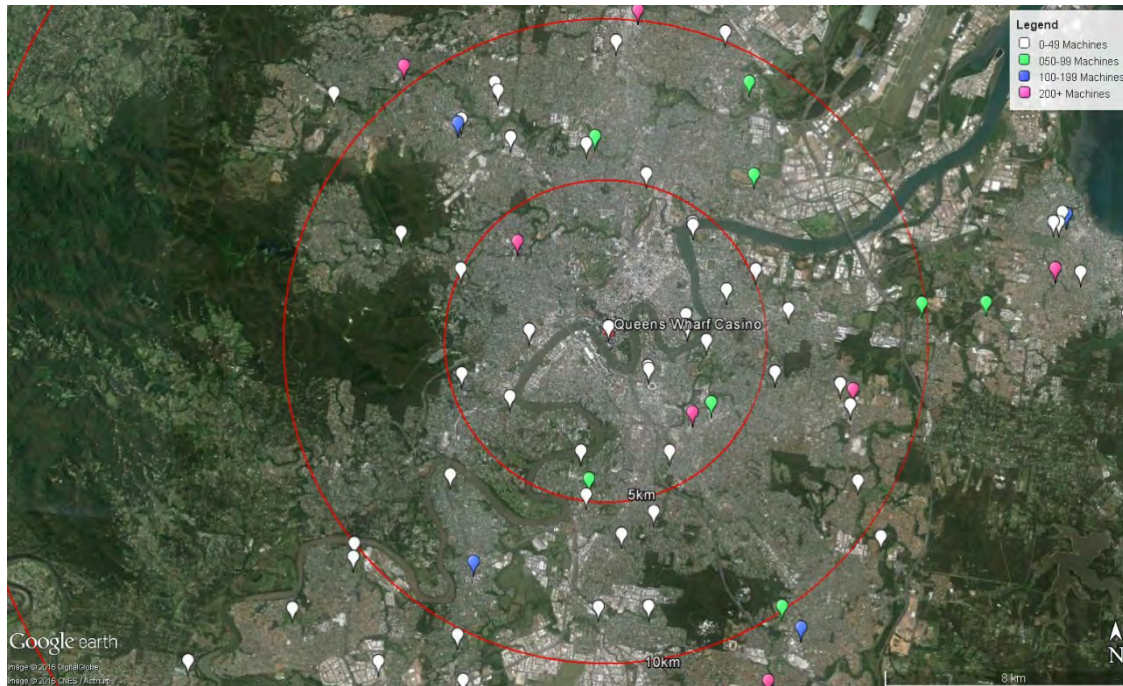
to a casino compared to smaller clubs. Hence, these larger clubs are likely to be closer substitutes and will therefore compete more closely with the casino for patrons (see Figure 9). The two very large clubs (200+ EGMs) within 5 kilometres will face the most intensive competition. As a result, these clubs are expected to be the most affected by the new casino, with patrons who clearly prefer a larger club and who are closer to the new casino being most likely to switch.

Figure 8 Community clubs' distance from Queen's Wharf Casino



Data source: Data provided by Clubs Queensland.

Figure 9 Community clubs' within 10 kms of Queen's Wharf Casino



Data source: Data provided by Clubs Queensland

Table 27 Number of community clubs in Brisbane region, by size and distance from Queens Wharf Casino

	0-5 km	5-10 km	10-20 km	20-30 km	30-40 km	40-50 km	Total
0-49	17	19	35	17	10	4	102
50-99	2	4	4	3	2	0	15
100-199	0	2	8	4	1	0	15
200+	2	2	7	5	0	0	16
Total	21	27	54	29	13	4	148

Overall, there is a large number of community clubs in the Brisbane region that will face greater competition for patronage as a result of the new Queen's Wharf casino. While all clubs within a reasonable travelling distance of the new casino will face increased competitive pressure, we believe that it is those that are closest, as well as the largest clubs, which will bear the greatest risk of existing customers switching to the casino. As noted above, the extent of switching that occurs will depend on overall travel cost – this includes the time taken to travel to the casino, fuel and parking costs, and the extent to which casinos will offer incentives (such as free courtesy buses) to offset these travel costs.

Apart from the geographic distance, the extent to which switching occurs will depend on a number of matters, such as any change in the price of gaming, consumer preferences (both in terms of the size of venue and also the range of complementary products on

offer at the venue) and competitive strategies adopted by community clubs and casinos (for example, loyalty programs, transport etc.). The issue of consumer behaviour is discussed in section C.2.4.

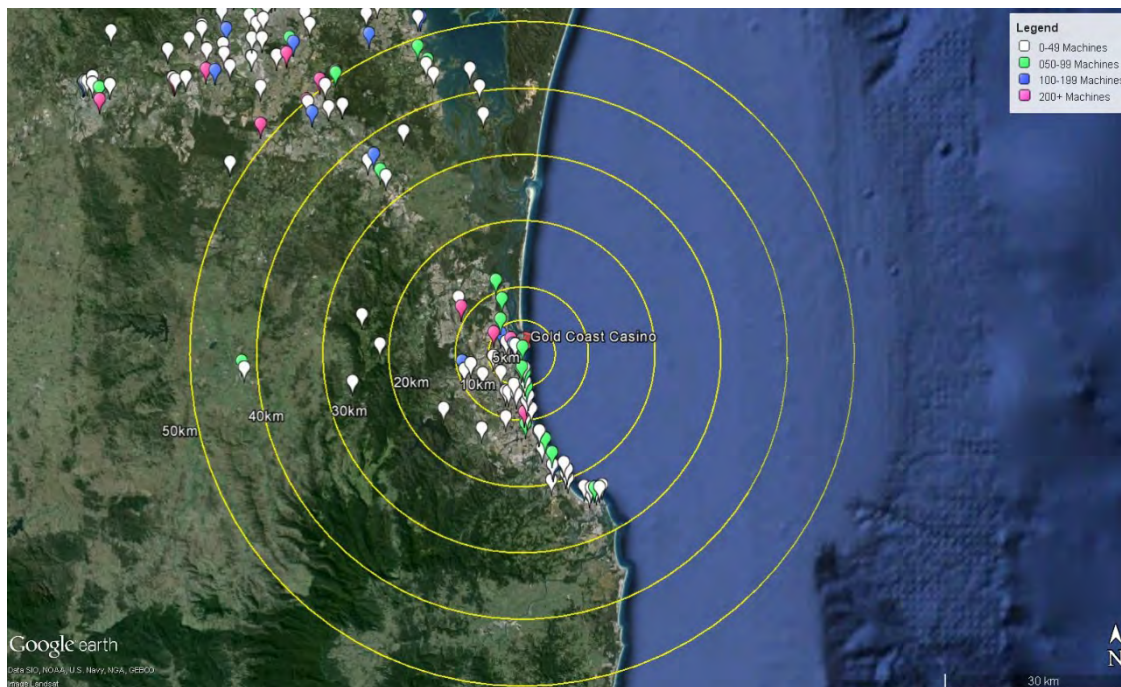
ASF – Gold Coast

There are 82 community clubs within 50 kilometres of the proposed ASF casino on the Gold Coast (see Figure 10). These are distributed fairly evenly in terms of distance, with the majority extending along the coastal strip south of the ASF casino.

The 17 community clubs that are greater than 40 kilometres in distance to the north of the ASF casino are also arguably in the catchment for the Queen’s Wharf casino in Brisbane (being less than 30 kilometres from Queen’s Wharf). These clubs effectively face competitive pressure from two new casinos.

There are 28 community clubs that are relatively close – less than 10 kilometres - to the ASF casino. Of these, 11 are less than 5 kilometres from the casino. These can be expected to face the most intensive competition for patrons.

Figure 10 Community clubs’ distance from ASF casino, Gold Coast

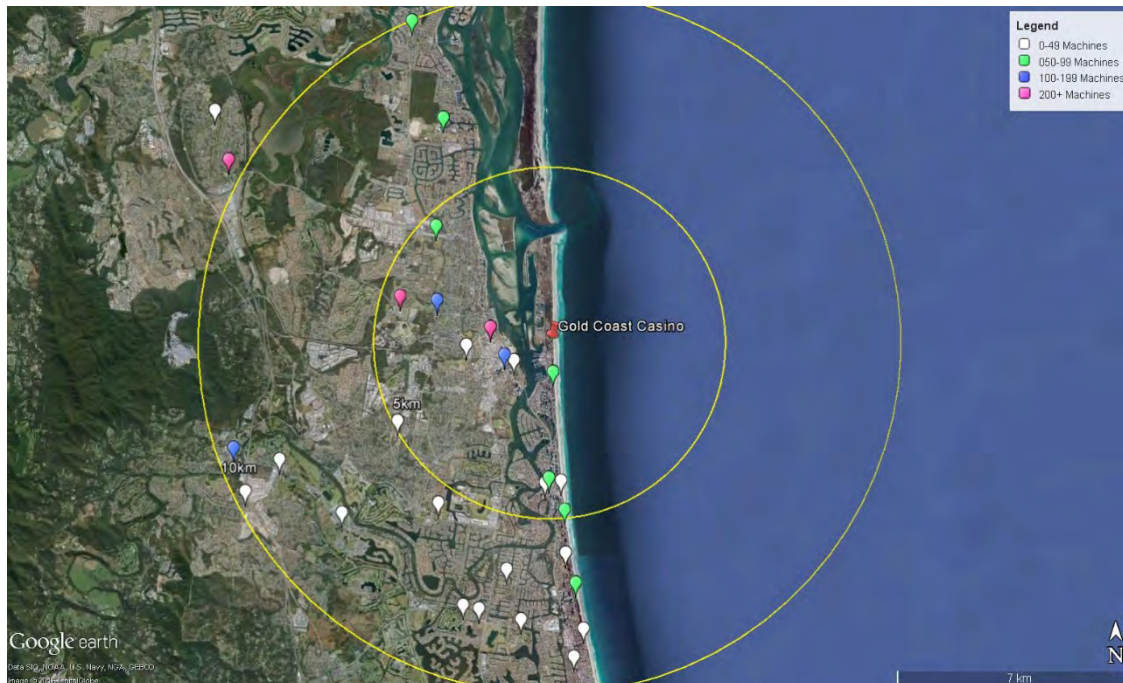


Data source: Data provided by Clubs Queensland

Similar to Brisbane, the vast majority (71) of the 82 community clubs in the Gold Coast region are small (less than 100 EGMs). Of these, 55 clubs are very small, having less than 50 EGMs (see Figure 11, Table 28).

There are 5 large community clubs (>100 EGMs) within a 10 kilometre range of the new casino. Of these, two are very large clubs (200+ EGMs). In fact, these very large clubs are less than 5 kilometres from the casino, making them very close substitutes for gaming patrons.

Figure 11 Community clubs within 10 kms of ASF casino, Gold Coast



Data source: Data provided by Clubs Queensland

Table 28 Number of clubs in Gold Coast region, by size and distance from ASF casino

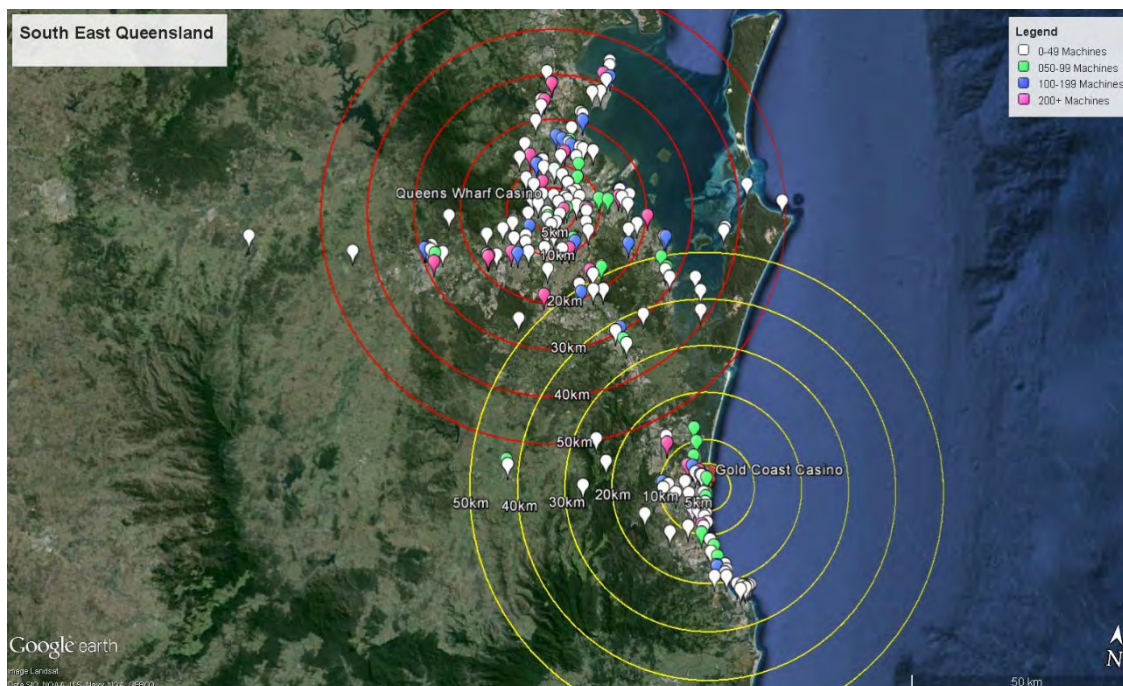
	0-5 km	5-10 km	10-20 km	20-30 km	30-40 km	40-50 km	Total
0-49	4	12	11	13	5	10	55
50-99	3	4	3	1	1	4	16
100-199	2	1	1	0	1	1	6
200+	2	0	1	0	0	2	5
<i>Total</i>	<i>11</i>	<i>17</i>	<i>16</i>	<i>14</i>	<i>7</i>	<i>17</i>	<i>82</i>

There are a considerable number of community clubs (82) that are potentially affected by the new ASF casino development at the Gold Coast. Those closest to the new casino will be most at risk of losing patronage. There are 28 community clubs within 10 kilometres, of which 11 are less than 5 kilometres away. These clubs will face the most intense competitive pressure for patrons. Of these, the largest clubs may be most at risk as their service offering is most similar to that of the casino.

The Gold Coast community clubs are in a unique competitive position as they not only face competition from the proposed new ASF casino, but there is also greater inter-casino rivalry for customers.

The competitive pressures on the Gold Coast are likely to be exacerbated by the Queens Wharf development. Not only will many of the clubs between the Gold Coast and Brisbane face direct competitive pressure from the Queen’s Wharf development (see Figure 12), but they are likely to be affected should the Gold Coast casinos lose custom to Brisbane. As discussed previously, the Queens Wharf development has been developed on the predication that it will attract large numbers of international tourists. In an already crowded market, it is likely that Queens Wharf will attract at least some custom from the existing Jupiter’s Casino on the Gold Coast, which, in turn, is likely to face pressure to make up any revenue shortfalls by targeting the domestic market. The entrance of a new casino would only exacerbate this situation.

Figure 12 Clubs in south east Queensland



Data source: Data provided by Clubs Queensland

Including increased competition from Jupiters Casino would significantly extend the geographic range of impacts if a new casino was to be developed on the Gold Coast. Although not shown on this map, the very large and well established community club at Tweed Heads, just south of the Queensland-New South Wales border, is also in the same market for patrons in this region.

Because of this highly competitive situation, it is likely that community clubs and casinos in the Gold Coast region will adopt very proactive strategies to attract customers. This might take the form of enhanced loyalty programs, discounts on food and beverages and free transport. This could extend to seeking to attract customers from the Brisbane region. While the ASF casino may be aiming to attract new customers from overseas, to the extent this international custom does not materialise, this will increase the intensity of the competition for local gaming patrons on the Gold Coast (and even those from Brisbane).

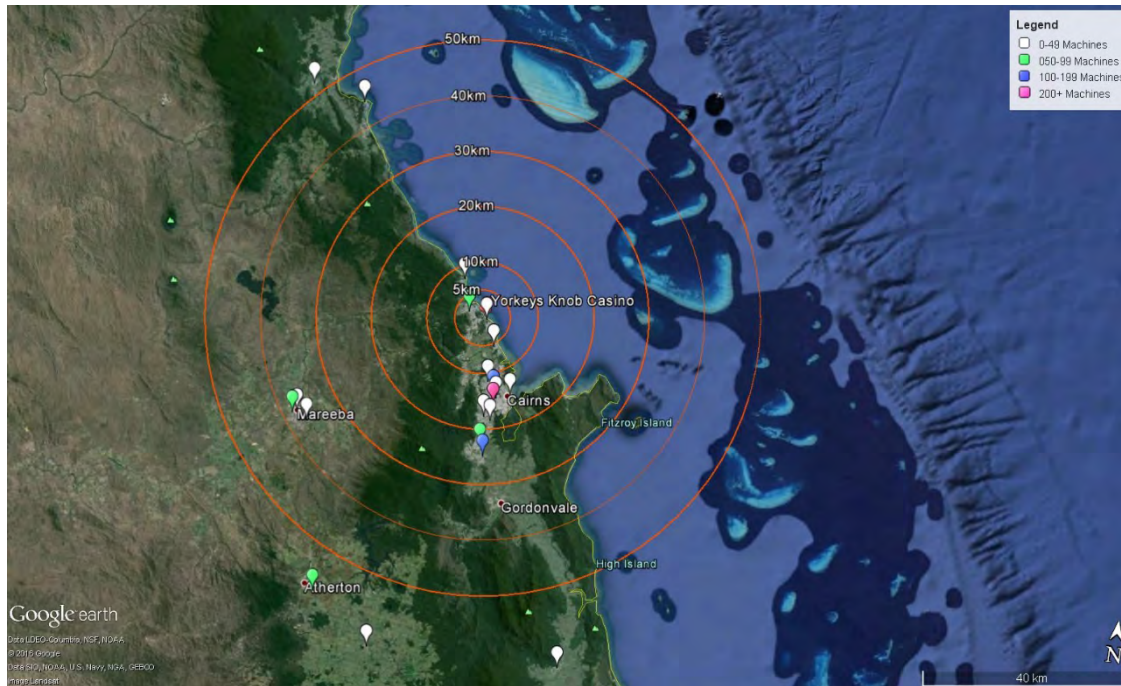
Consultations with industry also highlights another unique feature of many Gold Coast clubs. Many of the clubs in this region have a unique position on the beach (i.e. surf clubs). This is a benefit in terms of being attractive to patrons. However, it can also pose difficulties for these clubs in that they have little scope to expand in size (including the provision of parking), limiting their options for growth and their ability to respond to aggressive competitive strategies by the casinos in the region (new and old).

Given this, we consider that the addition of new gaming capacity at the Gold Coast by the ASF casino is likely to have a significant impact on local clubs in that region.

Aquis - Cairns

There are fewer clubs in the Cairns region compared to south east Queensland and these are more widely dispersed. There are 17 community clubs within 50 kilometres of the Aquis casino at Yorkeys Knob (which is approximately 13 kilometres north of Cairns). Of these, only 4 community clubs are within 10 kilometres, with 2 clubs being less than 5 kilometres (see Figure 13). While the impact on these clubs, particularly those closer to the casino, will be significant, there are much fewer clubs likely to be affected overall.

Figure 13 Community clubs' distance from Aquis casino, Cairns



Data source: Data provided by Clubs Queensland

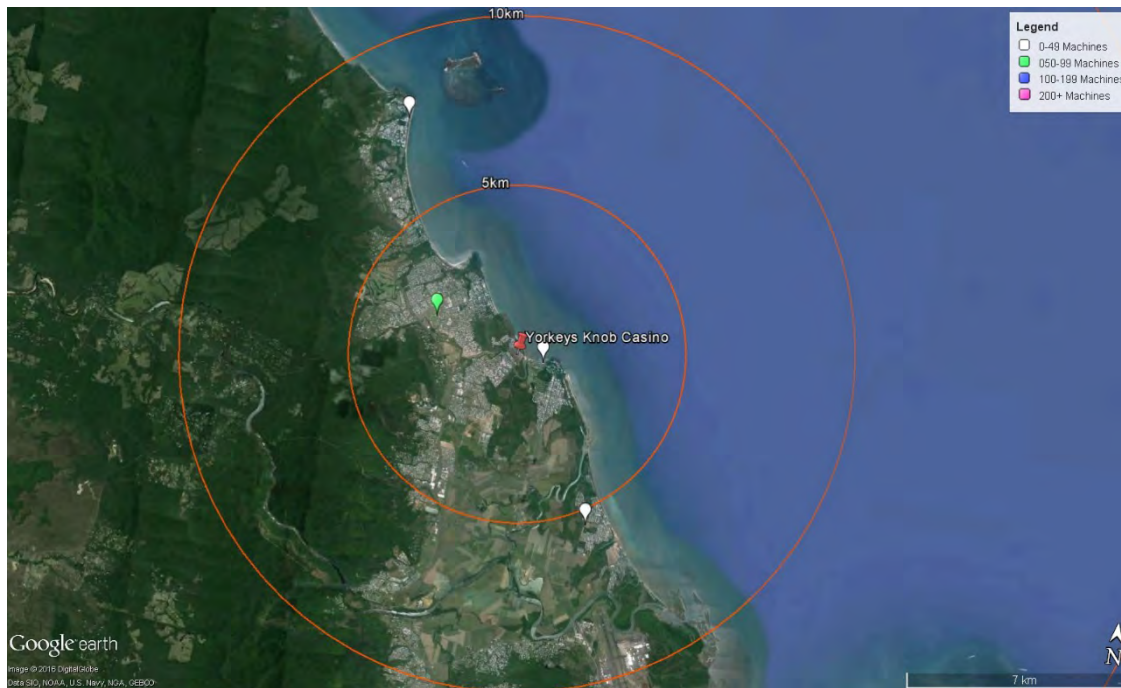
The majority of community clubs in the area are small, with 14 of the total of 17 clubs in the region having less than 100 EGMs. Of these, 11 have less than 50 EGMs. There are only 3 large clubs in the region (more than 100 EGMs) and only one very large club (more than 200 EGMs).

Although these larger community clubs are some distance from the proposed casino (only one is less than 15km away), patrons in rural areas are more likely to travel longer distances for entertainment than in urban areas. As a result it is expected that the geographic reach of the Aquis casino would be significantly greater than those in Brisbane and the Gold Coast.

Despite this, distance is likely to mitigate impacts to some extent since there are few large, competing clubs within 50km of the Aquis development.

The comparative isolation of the Aquis casino is shown in Figure 14. This shows the relatively small number of clubs (4) within a 10 kilometre distance of the new casino. Of these, the 2 that are very close to the casino (less than 5 kilometres away) are likely to face considerable competitive pressure from the new casino for patrons.

Figure 14 Community clubs within 10 km of Aquis casino, Cairns



Data source: Data provided by Clubs Queensland

The number of community clubs in the Cairns region, by size and distance from the proposed Aquis casino at Yorkeys Knob, is shown in Table 29.

Table 29 Number of community clubs in Cairns region, by size and distance from Aquis casino

	0-5 km	5-10 km	10-20 km	20-30 km	30-40 km	40-50 km	Total
0-49	1	2	5	0	2	1	11
50-99	1	0	0	1	1	0	3
100-199	0	0	1	1	0	0	2
200+	0	0	1	0	0	0	1
<i>Total</i>	2	2	7	2	3	1	17

B.2.4 Consumer behaviour

The assessment of the product and geographic dimensions of the market discussed above define the scope of possible switching. Whether substitution does in fact occur in response to new market entry by the casinos in each region will depend on the decisions of consumers.

Synergies has reviewed the literature (see Appendix E) and conducted consultations (see Appendix G) with the club sector to inform our analysis of likely consumer responses to new casinos. Our analysis also draws on the market saturation analysis in the previous chapter.

Community clubs rely significantly on gaming, with gaming revenue making up 30% of total licensed revenues for smaller clubs (20-40 machines) and 65% for larger venues (over 250 machines). A number of community clubs operate with a low ratio of EBITDA to revenue, meaning that even small losses of gaming revenue would threaten their financial viability.

Synergies understands from its consultations with industry that it is a relatively small number of regular customers that account for a significant share of clubs' revenue. These patrons regularly attend clubs with the primary purpose of gaming and spend larger than average amounts on gaming. These gaming patrons tend to play at a range of venues, including casinos.

While community clubs typically engage in a range of operations, including food and beverage sales, it is likely that many community clubs are highly dependent on these regular, higher-value patrons for their viability.

This means that the impact of casino developments on community clubs will be highly dependent on the response of its customers, and in particular, whether regular, high-value customers are likely to switch to the new casino offering.

Elasticity of demand for gaming

The entry of new casinos in each of the three regional markets will increase the gaming capacity in those markets. Where supply increases in a market, there are two potential effects. The first is expansion of demand. This occurs where increases in supply results in a decline in prices, effectively increasing the purchasing power of consumers. The second effect is that increased competition causes movement of consumers to new providers (this is called the substitution effect).

The extent to which these two effects occur will depend on the level of saturation in the market and the sensitivity of consumers to price changes (i.e. how much they are likely to increase consumption as prices fall – this is the price elasticity of demand). In a saturated market where consumers are not particularly sensitive to price changes, any increase in supply would result in large substitution between providers with little increase in demand.

The market saturation analysis in Appendix B shows that the market for gaming in Queensland (comprising the gaming industry, machine gaming and casino-based gaming) is at a high level of saturation. This analysis also indicated that gaming is a mature market with a low prospect of rapid growth.

There is little direct empirical evidence on the price elasticity of gambling (see appendix E). The little that is available suggests there would only be a small expansion of demand if the 'price' of gambling fell.

Based on this evidence it is most likely that the entrance of a new casino, without a corresponding increase in foreign demand, would have a small impact on domestic demand, and would have a large impact on existing gaming establishments. That is, the predominant impact of additional gaming capacity is likely to be substitution between new and existing gaming venues.

This analysis also found that the gambling market in Queensland may be particularly susceptible given other changes in the type of gambling and mode of delivery that are occurring (e.g. online gambling etc.). Consequently, the disruptive potential of the additional gaming capacity provided by the new casinos, particularly in local markets of Brisbane, Gold Coast and Cairns, may be particularly pronounced.

Consumer preferences

Another factor to consider is the preferences of existing community club members. This is important since casinos offer a gaming experience that is different from that available at community clubs.

As discussed in Appendix B, casinos offer a range of gaming options, including table gaming and EGMs. Unfortunately, there is little literature on the extent to which gamers may substitute between table gaming and EGM play, so it is difficult to make definitive conclusions in regard the extent to which an expansion of table gaming would have on the EGM market.

The anecdotal evidence (conversations with Club managers and related literature) suggests that table gaming and EGM play attract distinct demographic groups and that there is little movement between these types of play.⁴⁵ There is little evidence⁴⁶ to show that those who choose to play EGMs at casinos, as opposed to hotels or community clubs, have any distinct demographic characteristics. Because of this, our analysis focusses on the EGM market and the extent to which consumer preferences might influence outcomes for community clubs.

⁴⁵ Table games predominantly attract younger, male players, while EGM's are more likely to be used by an older demographic, who are more likely to be female. Source: *Responsible Gambling and Casinos*, 2015, South Australian Centre for Economic Studies, University of Adelaide.

⁴⁶ *Responsible Gambling and Casinos*, 2015, South Australian Centre for Economic Studies, University of Adelaide.

Many aspects of consumer preferences are intangible – the ‘casino experience’, offering a wider range of gambling products as part of a large establishment will appeal to certain patrons more than others. Our industry consultations also highlight a desire by gaming patrons for the most recent gaming machines and games on those machines. Some patrons will prefer the more local, membership-driven aspect of community clubs – our consultation has highlighted that clubs consider that their patrons highly value this friendly atmosphere at a club.

According to a 2009 study, Australian casinos are regarded, both by domestic and international visitors, as ‘destination venues’. These are venues that encourage pre-determined decisions to travel to play games or undertake a range of non-gaming activities. This contrasts with other gaming venues, such as clubs and hotels, which are considered to be ‘convenience venues’. Such venues provides facilities that a patron may encounter during their daily activities.⁴⁷ While this would indicate a degree of ‘stickiness’ of patrons to their existing club, this may only apply to irregular gamers.⁴⁸

Substitution of patronage from clubs to casinos will also be incomplete. That is, there may be a transient impact, with club patronage declining as people try the new casino, but then revert to previous patterns. It is also possible that patrons will substitute some, but not all, of their annual gaming demand. Also, as noted above, the different tastes and preferences of patrons will mean that some will not switch, as they prefer the club service offering over that of casinos.

It is not possible to be definitive about the outcome of these preferences as they will vary amongst patrons. However, it is reasonable to conclude that, given the more competitive nature of the gaming market expected after new casino entry, clubs will face enhanced competitive pressures from casinos for gaming customers, as well as for customers of their food and beverage services. In this highly competitive environment, casinos may adopt very proactive competitive strategies to lure existing customers from clubs. This could include strategies such as loyalty programs offering discounts on food and beverage services, accommodation, and free transport.

In response to this competitive pressure, clubs could either spend some of their existing returns on retaining customers, in which case their financial performance is affected, or it could retain its margin but lose some customers, to the same effect in terms of financial performance. This intensifying of competitive pressure on affected clubs can therefore be expected to have an impact on their financial performance.

⁴⁷ The Allen Consulting Group, *Casinos and the Australian Economy*, April 2009. Report to the Australian Casino Association.

⁴⁸ Anecdotal evidence suggests that regular, high-value gamers are prepared to travel further and seek out venues that offer the best deals.

B.3 Summary

It is highly likely that the development of new casinos would increase the supply of domestic gaming opportunities. In an already crowded international market it is unlikely that all new gaming capacity in these new casinos would be utilised by international players.

Any new capacity brought to the domestic market is unlikely to result in a significant increase in demand. Rather, this new capacity will result in substitution between the casinos and existing gaming establishments.

Community clubs and casinos offer a range of gambling, dining and entertainment services. While they are different service offerings, there are some areas of overlap where they offer services that are close substitutes. This is particularly the case for EGMs, where clubs and casinos are close competitors. Some larger clubs that offer a large number and wider variety of gaming services are closer substitutes to casinos than smaller clubs.

Mapping of clubs and their distance from the proposed new casinos in each region shows that a large number of clubs can expect to be affected by competition from the new casinos, especially those in Brisbane and the Gold Coast. This is particularly the case for those larger clubs that are closer to the casino, making it easier for patrons to switch.

Gold Coast clubs appear particularly vulnerable given the proximity of other clubs and the existing Jupiters casino. Many community clubs in this region, particularly SLSCs, are constrained in their ability to expand due in order to compete due to their coastal location.

As a general characterisation, community clubs are financially reliant on revenue from EGMs to generate the surpluses necessary to fund their community programs. In turn, it is a relatively small number of high-value players of EGMs that provide the majority of EGM revenue for clubs. These high-value players attend a club primarily for the purpose of gaming (and not other ancillary services), making it financially worthwhile for casinos to target this group through aggressive marketing strategies. This risk of competitive pressure on local clubs will be enhanced if international visitors do not eventuate to the extent anticipated in the IRDs proposals to increase overall demand for gaming – a significant risk in the highly competitive regional casino market (all evidence currently show that they do not eventuate).

As not for profit entities, clubs' primary purpose is to serve their membership. To the extent that increased competition from casinos reduces the financial viability of some clubs, potentially even closure, then their members and local community will be adversely impacted through the loss of services provided by the club.

C Modelling the impact of new casinos on Queensland economy

C.1 Overview

This section provides an analysis of the likely impacts of the proposed IRDs on the Queensland economy, using our Computable General Equilibrium (CGE) model, SynGEM.

The construction phase

Three new integrated resorts with casino operations are proposed for Queensland over the next decade. These resorts, should they all proceed as planned, would provide a large increase in construction activity in Queensland, with the combined costs of all three resorts purported to be around \$19 billion.

Table 30 Construction costs for Proposed Integrated Resort developments

Integrated resort proposal	Timing	Construction costs
Aquis Great Barrier Reef Resort	uncertain	\$8.2 billion (stage 1 and 2)
Queens Wharf redevelopment	construction commences 2017	more than \$3 billion
Gold Coast Integrated Resort	unknown	unknown, possibly \$2 billion

Source: Proponent websites

Construction activity of this size would have a significant impact on the Queensland economy. While there have been some efforts to determine to the magnitude of these impacts,⁴⁹ these analyses appear to have been overly simplistic,⁵⁰ likely to overstate benefits and have not examined whether the projects are likely to have any adverse impacts on other sectors.

The operational phase

Although there is a lack of consistent information on the operational requirements of the proposed IRD, it is obvious that they will have large impacts on the Queensland economy. The Aquis project alone is expected to have a total operational workforce of around 20,000 people once completed. This is likely to have adverse impact on other sectors competing for labour.

⁴⁹ For example, modelling conducted by Urbis for the Queens Wharf project states that the construction phase will add \$4 billion to Gross State Product.

⁵⁰ Very little information has been made publically available on how impacts have been estimated.

The economic impacts associated with the operational phase have not been adequately explored. Further, the analysis that is publicly available does not sufficiently account for economic constraints and, as such, may significantly overstate benefits.

While there is insufficient publicly available information to make a full assessment of the additional gaming operations likely to be available for each of these proposed integrated resorts, the proponents for each development claim that gambling revenues will primarily be sourced from the additional international tourists rather than from local players.

Despite this, there have been concerns raised that new gaming capacity will impact the domestic market. For example, Markham and Young from the Australian National University argue that the proposed Aquis Great Barrier Reef resort is likely to have significant social impacts since the introduction of additional electronic gaming machines (EGMs) it will increase local gambling.⁵¹ They estimate that local residents are likely to lose an additional \$56 million (in 2012 Australian dollars) through EGMs held at the resort.

As discussed in Appendix A (Market saturation), the Queensland gaming market is characterised by high levels of saturation, meaning that any increase in the supply of additional gaming opportunities for domestic residents would have significant impacts on the local market as new market entrants look to grow at the expense of existing suppliers in the market.

Additionally, as discussed in Appendix B there is a material risk that the proposed resort developments do not attract sufficient new international gamblers to ensure the financial viability of new operations given the highly competitive regional gambling market. Should this occur, casino operators will face significant pressure to attract domestic gamblers to ensure profitable returns on their large investments.

Our analysis attempts to shed some light on the likely economic implications of a situation where the IRDs fail to attract sufficient international visitors to take up additional gaming capacity.

C.2 CGE modelling

A CGE model is appropriate for examining impacts on the economy since it allows us to capture the impact that labour and capital constraints (for example on the supply of skilled construction workers) as well as the interactions between different parts of the

⁵¹ Marham, F. and Young, M. (2014) *Review of the Aquis Resort at the Great Barrier Reef project Social Impact Assessment. Submission to the Office of the Coordinator General, August 2014.*

economy (i.e. how changes in one part of the economy will impact on other parts). The inclusion of these constraints in our economic model allows us to determine how the integrated resort developments might affect prices and profits.

This allows economic impacts of very large developments to be modelled more realistically and to address the shortcomings of previous analyses discussed above. Importantly, it also identifies who might gain and who might lose from the proposed integrated resort developments.

More information on the SynGEM model is provided in Appendix F.

C.2.1 Methodology

The modelling addresses the key issues discussed above, namely:

- will the construction and operation of IRDs have adverse impacts on other sectors of the economy?
- what are the implications if new gaming operations are developed and they fail to attract sufficient levels of international visitors to provide a sufficient return on investment?

There is a high level of uncertainty surrounding the timing and scale of gaming operations likely to be on offer in the new casinos, particularly for the Aquis and Gold Coast proposals.⁵²

For this reason we modelled a representative integrated casino/hotel gaming complex rather than a specific IRD. Only the component that specifically relates to the gaming operations has been modelled. For example, we exclude any part of the development related to residential use, retail trade, non-gaming accommodation or for public usage.

It is assumed that the construction costs of the casino development are \$1 billion. For the purposes of analysis impacts could be scaled up or down for larger or smaller gaming operations.

⁵² Even for Queens Wharf, the most advanced of the three proposals, there is little available information on the construction costs that relate specifically to gaming facilities nor is there clear information on the additionality of gaming facilities and the expenditures expected to be captured from new foreign tourists.

We have undertaken two simulations:

1. A new \$1 billion gaming complex is constructed in Queensland in 2017, with expenditure evenly split between gaming facilities and accommodation. All new capacity is assumed to be used by foreign gamblers.
2. The same \$1 billion gaming complex is constructed in Queensland in 2017, however, we assume that only half of the new capacity is used by foreign gamblers.

For both scenarios a simplifying assumption that construction is started in one year and completed the next is used.⁵³ For scenario 1, it is assumed that all new capacity is immediately used by foreign gamblers, implying that the new gaming complex generates a positive return on investment in its first year of operation.

In line with the research (see Chapter 3), the modelling assumes that the domestic gaming market is at saturation point, implying that the domestic market has limited capacity to absorb any new supply of gaming capacity.

It is also assumed that no Government subsidies are provided to the new gaming complex and tax rates paid are the same as for existing Queensland casinos.

In the model separate sectors (or industries) are included for gaming and for accommodation. This allows us to identify impacts on gaming separately from other sectors and ensure that impacts reflect the nature of the industry and the services it provides.⁵⁴ We do not separately identify existing clubs and casinos, rather, they are incorporated into a single Gaming sector (competition between community clubs and casinos is explored more in the spreadsheet analysis).

All results are measured in respect to business as usual growth (the base case). The base case provides a picture of economic growth in the absence of the gaming complex development. Against this base case, we model a second simulation (the policy) that includes the gaming complex. The impacts are then measured as the difference between the basecase and policy simulation, see Figure 15.

⁵³ Modelling the construction over multiple years would add considerably to the modelling task but would not change the results.

⁵⁴ For example, separately identifying the gambling sector ensures that impacts in the gaming sector are accurately reflected in the macroeconomic results and that any changes in prices or profits within the gaming sector have appropriate effects on consumers.

Figure 15 How results are estimated

Impact of the
gaming complex

In the basecase the Queensland economy grows at around 3% per year, with the end of the mining construction boom causing a depreciation in the exchange rate and a structural shift towards tourism-related activity.

At the industry level, the Accommodation industry is projected to grow faster (almost 5% per year) than general economic activity, largely driven by the increase in tourism demand from overseas. The gaming sector however, grows at over 2% per year, reflecting the mature state of the market, and the fact that activity is currently largely driven by domestic expenditures.

More detail on the model and key assumptions used are included in Appendix C.

C.2.2 Results and analysis

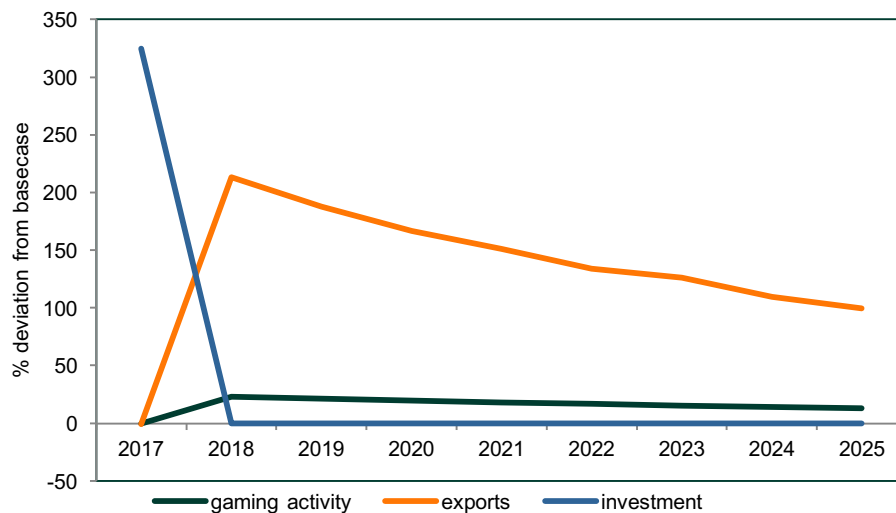
The impacts are reported as change *relative to the base case*. This means that a positive result means faster growth than would have otherwise occurred, while a negative result means that growth is slower. For example, if a variable is reported to contract by 1%, this means the variable grows 1% slower than under the basecase (rather than the base case level falling by 1%).

Simulation 1: all additional gambling capacity used by foreigners

Figure 16 shows the impacts on the gaming industry. In 2017 investment activity spikes as new casinos are constructed. After 2017, investment returns to business as usual.

Gaming activity increases (up 23% in 2018) once the construction of the gaming complex is completed. The increase in gaming activity results in an increase in exports⁵⁵ (up more than 200% in 2018). This follows directly from the assumption that all new gaming capacity is immediately taken up by overseas visitors. The large change in exports reflects the relatively low level of use of existing casino gaming by overseas visitors.

Figure 16 Impacts on Queensland gaming industry, assuming all additional gambling capacity is used by foreigners, % deviation from basecase.



Note: The gradual decline in the size of impacts occurs because the investment occurs against a growing baseline – that is, the implicit assumption is that investment brings forward activity that would otherwise happen in the future.

Data source: SynGEM modelling results

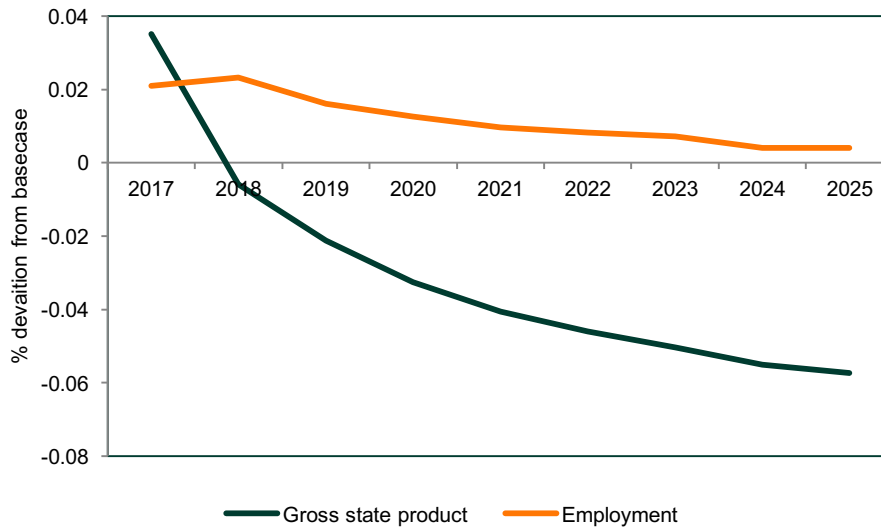
Figure 17 shows the impacts on the broader economy, specifically impacts on Gross State Product (GSP) and employment.

It shows that the initial construction phase has a positive impact on employment (up 0.021% or 520 persons, relative to the basecase). Once construction is complete employment is projected to remain higher than otherwise (0.023% or 590 persons in 2018), however, over time, employment is expected to return to base case (i.e. in the long run, the impacts on employment are expected to be approximately zero).

Economic activity is also expected to be positively impacted in the first year, with GSP projected to be slightly higher as a result of the additional construction activity (up 0.035% or \$118 million). Over time, GSP is expected to contract slightly, relative to business as usual (by 2021 GSP is projected to be around 0.04% or \$154 million lower than it would otherwise be as a result of the resort development).

⁵⁵ These exports are gambling expenditures by foreign tourists.

Figure 17 Impacts on Employment and Gross State Product, assuming all additional gambling capacity if used by foreigners, % deviation from basecase.

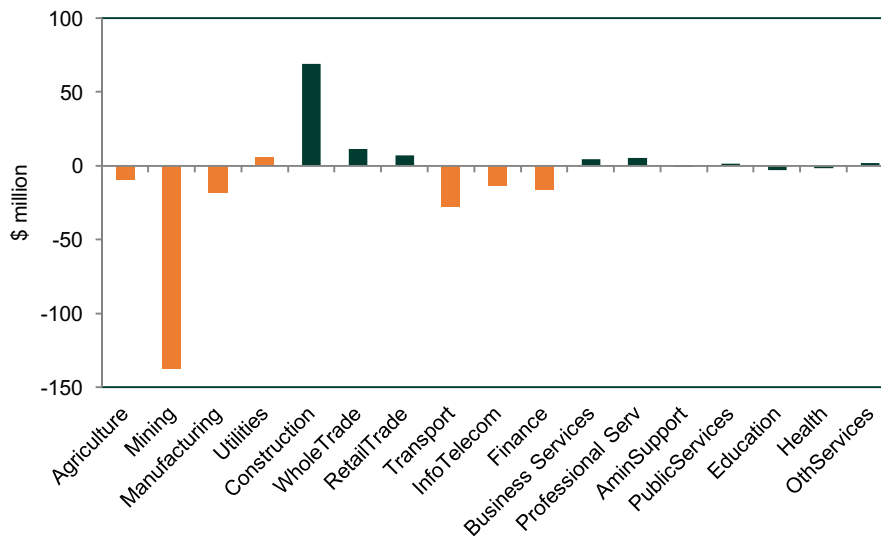


Data source: SynGEM modelling results

Economic activity slows over time because the construction of a large tourism facility (and the assumed increase in foreign tourism demand) causes a compositional shift in economic activity away from capital intensive, high productivity industries where workers receive high wages (such as mining) towards industries with lower measured productivity (namely the hospitality industries) where wages are significantly lower.

These compositional effects are illustrated in Figure 20. This shows the extent to which the construction of a \$1 billion gaming complex would crowd out investment in other industries. Of particular interest is that the industries most affected are those with higher than average productivity. For example, the modelling suggests that the construction of a billion dollar gaming complex would result in almost \$140 million (around 1% of total mining investment) less investment in the mining sector, which is the industry with the highest labour productivity in Queensland.

Figure 18 Indirect impacts on investment during casino construction, 2017\$ million



Note: industries with higher than average levels of labour productivity are highlighted in orange.
Data source: SynGEM modelling results

The construction of the gaming complex crowds out investment in other industries for two reasons. Firstly, the increase in construction activity draws skilled labour away from other industries that compete for this labour (such as mining) and also limits the supply of construction services available for other activities (such as mine construction). Secondly, the increased economic activity puts upward pressure on prices and exchange rates, making trade-exposed industries less competitive.

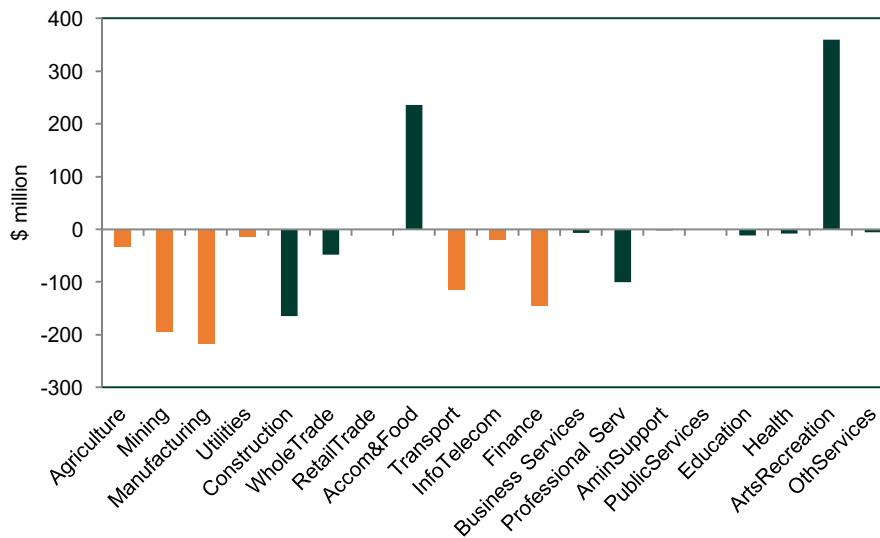
After 2018, investment continues to slow slightly in trade-exposed industries. Even though construction activity returns to normal, the operations of the casino attracts labour from other sectors (including from community clubs where trained labour exists), increasing wages. Further, the increase in foreign expenditure causes a small appreciation in the Australian dollar. These, in turn, make trade exposed industries slightly less competitive against foreign rivals.

The net result is a reduction in activity (relative to the base case) across a number of industries indirectly affected by the new gaming complex. As shown in Figure 19, other than the directly affected Accommodation and Gaming industries, activity levels in other sectors are negatively affected by the construction and operation of a new gaming complex.

While the model does not separately identify clubs and casinos (rather incorporating the two in a single Gaming industry), it would be expected that the entry of a new gaming complex would also cause significant competition for skilled and trained staff amongst

the broader gaming market, with potentially adverse impacts on existing gaming establishments.

Figure 19 Impacts on Queensland industries during casino operations, activity (2025), \$ million



Note: industries with higher than average levels of labour productivity are highlighted in orange. For reporting purposes the Accommodation and Gaming industries are rolled up with the broader Accommodation and Food Services sector and the Arts and Recreation sector, respectively.

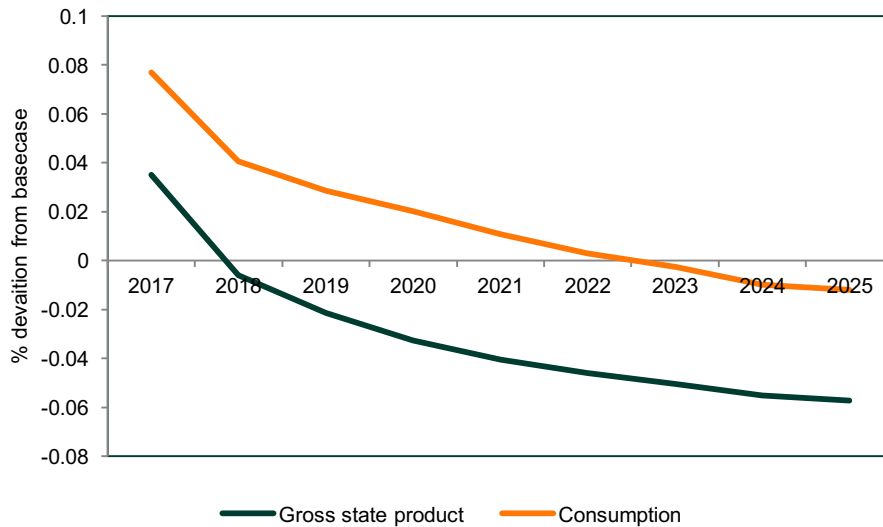
Data source: SynGEM modelling results

As noted above, the net effect of the crowding out of other activity (particularly for industries that have high levels of productivity) is to slightly reduce overall economic activity (with GSP falling by 0.06 per cent, relative to the basecase, by the end of the simulation period).

Although GSP declines over the simulation period, it should be noted that household consumption rises relative to the base case (see Figure 20). Household consumption rises for two reasons. Firstly, the increase in labour demand from the operations of the new gaming complex causes wages to rise, which increases disposable income available to households. Secondly, consumer prices fall, largely driven by a small appreciation of the exchange rate.

The impact on household consumption is important since this is, arguably, a better indicator of economic welfare than GSP.

Figure 20 Impacts on Queensland GSP and consumption, assuming all additional gaming capacity is used by foreigners. % deviation from basecase.



Data source: SynGEM modelling results

Simulation 2: only 50% of additional gambling capacity is used by foreigners

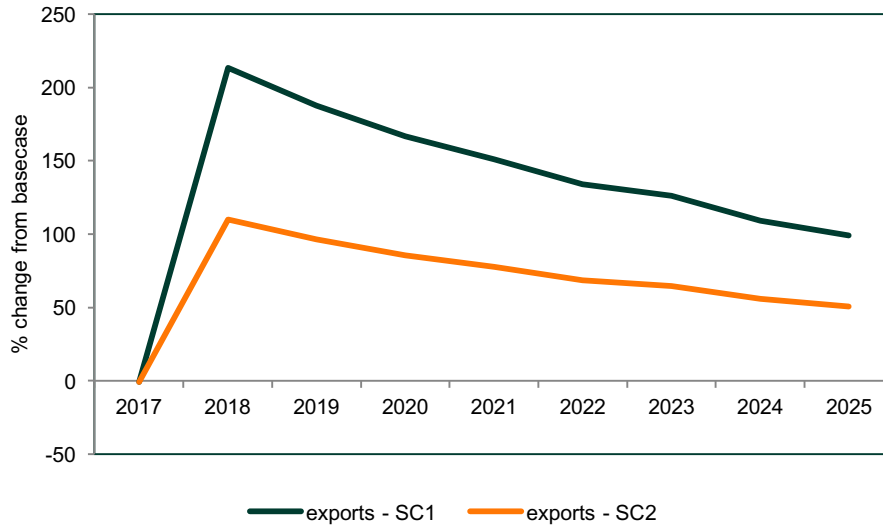
In this simulation, it is assumed that a new \$1 billion casino is constructed, but only 50% of the additional gaming capacity is utilised by foreign tourists. The results and discussion are presented in comparison to the first simulation, where all additional capacity is utilised by overseas visitors.

As discussed above, in line with our research, we assume that the domestic gaming market is at saturation point. This means that the domestic market cannot absorb the additional levels of capacity that are made available as a result of the gaming investments, without large falls in the “price”⁵⁶ of gaming.

Reflecting the assumption that only 50% of the new gaming is utilised by overseas visitors, gaming exports are considerably lower in simulation 2 (Figure 21).

⁵⁶ The effective price of gaming includes the pay-out rate as well as any inducements offered to players.

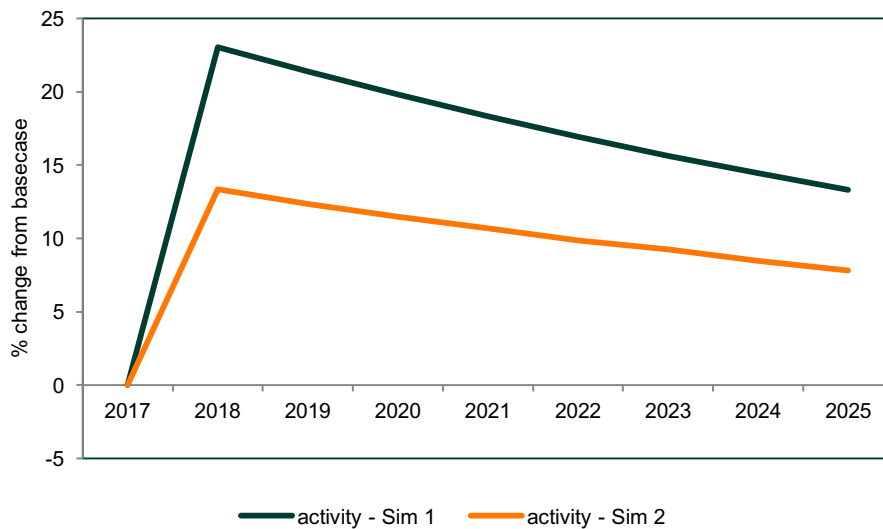
Figure 21 Impacts on gaming exports, comparison of simulations 1 and 2, % deviation from basecase.



Data source: SynGEM modelling results

The lower utilisation by foreign tourists means that there is now significant spare capacity in the gaming market. However, since the domestic market is at saturation point, this additional capacity cannot be absorbed by the domestic market. As a result, gambling activity is significantly lower in simulation 2 (Figure 23).

Figure 22 Impacts on gaming activity, comparison of simulations 1 and 2, % deviation from basecase.

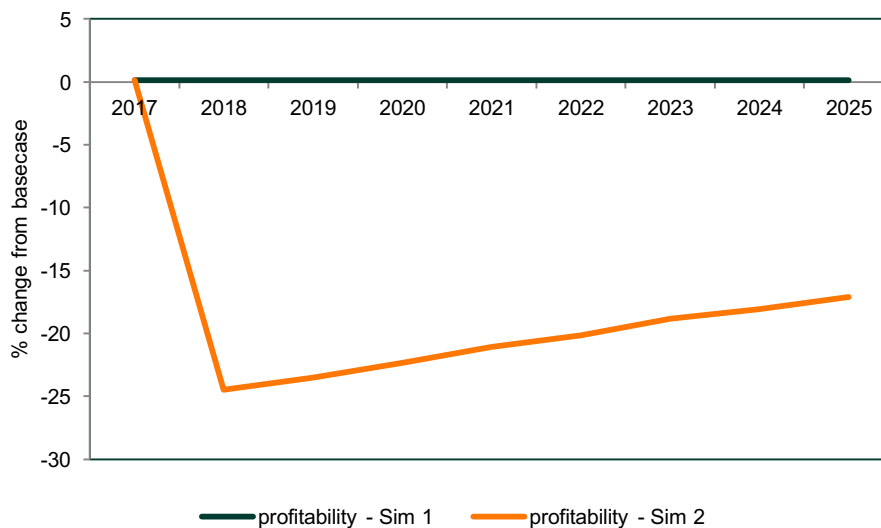


Note: Changes in activity are measured as the changes in real value added

Data source: SynGEM modelling results

The expansion of gaming capacity, in the absence of a concordant increase in demand means that the profitability of the gaming sector falls, both relative to simulation 1 and in absolute terms. These falls are expected to be significant, with profitability falling by almost 25% across the industry immediately after construction works are completed.

Figure 23 Impacts on profitability, comparison of simulations 1 and 2, % deviation from basecase.



Data source: SynGEM modelling results

Based on our model database,⁵⁷ and under the assumptions inherent in simulation 2, we estimate that the dollar value of losses incurred across the industry in 2018 would be around \$55 million in 2018.

While the SynGEM model does not distinguish between the various types of gaming operations (casinos, community clubs and pubs), it is clear that at least some of these losses would be incurred by existing community clubs. As concluded in appendices B and C, the main impact of additional gaming capacity in the domestic market will most likely be substitution between new and existing gaming venues, with new venues likely to compete heavily for domestic customers.

The extent to which existing community clubs will lose custom (and income) to the new gaming facility will depend on the substitutability of new gaming options it makes

⁵⁷ It is outside of the scope of this exercise to estimate the profit on the gambling component of all gaming activities across the State. For this reason, this estimate should be treated as an approximation only.

available. This will depend on the location of the gaming facility and the extent to which it offers competing gaming options (particularly EGMs).

Based on the geographic analysis in Appendix B we would expect that the most significant impacts on existing clubs would be from the Queens Wharf and Gold Coast IRDs, particularly on those larger community clubs that are closer to the casinos.

These issues are explored in more detail in the next section.

D Modelling club level impacts

This appendix provides an overview of the methodology used to model club level impacts in the Gold Coast, Brisbane and Cairns.

For each affected region (Brisbane, Gold Coast and Cairns) an assessment is undertaken of the likely number of new EGMs likely to be introduced into the market as a result of the new casino developments. These have been sourced from publically available documents, or where not known, are derived from information from existing casinos.

Data on EGM turnover and revenue⁵⁸ is used to estimate revenues for the proposed new casinos.⁵⁹ This revenue is used to determine the maximum additional revenue they will seek to capture from the domestic market. It is assumed that around half of any revenue captured will be taken from existing clubs and around half from other existing gaming venues.⁶⁰

Table 31 EGM numbers and expected revenues for proposed casino developments, 2020-21

	New EGMs	Revenue/EGM	New capacity (revenue)
Aquis Great Barrier Reef Resort	1500	\$ 92,595	\$ 138.89 million
Queens Wharf redevelopment	800	\$ 92,595	\$ 74.08 million
Gold Coast Integrated Resort	1000	\$ 92,595	\$ 92.60 million

The analysis focuses on regular, high value players since they provide a large share of the gaming revenue to community clubs. Analysis by the Productivity Commission (see Table 32) shows that the top 7% of players contribute 59% of all EGM revenue, with the top 1.5% contributing around 41%. As such, these high value players are likely to be the segment most targeted by casinos competing for players in the domestic market.

⁵⁸ Australian Gambling Statistics., 31st edition, August 2015, Queensland Government Statisticians Office, Queensland Treasury.

⁵⁹ EGM revenue data for casinos is limited. However, research shows that revenue per EGM for Casinos is more than twice that for Hotel and Clubs. *Responsible Gaming and Casinos, 2015*, report commissioned by Gambling Research Australia and prepared by the South Australian Centre for Economic Studies, University of Adelaide.

⁶⁰ Although Synergies has not conducted an analysis across all other gaming establishments, it is likely that pubs would also be heavily impacted by new casino operations.

Table 32 Expenditures on EGMs, Queensland, 2006-07

	Loss per year	Persons	Share losses	Share persons
Recreational	224	685785	26.5%	79%
Low spenders	688	126753	15.0%	15.0%
Medium spenders	2128	47412	17.4%	5.4%
High spenders	18246	13090	41.1%	1.5%

Source: Productivity Commission, 2010.

Interviews with community clubs also indicated that these high value players were also most likely to change venues where lower ‘priced’ gambling or more convenient options were offered.

The average real per session spend for high value players is assumed to be \$173 in 2020-21. This is estimated from analysis in the Productivity Commission’s 2010 Inquiry report,⁶¹ and updated using average growth rates in per capita EGM expenditure.⁶²

For each club in affected regions, the number of EGMs (sourced from OLGR) and the geographical proximity to the proposed new casino is estimated. The revenue each club receives from EGMs is estimated as a function of the number of EGMs held by the club and the state-wide average revenue per EGM,⁶³ with an allowance for the fact that larger establishments appear to have larger turnover per EGM.⁶⁴

Geographical proximity was estimated using google maps.

In line with Productivity Commission research, revenue from regular high value players is assumed to make up 59% of club revenue in large venues (over 100 EGMs). For very small community clubs, gaming is ancillary to other activities, and high value players are less likely to contribute to revenue. In the absence of detailed information on player preferences, an assumption has been made that high value players are likely to be most important for clubs with more than 80 EGMs.

⁶¹ Productivity Commission, 2010, *Inquiry Report into Gambling*. See table B.8 page B.16.

⁶² Estimated from Australian Gambling Statistics., 31st edition, August 2015, Queensland Government Statisticians Office, Queensland Treasury.

⁶³ Estimated from Australian Gambling Statistics., 31st edition, August 2015, Queensland Government Statisticians Office, Queensland Treasury.

⁶⁴ This was evident in the interviews conducted with clubs, Australian Gambling Statistics and analysis conducted by Victorian Department of Justice in 2011.

Table 33 Assumptions on club size and revenue share from high value players

Club Size (no. of EGMs)	Revenue share from high value players	Assumption
20 or less	Low	Less than 3% of revenue
Between 20 and 80	Medium	Between 3% and 29% of revenue
Between 80 and 100	Medium-high	Between 29% and 59% of revenue
More than 100	High	59% of revenue

Note: average revenue shares are scaled based on the exact number of EGMs held at each club. For example, a club with 20 EGMs is assumed to generate 3% of gaming revenue from high value players and a club with 80 EGMs is assumed to generate 29% of revenue. Clubs with EGMs between 20 and 80 are scaled based on the number of EGMs they actually hold.

Source: Assumptions based on conversations with industry, and from Productivity Commission research.

It is assumed that, in the absence of major differences in metered win, which is the price of playing an EGM⁶⁵, EGM play is similar across similar venues. That is, many players are indifferent to gaming on EGMs in one location over another, with locational decisions based on the cost of travel (including time).⁶⁶ In the model, inducements (such as courtesy buses) are used to over-ride or offset the travel costs for high value players.

Travel costs for players are assumed to be equivalent to \$2 per kilometre in urban areas and \$1.33 in regional areas.⁶⁷

The entry of the new casino offering is assumed to impact on existing clubs based on their geographical proximity and the extent to which the new casino is willing to offer inducements to attract custom.

Existing high value players are assumed to respond to inducements on offer by considering the effective savings offered by the casino relative to the cost of travel to the casino. Where savings outweigh costs, players choose to relocate their gaming. To reflect the idea that some players are likely to have an affinity or a sentimental attachment to their existing club, only 80% of play is available to move in the model.⁶⁸

For the Gold Coast, competition with the existing Jupiters Casino is allowed for. In the modelling, it is assumed that the new casino is able to win some custom (both domestic and foreign players) from Jupiters. This, in turn, is assumed to provide impetus for Jupiters to compete more heavily with existing community clubs.

⁶⁵ Where price includes any offers made to encourage visits, such as free courtesy busses, subsidised meals/drink and/or improved take out rates.

⁶⁶ Research by the Centre for Gambling Education and Research shows that venue location and accessibility is the most attractive factor for players. *The Influence of Venue Characteristics on a Player's Decision to Attend a Gambling Venue, 2010.*

⁶⁷ This reflects the idea that travel is slower in urban areas.

⁶⁸ This effectively acts as a dampener variable in the model, and reduces the effective cross price elasticity for high value players in the gaming market. A search of the literature shows that there is no empirical evidence available on the cross price elasticity of gaming services, particularly for electronic gaming.

While it is beyond the scope of this exercise to examine the financial viability of individual clubs, the modelling provides an analysis of potential impacts by through the use of average financial data on clubs of various size. This analysis draws heavily on the financial profile of community clubs provided in .

As discussed in the financial profile section, a typical club needs to achieve EBITDA of around 12% of revenue to remain financially viable in the long term.⁶⁹ Currently smaller clubs (less than 80 machines) operate with EBITDA/revenue around 12% or less, and hence would be highly susceptible to even small losses of custom. Larger clubs achieve EBITDA/revenue greater than 12% and so may be able to sustain larger losses of custom than smaller clubs (but are at greater risk of sustaining large revenue losses).

Table 34 Gaming machine operations at 31 December 2015

	20-40 machines	41-80 machines	81-150 machines	151-250 machines	Over 250 machines
EBITDA/revenue	5%	12%	15%	18%	21%

Source: DWS and Astute BI

The modelling assumes that EBITDA/revenue for all clubs reflects the average profile for community clubs as at 31 December 2015 (Table 12). To highlight the risk to community clubs, the analysis assumes that clubs do not make any changes to their operations in response to the operations of a new casino.

Estimates of gaming revenue foregone are calculated by estimating gaming tax payments made by individual clubs before and after the entrance of the new casino developments. These are estimated by applying OLGR's sliding tax scale (see Table 6) to our estimates of club revenues before and after the entrance of the new casino developments.

⁶⁹ This is required to cover gaming machine replacement and general depreciation of plant, equipment and buildings.

E Elasticity of demand for gambling services

There are few studies on the elasticity of demand for gambling services. The main reasons for this lack of analysis are:⁷⁰

- close regulation of gaming markets in many jurisdictions such that price is typically constant over long periods of time, preventing analysis of the change in demand as a result of a change in prices, and
- the concept of price in gambling services is not always straightforward (see note on technical issues below).

As shown in Table 35, results of studies focussing on demand for machine-based gaming give elasticity estimates ranging from somewhat elastic (-1.5) to inelastic (-0.4).⁷¹

Table 35 Studies of elasticity of demand for machine-based gaming

Study	Country	Time period	Method/notes	Elasticity estimate
Thalheimer (2012)	US – Iowa	1995-2012	OLS (slots)	-0.85
Thalheimer and Ali (2003)	US – Iowa, Illinois and Missouri	1991-98	GLS (slots)	-1.50 (1991) -0.9 (1998) -0.99 (average)
Landers (2008)	US – Iowa, Illinois, Missouri and Indiana	1991-2005	Fixed effects panel data, 50 casinos	-0.75 to -0.87 (short run) -1.00 (long run)
Swan (1992)	Australia – NSW		Poker machines	-1.70
Paton and Vaughan Williams (2005)	UK	1996-2004	Machines in casinos and bingo halls	-0.62 (short run) -0.94 (long run) (revenue elasticity with respect to tax)
Paton and Vaughan Williams (2005)	UK	2002-04	Fixed odds betting terminals	-0.4

While some of the variation in estimates may be due to differences in study methodology, differences in the level of competition may also be a contributing factor. Where there are government created monopolies, economic theory suggests the monopolist would set prices in the elastic part of the demand curve to maximise profits.⁷² The study by Thalheimer and Ali (2003) is instructive in this respect as it offers separate

⁷⁰ Forest, D. (2010). *Competition, the Price of Gambling and the Social Cost of Gambling* – a briefing paper presented to the European Gaming and Betting Association, February 2010.

⁷¹ Frontier Economics (2014). *The UK betting and gaming market: estimating price elasticities of demand and understanding the use of promotions*, report prepared for Her Majesty’s Revenue and Customs, June

⁷² Forrest, D. (2010). *Competition, the price of gambling and the social cost of gambling*, briefing paper presented to the European Gaming and Betting Association, February

estimates of elasticity before and after a significant price change caused by a new entry into the slot machine wagering market in American casinos.

Over the study period from 1991 to 1998, competition intensified as more venues were permitted to open. Elasticity was estimated to have fallen from -1.5 to -0.9 as the 'price' fell around 40% (the take-out rate fell from 10.4% to 6.1%, for more information see note on technical issues). These findings imply that the reduction in price triggered by competition would increase aggregate spending but only by a few percent.⁷³

On the elasticity of demand for gambling more broadly, a 2006 study by the Swiss Institute of Comparative Law identified 26 studies undertaken over a 30 year period. The gambling modes examined in the studies were pari-mutuel racetrack betting, bookmaker betting, lotteries and casino slot machine play. The median value of the set of estimates was -1.57 with studies of pari-mutuel betting finding the highest elasticities and studies of lotteries finding the least elastic demand.⁷⁴

In a 1999 inquiry report on Australia's Gambling Industries, the Productivity Commission (PC) used a range of elasticity estimates in calculating the costs and benefits of gambling in Australia, see Table 36.⁷⁵ The estimates were chosen by the PC based on a combination of previous empirical studies and economic theory. The PC appears to have used the same elasticity estimates in their 2010 update, although the assumptions are not explicit.⁷⁶

Table 36 Price elasticity of demand for gambling used in Productivity Commission modelling

	Low estimate	High estimate
Recreational gamblers	-0.8	-1.3
Moderate problem gamblers	-0.6	-1.0
Severe problem gamblers	-0.3	-1.0

Source: Productivity Commission, 2009, p.5.17

Technical issues

In assessing the elasticity of demand for gambling, ambiguity can arise in measuring quantity. Two separate bets are not necessarily equal as one may be for much higher stakes than the other. As a result, the concept of 'number of bets' is a poor measure of

⁷³ Forrest, D. (2010).

⁷⁴ Swiss Institute of Comparative Law (2006). *Study of gambling services in the internal market of the European Union* cited in Forrest, D. (2010). *Competition, the price of gambling and the social cost of gambling*, briefing paper presented to the European Gaming and Betting Association, February

⁷⁵ Productivity Commission (1999). *Australia's Gambling Industries*, Report no. 10, November

⁷⁶ Productivity Commission (2010). *Gambling*, Report no. 50, February

quantity. The commonly used solution is to measure quantity demanded by amount staked per period. This is sometimes called 'number of unit bets'.

Equally, the concept of price is not obvious. A player who places a series of bets expects to receive some money back, in the form of prizes. Therefore, the price of a unit bet is usually defined by the 'take-out rate', being the proportion of a unit bet which is, on average, retained by the operator. This is the difference between the price paid by the player and the expected payoff given the odds of the game. At an aggregate level, expenditure on gambling in a period can be measured by gross gaming revenue. It is the price the operator receives in return for the entertainment provided to the player.

Some concerns have been raised about the use of this price measure in determining consumer surplus, given consumers may make poorly informed decisions.⁷⁷ In practice, accounting for subjective views of likely winnings would involve significant difficulties.

⁷⁷ Productivity Commission (2010).

F The SYNGEM model

F.1 Overview

SYNGEM is multi-sector, multi-region dynamic Computable General Equilibrium (CGE) model of the Australian economy. It distinguishes between 119 industries and the products they produce, and models the Queensland and the rest of Australian economies in their own right.

CGE models are used to consider the whole-of-economy effects that might arise from policy change, events or shocks. They contain considerable industry detail, capture price effects and allow sophisticated analysis of fiscal, demographic and economic impacts. This sophistication makes them ideal for examining complex economic issues and, as a result, they have been widely used in the public policy debate by a diverse range of organisations, including the Productivity Commission and the Commonwealth and Queensland Treasuries.

CGE models have become the pre-eminent tools for analysing the economic impacts of events, projects and policies and have been used extensively in Australia and globally for these purposes. Typical usages include:

- tax reforms, including carbon taxes
- natural disasters or other events
- industry policies and programs
- infrastructure projects
- art, sport and other cultural events
- labour market reforms
- regulatory changes
- fiscal policy

SYNGEM is derived from the Monash Multi Regional Forecasting (MMRF) model. It uses the same theoretical underpinnings, but uses a database that has been specifically constructed for Queensland. This allows Synergies to provide a more detailed dataset able to be tailored to meet our clients' specific needs, while utilising the power and sophistication of MMRF.

MMRF is developed by the Centre of Policy studies at the Victorian University. It is a highly regarded model and is currently used by both the Productivity Commission and

Commonwealth Treasury. Full documentation of MMRF can be found at <http://www.copsmodels.com/mmrp.htm>.⁷⁸

F.2 The technical bits

CGE models are primarily used as a tool for impact analysis from a whole-of-economy perspective. They differ from more simple models of impact analysis, such as input output (IO) multiplier modelling, in a number of ways, but mainly by introducing an explicit treatment of prices (which is missing from both simple IO and linear IO models). This is done by introducing markets for capital, land and labour which constrain the resources available to the economy and force rationing.

The introduction of prices allows the model to introduce behavioural rules for agents. These are producers are assumed to cost-minimise, and household demands are satisfied based on optimising behaviour. Generally, markets are assumed to clear (a general equilibrium condition), but this is often modified – for example, CGE models usually assume that labour markets take some time to respond to changing economic conditions.

Unlike other, simpler modelling frameworks, the inclusion of factor constraints (such as labour and capital) forces the user to consider opportunity costs. This allows CGE models to appropriately consider impacts from policy changes, events or other shocks, from the context of the whole economy (rather than just a single sector, or industry)⁷⁹.

The SynGEM model contains explicit representations of inter-regional and international trade flows and detailed commodity level treatment of industry inputs, investment decisions, government purchases and household consumption. The data underpinning the model is derived from the ABS national input-output tables and is complemented with a range of industry and region specific data.

SynGEM models the action of four types of agent; industries, households, governments and foreigners. The regional supply and demand for commodities are determined through the optimising behaviour of each of the respective agents.

Industries are assumed to maximise profit and minimise costs by selecting the least cost inputs. Inputs to production are generally assumed to be used in fixed proportions (there are some exceptions where particular inputs are assumed to be substitutable, such as road and rail freight, and energy inputs), but able to be sourced from the local market,

⁷⁸ Adams, P., Dixon, J., Giesecke, J., and Horridge, M. (2010) *MMRF: Monash Multi-Regional Forecasting Model: A Dynamic Multi-regional Model of the Australian Economy*. General Paper No. G-223. Centre of Policy Studies.

⁷⁹ Because the model is a closed system, shocks imposed on one sector will have impacts on other sectors, with a net impact on the macro economy.

interstate or from overseas. At the margin, sourcing choices are based on the relative price of goods produced in each region and the extent to which goods sourced from the different regions are substitutable. Labour, capital and land inputs are imperfectly substitutable.

Households are assumed to select goods to maximise a utility function, subject to a budget constraint. That is, they choose between goods based on their relative price and the extent to which the good is a luxury (e.g. overseas holidays) or subsistence (e.g. basic foodstuffs) item. Goods are able to be sourced from the local market, interstate or from overseas.

At the national level, labour markets are constrained by the supply of labour (determined by the working age population and the rate of participation). At the regional level, the supply of labour is also determined by regional populations, with inter-state migration determined by relative labour demand in each region.

Capital formation is determined by investment in the previous period and depreciation. For each industry in each region:

$$K_{t+1} = (1 - DEP) * K_t + I_t$$

Where:

K_t is the quantity of capital available at time t

I_t is the quantity of investment during year t

Investment for each industry is determined as a function of the expected rate of return on new capital formation. The model allows for the accumulation of foreign capital and debt. This means that the model can constrain capital markets by ensuring that returns on investments are captured appropriately through interest payments on debt or earnings on foreign owned capital.

F.3 Dynamics

SynGEM is a dynamic CGE model. Dynamic CGE models trace the effects of impacts across time, for example, by allowing investors to adjust decisions based changes to capital returns.⁸⁰

⁸⁰ CGE models can also be comparative static. These models take a static view of the world. In these models a shock is introduced to the system and the model moves to a new state of equilibrium consistent with the assumptions imposed and constraints in the model. No consideration is given to the adjustment path or any changes that might have occurred during the adjustment phase.

In a dynamic model, economic impacts of a policy or event are considered against a counterfactual, or basecase (Figure 26). This allows policies or events to be considered in the context of likely future changes to the economy (such as the end of the mining investment boom, or implications from an ageing population).

Figure 24 Dynamic modelling

Dynamic models also allow the user to consider the timing of impacts (for example the staging of construction works) and the mechanisms through which the economy might adjust to change (for example, adjustment to wages and employment over time).

Because they treat time explicitly, dynamic models also allow results to be presented in net present value terms.

Finally, dynamic models offer realism since they allow for the accumulation of foreign capital and debt. This is particularly important for construction projects, since they typically rely on either borrowings or foreign funding. Once a project is complete, dynamic modelling allows these impacts to be captured, either through interest payments on debt or earnings on foreign owned capital.

More detailed documentation of theory in dynamic CGE models can be found in Dixon and Rimmer (2002).⁸¹

⁸¹ Dixon and Rimmer, 2002. *Dynamic General Equilibrium Modelling for Forecasting and Policy: A Practical Guide and Documentation of Monash*. Contributions to Economic Analysis 256, North-Holland, Amsterdam.

F.4 The model closure

Like MMRF, SynGEM can be used with a number of different modelling assumptions. The economic environment can be altered by allowing certain economic variables to be determined inside the model (endogenous variables) and outside the model (exogenous variables). This is known as the model closure.

The policy closure:

In SynGEM we use a standard approach to the labour market response to policy changes or events. In the short-run, wages are assumed to be sticky (or unresponsive to change), with adjustment mainly occurring through employment. In the long-run, wages adjust such that employment returns to a long run equilibrium.⁸² This means that a shock that would increase demand for labour (such as an increase in foreign demand) has little impact on wages in the short-run, with employment expanding to meet demand. Over time, the increase in demand bids up wages. This in turn causes employment to return to basecase levels. Hence in the long run, an increase in demand for labour results in an increase in real wages, but leaves unemployment at its structural rate. In the model the coefficient of adjustment is chosen such that the employment effects of a shock are eliminated after 10 years.

We also use a standard approach for the capital market, with investment responding to rates of return. In the short run, capital is constrained. Where a positive shock occurs that increases demand for capital, this causes rates of return to rise. This in turn, causes an increase in investment in the affected industry. Over time the formation of additional capital meets demand and rates of return (and investment) return to normal.

Specific assumptions used in the modelling of the integrated resort developments include:

- Regional labour supply and unemployment rates are exogenous, and wage differentials are endogenous;
- Government budget balances are endogenous;
- No subsidies are paid to the new gaming complex;
- The new gaming complex pays the same rates of tax as existing Queensland casinos; and
- After the construction of the new gaming complex, investment in the gaming sector returns to business as usual.

⁸² This is consistent with macroeconomic modelling in which the NAIRU is exogenous.

F.5 What the results mean

In order to understand the outputs from an economic impact analysis it is necessary to define the primary indicators used in impact analysis and what they say about economic welfare.⁸³

The economic modelling in the report is concerned with measuring a subset of welfare - the market benefits from goods and services. The modelling does not measure the non-market component of welfare, which arises through changes in the provision of non-market goods and services, such as increased community pride in high quality entertainment facilities or any social impacts relating to gambling.

Figure 25 sets out the standard outputs from a CGE model and how they relate to the concept of economic welfare.

Figure 25 Common measures of economic impact

Gross Domestic Product	<ul style="list-style-type: none"> • The amount of production occurring in the economy
Employment	<ul style="list-style-type: none"> • The effort or human resources used to produce goods and services
Income	<ul style="list-style-type: none"> • The benefits we receive from production
Consumption	<ul style="list-style-type: none"> • The income used for consumption (defined as income less savings)

Gross domestic product (GDP) is the most commonly used measure of economic activity. It is a measure that describes the amount of *production* occurring in the economy. It is often used to describe wider economic progress or wellbeing. While GDP is closely correlated with other elements of progress or wellbeing, such as employment, education and health outcomes, it is not in itself a true measure of welfare, and can provide misleading information as a measure of economic benefit.

GDP is primarily a measure of how hard we are working. In real terms, it measures the quantum of goods and services that are produced. However, it does not provide information on the welfare that producers and consumers obtain from this production.

⁸³ Welfare refers to prosperity and living standards. In economics, welfare is defined as the net benefits (or economic surplus) to consumers and producers gained through the *consumption* and *production* of goods and services, whether now or in the future.

In a small, open economy like Australia this is an important consideration. Consider the impacts of policies to subsidise exports (such as incentives for developments aimed at foreign tourists). The subsidies might allow production to increase, but the benefits (cheaper goods) flow to foreigners rather than domestic consumers. Domestic consumers may actually be worse off, since increased production of exports may increase production costs for goods consumed by locals (by putting upward pressure on wages and capital costs) and divert government funds away from welfare enhancing activities such as health care or education.

Employment is another commonly reported measure of economic benefit. There are obvious reasons for this – jobs provide income and keep people occupied and perhaps even happy. However, employment can be a very poor measure of economic benefit. For example, we could select policies that generate considerable increases in employment but that detract from productivity and actually reduce welfare through producing goods or services that people do not want or increasing the cost of production.

Real-per capita income and consumption are better indicators of economic welfare than employment and GDP. Real income (that is, income deflated by the consumer price index) provides a measure of the potential consumption earned from the fruits of production. It differs from GDP in two ways; firstly it is affected by a different price deflator (because the bundle of goods consumed is not the same as the bundle of goods produced), and secondly it captures net income from overseas (the flows of income between countries largely reflect who owns the capital used in production).

In economic impact analysis real consumption is often used as a proxy for income⁸⁴, and this is our preferred measure of economic welfare for CGE modelling.

⁸⁴ In the modelling we hold the rate of savings fixed such that any shift in consumption is proportionate to changes in real income.

G Summary of Consultation

G.1 Introduction

Telephone interviews were conducted with the Chief Executive Officers of 8 clubs located in Brisbane, the Gold Coast and Cairns.

The clubs varied in size across a range of factors:

- the number of gaming machines ranged from just over 40 machines to up to 300, the maximum a club can operate;
- the number of members ranged from 9,500 to 55,000 members. The average membership for the sample was 27,400; and
- annual revenue ranged from \$7M to \$36M with a sample average of \$20M.

G.2 Key points

The following key points emerged from the conversations:

- all clubs offered a similar range of gambling services including electronic gaming machines, Keno, TAB and bingo;
- gaming is the most profitable service. Bar and catering are also profitable services but significantly lower than gaming. The ranking of profitability for services other than gaming varies between clubs;
- competitor assessments are location dependent. Casinos are a major competitor, particularly when in close proximity to clubs. Other clubs, hotels and restaurant precincts in shopping centres were also identified as potential competitors;
- all clubs reported the following factors as important to their competitive advantage:
 - unique location – particularly views;
 - well trained and friendly staff with customer focus;
 - safety;
 - up-to-date gaming rooms and games; and
 - car parking.
- competitive disadvantages included:
 - locational factors that prevented expansion – especially car parking;
 - inability to match Casino loyalty program benefits (accommodation packages, free or heavily discounted meals and drinks); and

- regulatory restrictions (such as trading hours restrictions, restrictions on offering free drinks, differences in the application of smoking laws, free play).
- renovation and refurbishment are very important in attracting members back. Similarly, most aim to fully replace their EGMs every 2-4 years. Larger clubs do this more frequently. Industry standard to change the gaming floor every 3 years. Aim to turnover 25-30% of machines per annum;
- membership fees are very low and usually returned through discounts on first or second visit;
- majority of memberships come from within 0-15km radius of the club. Approximately 80-90% of gaming players are members;
- high value players and their expenditure patterns are well known to the clubs. Demographic is primarily female 45+. They do not solely play at one club and also play at Casinos. Prevailing view is that they play in clubs because of the safe and friendly environment created by the club. They usually drive rather than use courtesy services. One club noted that when they decreased the number of machines to improve ambiance and privacy – gaming revenue increased; and
- most clubs advertise on radio, TV and social media, if they advertise at all.

Figure 26 Enlarged map showing community clubs in South East Queensland

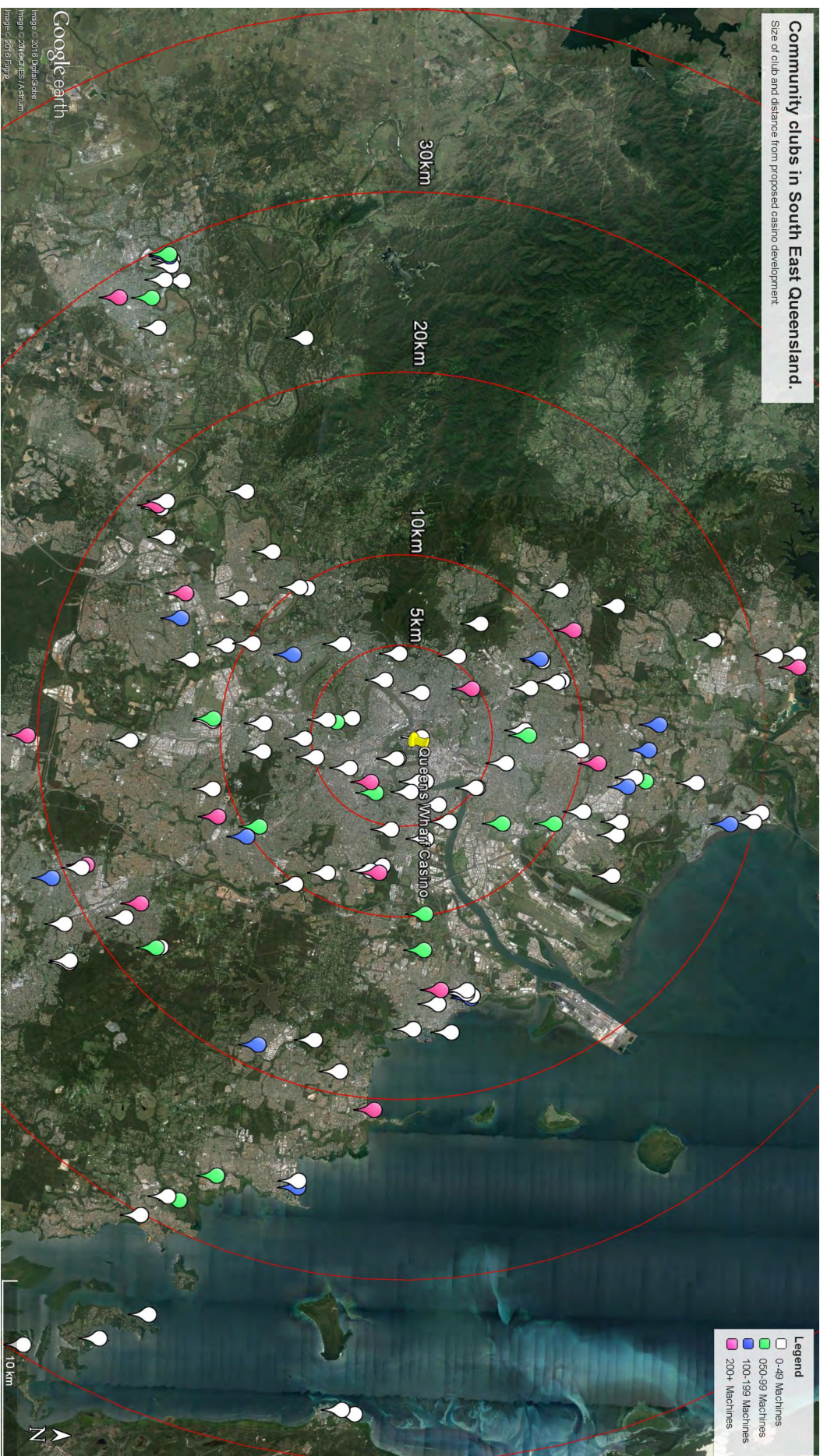


Figure 27 Enlarged map showing community clubs on the Gold Coast

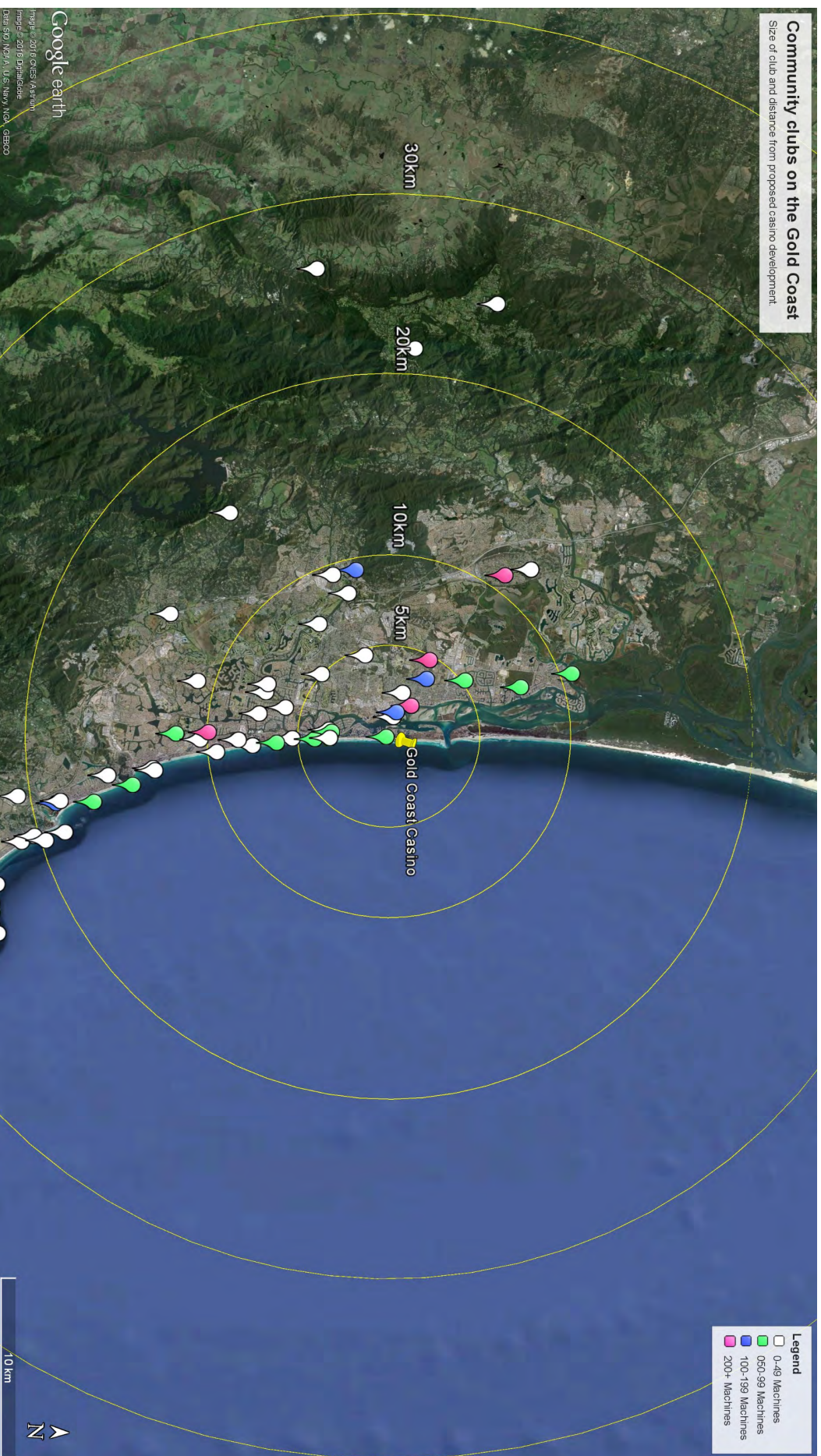


Figure 28 Enlarged map showing community clubs in the Cairns region

