

AUSTRALIAN HOTELS

MORE THAN JUST A DRINK
AND A FLUTTER:

AN OVERVIEW OF THE AUSTRALIAN HOTELS INDUSTRY
APRIL 2009

AUSTRALIAN
HOTELS





THE AUSTRALIAN HOTELS INDUSTRY



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Abbreviations

ABS	Australian Bureau of Statistics
ACT	Australian Capital Territory
AHA	Australian Hotels Association
ATM	Automatic teller machine
CGE	Computable general equilibrium
CGR	Centre for Gambling Research
EFTPOS	Electronic funds transmission at point of sale
EGM	Electronic Gaming Machine
FTE	Full time equivalent
GDP	Gross domestic product
GST	Goods and services tax
HDI	Household disposable income
NSW	New South Wales
NT	Northern Territory
PC	Productivity Commission
QLD	Queensland
SA	South Australia
TAS	Tasmania
VIC	Victoria
WA	Western Australia



The Australian hotels industry, at a glance

The Australian hotels industry is a significant contributor to the Australian economy and plays a pivotal role in providing entertainment to millions of patrons.

Industry size and structure

- There may be as many as 6,807 hotels in Australia. Extrapolating from PwC's survey findings regarding average employment per hotel would generate an overall industry employment figure of 188,000.
- Other methodologies for estimating industry employment produce lower estimates.
- In addition, a high proportion of hotels have local suppliers, contributing to employment and income in their communities
- Varying state regulations applying to liquor licensing and gaming machines affect the structure of the industry in each state.
- There is little consolidation in the industry and most hotels are relatively small businesses, employing between 0 and 30 people.
- Average food prices were found to be higher in hotels without gaming machines compared to hotels with gaming machines suggesting there may be some cross-subsidisation.
- Hotels earn the majority of their income from the sale of alcoholic beverages. In hotels with gambling facilities, revenue earned from gambling activities typically amount to around 30% of total income.
- We estimate the hotel industry's annual expenditure on security is equal to \$515.6 million
- In terms of profitability, gaming makes a significant contribution to the viability of Australian hotels
- Since the introduction of EGM's hotels have increased capital expenditure, increased community sponsorship and expanded and improved their food and meal offerings

Role of hotels in the community

- Key activities and events hosted by pubs include trivia nights, live music and community and sporting group meetings
- Hotels with electronic gaming machines are more likely to have other entertainment facilities, including pool tables, pay TV, conference/meeting facilities and entertainment venues
- Hotels provide sponsorship to a range of groups, primarily sporting and community groups, and annual contributions are estimated to be \$75 million. Hotels with EGMs are more likely to provide community sponsorship
- Average spending on training by the hotel industry is estimated to be \$71.8 million on formal and informal training
- Individual hotels Australia wide indicated that they serve an average of 1000 meals per week

Industry trends and outlook

- The number of hotels has declined over the last 10 years, and the industry is consolidating
- Income growth in the industry has been minimal over the last 25 years, indicating that the industry is mature
- Hotels anticipate that employment levels are likely to remain the same over the next three years
- Gambling expenditure as a proportion of household disposable income has been in decline since 1999

Future policy issues

- There is a weak and uncertain link between ATM withdrawals and gaming expenditure.
- The impact of the removal of ATMs would be most felt in relation to community sponsorship, capital expenditure and employment
- Hotels estimate that the introduction in smart cards would lead to significant reductions in income. The most common responses to this development involve reduced employment and a reduction in community sponsorship and support.

Hotels, gaming and economic welfare

- Removal of poker machines from hotels would lead to significant short term disruption to the economy with the loss of around 15,000 jobs.
- Generalised employment multipliers understate the contribution of hotel gaming to employment, since the removal of gaming from hotels would have an indirect employment effect through increases in state taxes such as payroll tax.
- The hotel sector generates a substantial net benefit to the economy: total spending in hotels is estimated to be \$12 to \$13 billion per annum.
- In the absence of the hotel sector, household consumption would contract by an estimated \$3.5 billion in the short term even allowing for some reallocation of spending and resources to other sectors.
- The removal of ATMs from hotels with gaming facilities is likely to lead to a reduction in overall customer satisfaction and economic well-being welfare, due to the impact on recreational gamblers and purchasers of food and beverages.
- Since the Productivity Commission's 1999 report, there is some evidence that the incidence of problem gambling has declined. This would imply some increase in the overall net benefits extent of safe enjoyment from gambling machines.
- The higher level of hotel gaming taxation also suggests that the net overall benefit from hotel gaming is likely to be higher than the Productivity Commission's 1999 estimate.



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01

INTRODUCTION



1 Introduction

1.1 Scope of this review

PricewaterhouseCoopers was engaged by the Australian Hotels Association (AHA) to prepare a report into the hotel industry in Australia.

In developing a picture of the Australian hotel industry, particular focus has been placed on assessing the industry's size, scope and composition and the extent of some its key activities. This includes the training of staff, support for community organisations and the hosting of various community events. This information aims to provide a deeper and richer sense of the contribution which the hotel industry makes to the Australian economy and to community life.

Another key area of attention has been the role played by gambling activities, in particular the significance of electronic gaming machines to the financial and broader performance of the hotel industry

This discussion leads on to some analysis of future challenges, including the impact of potential policy measures on the hotel industry.

1.2 Methodology

In preparing this report, PwC has sourced a wide range of information. Four main sources or techniques have been used:

- analysis of existing data to provide insight into the historical and contextual grounding of the current state of the industry
- a hotel survey to obtain data in relation to hotel activities, costs and revenues
- modelling to test the economic contribution made by the gaming activities within hotels and
- an analysis of academic and other literature

This multi-pronged approach was necessitated by the fact that currently no single definitive data source exists which would answer all relevant questions.

For the purposes of Australian Bureau of Statistics reporting, the hotel industry falls within the Accommodation, Cafes and Restaurants' sector. The ABS publishes information about the specific industries within this broad grouping only periodically. For the club, pubs, taverns and bars industry, the latest survey was conducted in 2006. As discussed below, it is likely that the ABS has understated the size and scope of the industry. Where possible, other sources have been used to test the ABS results.

In addition, there are several variables for which the ABS and other sources do not provide information. As a result, PwC and the AHA agreed to conduct a survey of AHA members, asking a series of questions on a range of attributes, activities, revenue and expenses at individual hotels.

1244 hotels responded to the survey. To ensure the robustness of the analysis, we undertook a data verification exercise whereby we removed respondents from the sample where:

- their responses did not include total revenue indicated for the year ended 30 June 2008 (FY2008)
- their FY2008 total income appeared to have been entered incorrectly (ie it was significantly different from the sum of their different sources of income such as beverages, food, accommodation, gaming and other).

- the number of full time equivalent (FTE) employees appeared to have been entered in error (ie greater than 500, or did not reconcile with other employee data, such as total number of employees)
- they indicated that they had 100 or more accommodation rooms.

In respect to this last point, 72 hotels were identified as being primarily accommodation hotels, as distinct from traditional 'pub' hotels, which are the subject of this review. Even though these hotels will also have licensed premises and possibly gaming facilities, their activities, cost structures and primary sources of revenue were identified as being significantly different to the majority of hotels in our sample, and were excluded.

After removing these hotels from the sample, we were left with a total sample of 1,077 hotels, representing a broad spectrum of the industry across all states, metropolitan and regional areas and incorporating both gaming and non-gaming hotels. It is worth noting that in comparison with the other states and territories our sample of ACT hotels was very small. Therefore many of the numeric results flowing from the survey in relation to ACT hotels should be treated with caution. This is particularly the case where total figures are extrapolated from survey results.

Table 1 Characteristics of sample hotels

	Metro	Regional	EGMs	No EGMs	Total
NSW	227	180	256	151	407
VIC	118	72	101	89	190
QLD	109	146	222	33	255
WA	22	20		42	42
SA	66	19	63	22	85
TAS	37	23	21	39	60
ACT	6		1	5	6
NT	22	10	15	17	32
Total	607	470	679	398	1,077

Source: PwC survey responses

1.3 Structure of this report

The findings from our analysis, are structured into the following four chapters.

Chapter 2 provides an overview of the size and structure of the hotel industry. Drawing on publicly available data and survey responses, size and structural issues in the hotel industry are analysed, as well as publicly available estimates of the total industry employment. This chapter also investigates the economics of the hotel industry, looking at key drivers of profitability.

Chapter 3 focuses on the roles of hotels in the community. The majority of data used in this chapter, has been drawn from responses to our survey. Survey respondents were asked to identify the different types of events hosted at their hotels, as well as providing information on any sponsorships and donations to groups, clubs and organisations within their local communities.

Chapter 4 looks at some of the recent trends affecting the Australian hotels industry and the implications on the outlook for the industry. The issues focussed on in this chapter include trends in employment, industry revenue, industry growth and the role of gaming.

The final chapters focus on potential impacts of future policy decisions to the Australian hotel industry. Potential future regulations, including the removal of ATMs from all venues which have electronic gaming machines (EGMs), will have likely implications for hotels, which are discussed in this chapter. This chapter also reports on the findings of our modelling to test the economic contribution of hotels and the gaming activities within hotels, to the broader community.



02

SIZE & STRUCTURE



2 Size and structure

2.1 Overview

Pubs, or hotels, have played a prominent role in Australia's social and economic development. The first pubs appeared soon after European settlement and the historic role played by the traditional pub is symbolised today by the continued presence of heritage hotel buildings in country towns, cities and suburbs across Australia.

Throughout the last 200 years, the role and activities of the traditional pub have constantly adapted to suit changing social, economic and demographic circumstances. Part of this process of adaptation has involved a broadening of clientele and the offering of new goods and services including restaurant-style meals, gaming facilities, trivia nights and a range of community events. This process of adaptation and change has created new distinctions in the industry, such as that between hotels with gaming facilities and those without.

Nonetheless, the core business of selling alcoholic beverages remains the primary revenue source for the industry. As a result, a hotel is defined as a business that generates income predominantly from the provision of alcoholic beverages for consumption on premise. Many hotels also operate bottle shops.

The AHA is the peak body for traditional hotels, but also represents some businesses which derive their primary revenue from offering accommodation, along with the provision of alcoholic beverages in a licensed premise. For the purposes of reporting by the Australian Bureau of Statistics (ABS), these entities are generally classified as operating in the accommodation services industry, rather than the pub, tavern and bar industry.

The hotel industry has always operated in a highly regulated environment. Traditionally, the most significant form of government regulation related to licensing of the sale of liquor. In recent years, as electronic gaming machines (EGMs) have been permitted in hotels in most states, an additional form of regulation has emerged, prescribing the number and allocation of machines as well as the rules relating to the conduct of gaming operations in hotels.

These regulations have a significant effect on the structure of the hotel industry, and as regulation is imposed at the state level, industry structure can vary considerably across jurisdictions. Western Australia, for example, does not allow EGMs in hotels, leading to an industry structure in that state distinct from the other states and territories. Gaming in Victoria is concentrated in a minority of hotels, but more widely dispersed in other states. Finally, jurisdictions such as New South Wales and the ACT have a substantial club sector, characterised by a number of large licensed venues with a significant contribution from gaming. By contrast, in South Australia and Tasmania, traditional hotels are more prevalent than clubs.

The ABS divides hotels into two broad categories – those with and those without EGMs. On average, hotels with gaming machines tend to be larger – earning more revenue (both from gaming and other sources) and employing more people. In addition to EGMs, these venues tend to offer a variety of bar, bistro/restaurant, retail bottle shop and gaming facilities including TAB and Keno, as well as other forms of entertainment.

Those without EGMs are generally smaller, often catering to a specific market segment.

The role played by gaming in hotels remains secondary to the core business of selling beverages and food. Even where gaming is a prominent feature of a hotel's operations, gaming revenue tends to

account for around 30 per cent of gross income. This is an important distinction between hotels and clubs, with gaming occupying a more central role in the latter.¹ However, gaming is of great importance to the economics of the hotel industry, both because it underpins profitability, and because it forms part of the suite of entertainment options to attract patrons. Gaming activities are thus inextricably linked to other hotel activities.

2.2 Number of hotels

There is no definitive official figure in relation to the number of hotels, although the ABS periodically surveys the industry, and has published findings on many its characteristics. The most recent ABS survey (published in 2006) reported that in the year ended 30 June 2005 (FY2005), there were 3,454 hotel businesses operating in Australia, from 4,252 premises. The ABS estimated the total annual industry revenue to be approximately \$11.1 billion. Building on these findings, a more recent report from IBISWorld estimates that at June 2008 there were 4,017 hotels Australia-wide, with total revenue estimated at \$14.4 billion.

However, there is some evidence to suggest that both the ABS and IBISWorld reports may have understated the number of hotels in Australia. The AHA's membership exceeds 4,800 hotels, albeit some 600 of these (or around 12 per cent of AHA membership) are likely to be classified by the ABS as accommodation businesses rather than hotels. But the AHA's coverage of the sector is not complete – the association estimates that the total number of hotels in Australia could be as high as 6,807 – substantially above the number reported in the ABS survey.

Some state-based figures give further evidence of a larger number of hotels than reported by the ABS. For example, the ABS survey found 1,148 hotel businesses in New South Wales, whereas figures supplied by the AHA suggest there are at least 1,689 hotels across the state today and 1,787 in June 2005 – the period to which the ABS survey refers. Additionally the New South Wales Office of Liquor, Gaming and Racing website indicates that at 30 June 2007 there were 2,074 hotel licenses in New South Wales.²

A Queensland survey of hotels with gaming machines was based on a total number of 731 hotels with gaming machines in Queensland, compared with the ABS estimate of 387 hotel businesses with gaming. A similar survey in Victoria claimed a total of 258 gaming hotels and 1,349 non-gaming hotels – considerably higher than the ABS estimate of 866 hotel businesses across Victoria. These discrepancies can be partly explained by the distinction between individual hotels and hotel businesses – the latter being the standard unit reported by the ABS. Nonetheless, even the aggregate gap between businesses and premises in the ABS survey would be insufficient to fully explain the disparity with other statistics.

Another corroboration for potential under-statement by the ABS is that overall tax revenue from gaming machines as reported in the 2006 survey appears to be lower than that recorded by state government budget papers for the same period. Again, this is partly attributable to ABS policy – the tax revenue collected from gaming machines in Victoria and Tasmania are omitted from the ABS survey since the tax is actually paid by the owner-operators of the machines: Tabcorp and Tattersalls in Victoria, and Federals

¹ For example, ABS data indicates that while gaming revenue accounts for around 24.3 per cent of total hotel income, it accounts for an estimated 58.4 per cent of club income (ABS Clubs, Pubs, Taverns and Bars 2004-05, Cat 8687.0)

² New South Wales Office of Liquor, Gaming and Racing website (www.olgr.nsw.gov.au), accessed 24 March 2009.

in Tasmania. However, adjusting for this approach only partially accounts for the gap in reported revenue.

These alternative findings on the number of hotels Australia-wide suggest that there is room to debate the actual size of the industry. The existence of sources which corroborate a higher number of hotels than that reported in the ABS survey suggests that the true number of hotels is likely to be closer to the AHA estimate of 6,807.

Notwithstanding the possible understatement of hotel numbers by the ABS, the 2006 survey provides several useful insights in relation to average employment, income, cost and the underlying economic fundamentals of hotel businesses with and without gaming facilities.

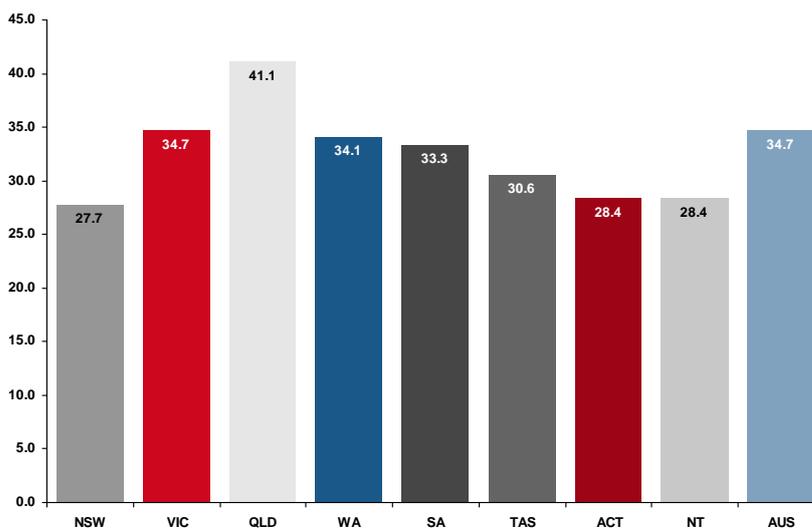
2.3 Employment

As with the number of hotels, there is no definitive statement as to the total number of people employed in hotels across Australia. The ABS survey found that total employment in the hotel industry was 81,675 in FY2005. As with the number of hotels, it is possible that this represents an understatement of the true extent of employment in the hotel industry.

The Queensland hotel gaming survey found that employment in gaming hotels in Queensland in 2006 was 19,927, some 39 per cent higher than the ABS estimate for the previous year. This implies an average employment of 27.2 employees per gaming hotel.

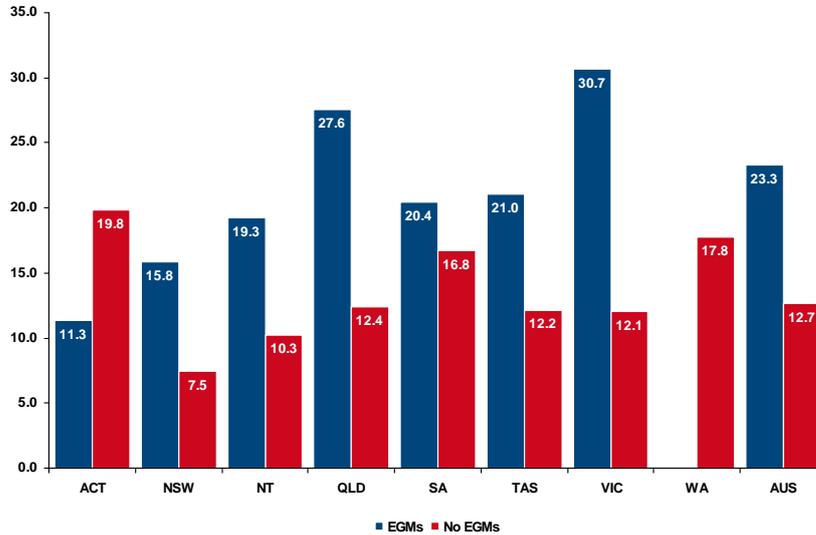
PwCs survey results indicated that on average hotels have approximately 34.7 employees. Figure 1 shows the variations in these average employee numbers between the states. New South Wales, the Australian Capital Territory and the Northern Territory have fewer average employees, whilst Queensland has the highest average employee number per hotel.

Figure 1 Average number of employees



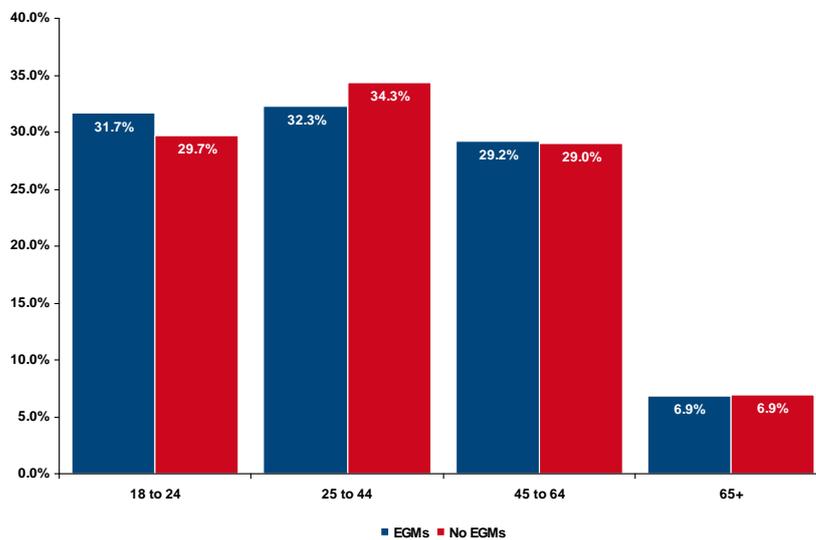
The PwC survey appears to have received responses from hotels with a larger average employment than was the case in the ABS survey. This fact affects the estimate of total employment based on an extrapolation from these average numbers.

Figure 2 Number of FTEs



Our survey results also indicate that with in all states except the ACT, hotels with EGMs had more full time equivalent employees (FTEs) than hotels with no EGMs. Victorian hotels with EGMs on average had over 30 FTEs, whilst in NSW hotels with no EGMs employed an average of just under 7 FTEs.

Figure 3 Proportion of hotel employees by age



The PwC sample includes a high volume of hotels with between 19 and 30 employees, whereas the ABS sample was more heavily weighted to those with fewer than 19 employees. It is possible that this reflects some sample error in the PwC/AHA sample in favour of larger hotels.

This can be corrected to some extent by extrapolating on the basis of average employment, split between those hotels with EGMs and those without. For example, in Victoria, a large proportion of the hotels not captured by the PwC/AHA survey are those without EGMs which have smaller average employment than those with EGMs.

Using this method of extrapolation in relation to the largest states, and relying on the AHA estimate of 6,807 across Australia, produces a total employment figure in excess of 188,862. This figure is derived using average employment per hotel and adjusting for the split between gaming and non-gaming hotels in New South Wales, Victoria and Queensland, where reliable data was able to be sourced. Thus some attempt has been made to reweight in favour of the smaller hotels which responded to the PwC survey. Nonetheless, the figure should be treated with caution, as it appears very high relative to other estimates. It is substantially higher than the figure cited by the ABS for 2004-05 (81,675).

Figure 4 Employment by State

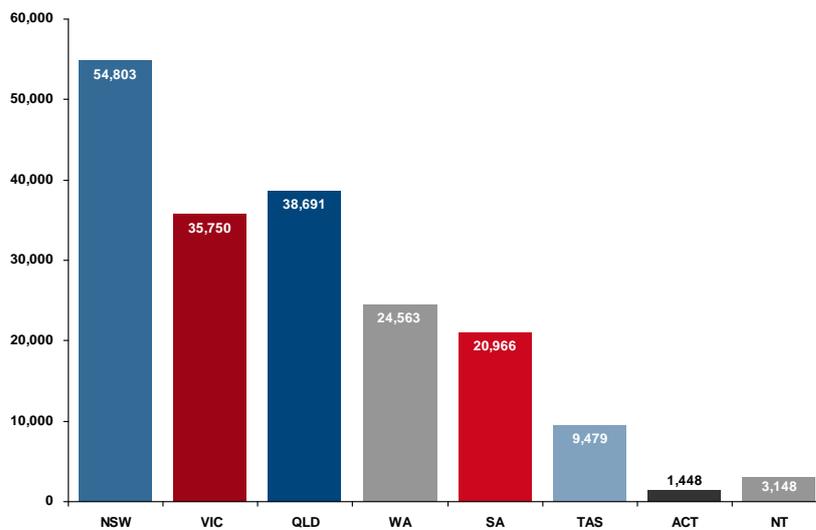


Figure 4 above provides a breakdown of this extrapolated total employment figure by state. Using this extrapolated figure we provide an estimate of the total industry employment by state. Not surprisingly, New South Wales is the largest employer, with just over 50,000 persons employed by hotels in that state.

Although the ABS may have underestimated total industry employment, its 2006 survey (Table 2) provides useful data on the structure of employment in the industry.

Table 2 ABS Pubs, Taverns and Bars employment figures FY2005

	Males		Females		Persons	
	No	%	No	%	No	%
Businesses with gambling facilities						
Permanent full-time	9177	30.1	5926	17.2	15103	23.3
Permanent part-time	1409	4.6	2150	6.2	3559	5.5
Casuals	19485	64.0	26079	75.7	45564	70.2
Total	30071	98.8	34156	99.1	64227	99.0
Licensed gaming staff	N/A		N/A		21924	33.8
Businesses without gambling facilities						
Permanent full-time	2379	29.5	1297	14.9	3676	21.9
Permanent part-time	395	4.9	620	7.1	1014	6.0
Casuals	5033	62.5	6665	76.5	11698	69.8
Total	8053	96.9	8582	98.5	16388	97.7
All businesses						
Permanent full-time	11557	30.0	7223	16.7	18779	23.0
Permanent part-time	1803	4.7	2770	6.4	4574	5.6
Casuals	24517	63.7	32745	75.8	57262	70.1
Total	37877	98.4	42738	99.0	80615	98.7
Employment at end June 2005	38496	100.0	43179	100.0	81675	100.0

Source: Australian Bureau of Statistics (2006), '8687.0: Clubs, Pubs Taverns and Bars 2004-05, p12

As can be seen from the table, over two thirds of hotel employees are casual employees, with just under a quarter of the total employees having permanent full time positions. These figures are broadly consistent between hotels with and without gambling facilities.

These results indicate that flexible employment structures are suited to the needs of the hotel industry. For example hotels may require all of their permanent and casual staff to work on a Saturday night, but only one or two permanent staff to work during weekdays. The casual or part-time positions which the hotels offer, may often suit students looking for work outside their studies, or full time workers looking to earn additional income. The industry therefore plays a vital role in providing casual employment to persons balancing other commitments.

The Queensland survey of gaming hotels found very similar results. It indicated that 63.6 per cent of employees were casual, compared with 25.6 per cent full time and 9.3 per cent part time.

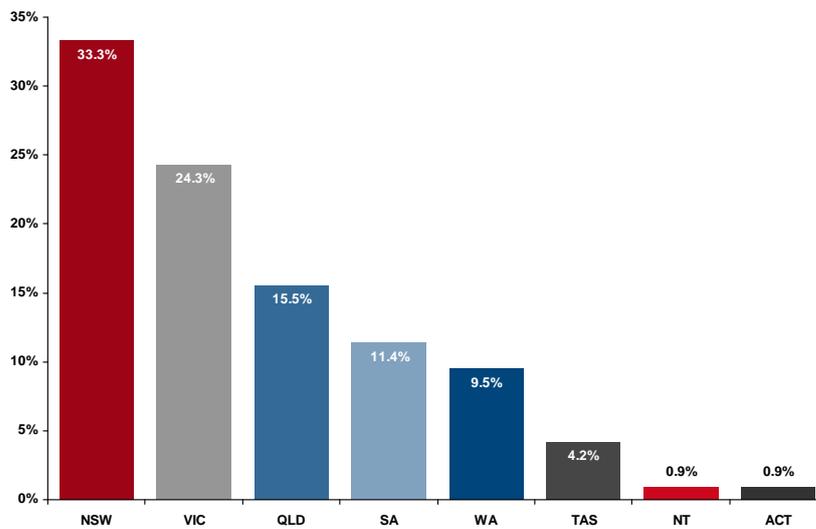
What these employment results may exclude, is the adhoc employment which hotels provide through the hire of live entertainment services. Musicians, DJs, and other entertainers such as trivia and other game show hosts, all find employment through the hotel industry purchasing their on either a casual or permanent basis. It is unlikely that these positions are included in the ABS's survey results, however they are nonetheless important to consider when looking at the total employment that the hotel industry provides.

2.4 Hotels by state

The varying state regulations applying to liquor licensing and gaming machines have meant that the structure of the hotel industry differs substantially between jurisdictions.

New South Wales and Victoria each account for an industry share broadly in keeping with population share. By contrast, South Australia has a larger share of the hotel industry than its 7 per cent population share, while Western Australia has a smaller share of the hotel industry.

Figure 5 Share of hotels by state

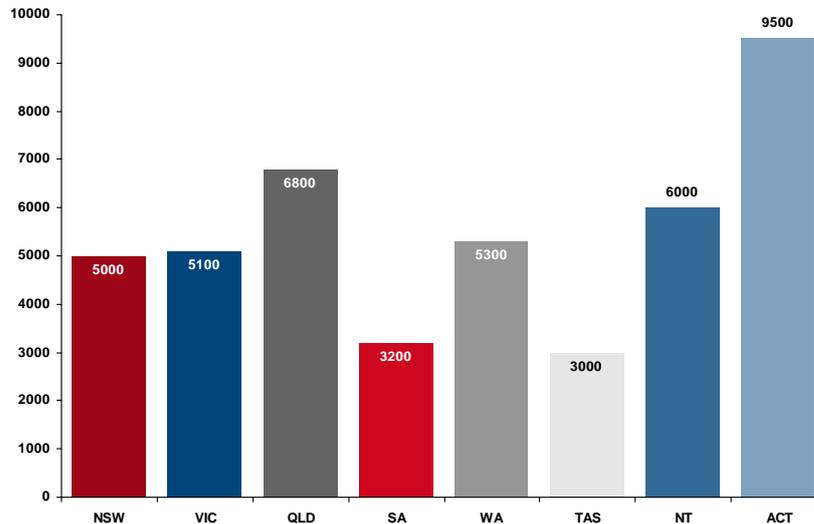


Source: IBISWorld Industry Reports (2008)

As a result, the population per hotel differs significantly across individual states, though for different reasons in different instances. The ACT has a high population per hotel – i.e. relatively few hotels for its population – reflecting the strength of the club industry in Canberra. After the ACT, Queensland and New South Wales have the next highest ratio of clubs to hotels, according to the ABS, thus accounting for Queensland's relatively high population to hotel ratio. Western Australia's high population to hotel ratio can be largely attributed to the lack of gaming machines, which have enhanced hotel profitability and viability in other states.

South Australia and Tasmania are the two jurisdictions with the largest number of hotels relative to population, reflecting the absence of a strong club industry in those states and the contribution of gaming machines to hotel viability.

Figure 6 Per capita population per hotel



Source: IBISWorld Industry Reports (2008)

Even between seemingly similar states, regulatory settings can create significant disparities in underlying industry structure.

Although New South Wales and Victoria have a similar number of hotels relative to population, there is an important contrast in relation to the incidence of gaming in the two states. In New South Wales, according to ABS data, almost all hotels have gaming facilities. To a lesser extent, this is true of South Australia. In both Queensland and Tasmania, a majority of hotels have gaming machines. In Victoria, by contrast, a relatively small number of hotels have gaming facilities. The gaming facilities referred to by the ABS are broader than electronic gaming machines, as they include keno and TAB facilities. In fact, only 250 Victorian hotels have electronic gaming machines, out of a total hotel population of around 1,400. Thus whereas the 'typical' pub in New South Wales has gaming machines, the 'typical' pub in Victoria does not.

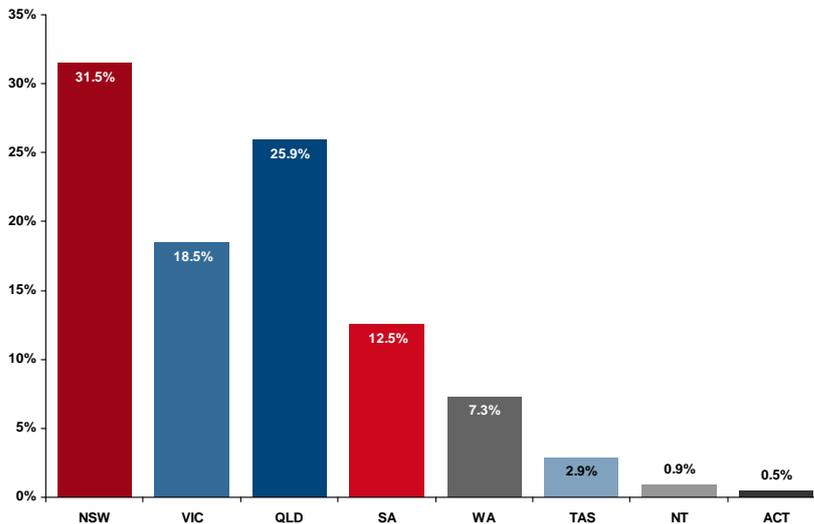
This relative concentration of gaming activity in a handful of hotels in Victoria can be attributed to a range of factors including the ownership structure of gaming machines; which in Victoria are owned and operated by Tabcorp and Tattersalls. More importantly, the numeric restriction on gaming machines per hotel is higher in Victoria (at 105) than in New South Wales (30) and Queensland (40).

Table 3 Hotel businesses by state FY2005

	Businesses with Gambling Facilities	Businesses without Gambling Facilities	Total
NSW	1097	51	1148
VIC	348	518	866
QLD	387	163	550
SA	331	69	400
WA	138	190	328
TAS	86	60	146
NT	12	18	30
ACT	7	26	33
AUS	2362	1092	3454

Source: Australian Bureau of Statistics (2006), '8687.0: Clubs, Pubs Taverns and Bars 2004-05, p13

Figure 7 Share of hotel revenue by state



Source: IBISWorld Industry Reports (2008)

Victoria, which the ABS estimated as having 24.3 percent of hotel businesses has only 18.5 percent of the total revenue. Hotels in Victoria tend to be smaller (in terms of turnover) than those in other states. Possible reasons for this include:

- Historically, Victoria has had comparatively low liquor licensing fees, which has facilitated the establishment of many smaller enterprises.
- A minority of hotels in Victoria have gaming machines, which is a comparatively small proportion compared with most other states.
- In Victoria hotels are restricted from owning gaming machines, and profits are shared between the hotel and the EGM owners. The hotel's share is around 25 per cent, once GST, gaming tax, Community Support Levy and the owner's share are taken out.

2.5 Hotels by size

The lack of consolidation in the sector might also be accounted for by the fact that it remains dominated by relatively small hotels. The majority of businesses in the hotel industry according to the ABS employed fewer than 20 people. This reflects the market breakdown which is formed by small and independent pub owners who do not have the capacity or need to employ larger numbers.

Table 4 Hotels by number of employees

		0-19 people	20-49 people	50-99 people	100+ people	Total
Businesses with gambling facilities						
Businesses at end of June 2005	No.	1401	728	193	40	2362
	%	59.3	30.8	8.2	1.7	100.0
Employment at end of June 2005	No.	14481	22087	12898	15438	64905
	%	22.3	34.0	19.9	23.8	100.0
Businesses without gambling facilities						
Businesses at end of June 2005	No.	846	207	32	7	1092
	%	77.5	18.9	2.9	0.6	100.0
Employment at end of June 2005	No.	7452	5824	2229	1265	16770
	%	44.4	34.7	13.3	7.5	100.0
All businesses						
Businesses at end of June 2005	No.	2247	935	225	46	3454
	%	66.1	27.1	6.5	1.3	100.0
Employment at end of June 2005	No.	21933	27911	15127	16704	81675
	%	26.9	34.2	18.5	20.5	100.0

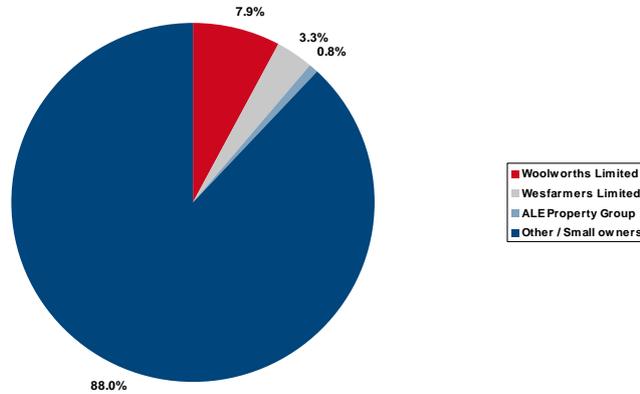
Source: Australian Bureau of Statistics (2006), '8687.0: Clubs, Pubs Taverns and Bars 2004-05, p14

2.6 Ownership structure

Although the hotel industry presents some opportunity for economies of scale and scope, there has been very little consolidation in the sector. The industry remains characterised by small, independent pub owners who lack a chain or franchise affiliation. These businesses make up approximately 88% of the market share; the remaining 12% of the market is divided amongst Woolworths Ltd (7.9%), Wesfarmers Limited (3.3%) and ALE Property Group (0.3%).

This is in keeping with the ABS finding that 3,454 hotel businesses owned 4,252 premises, reflecting a high dispersal of ownership. Although the aggregate number of premises and businesses might have been understated by the ABS, the ratio between the two is likely to be broadly accurate.

Figure 8 Ownership structure of hotel industry



Source: IBISWorld Industry Reports (2008)

For consolidated hotels, it is likely that any economies of scale stem from efficiencies from central management. Very few consolidated hotels have common branding, as this would likely detract from the consumer association of the hotel with a particular neighbourhood, so it is unlikely that economies would be achieved through consumer brand recognition.

2.7 Hotel revenue

Table 5 Hotel sources of income FY2005

	Businesses with gambling facilities		Businesses without gambling facilities		All businesses	
	Income \$m	Proportion of total income %	Income \$m	Proportion of total income %	Income \$m	Proportion of total income %
Income from sale of liquor and other beverages	5,511.6	57.6	1,194.6	77.1	6,706.1	60.3
Gambling income	2,703.1	28.3			2,303.1	24.3
Income from sale of meals and food	967.3	10.1	233.4	15.1	1,200.6	10.8
Other income	383.1	4.0	121.3	7.9	504.5	4.6
Total	9,565.1	100	1,549.2	100	11,114.3	100

Source: Australian Bureau of Statistics (2006), '8687.0: Clubs, Pubs Taverns and Bars 2004-05, p10

The ABS found that whether or not a hotel has gaming facilities, the majority of income is earned through the sale of liquor and other beverages. Intuitively, the proportion of income earned through the sale of liquor and other beverages is higher for hotels with no gambling facilities as those with gambling facilities, similar to the proportions of income earned through the sale of meals and food, and other types of income.

On average, the ABS found that in gaming hotels, average gambling income was \$1.1 million per business, while non-gambling income averaged \$2.9 million per business – confirming that even in

gaming hotels, non-gaming income predominates. The \$2.9 million in non-gaming income in gaming hotels compares with average income of \$1.4 million from all sources in non-gaming hotels.

This illustrates that gaming hotels tend to be larger across the board – selling more food and beverages than non-gaming hotels. In part this reflects the fact that gaming machines tend to be located in the busiest hotels, particularly in Victoria where hotel venues are selected by gaming machine owners. However, it also reflects the linkages which exist between hotels' multiple service offerings. Gaming is not a discrete activity completely separate from the remainder of a hotel's business. Patrons are attracted to hotels on the basis of a full range of services, activities and attributes, which are often consumed together. A typical patron might eat a meal, drink a beer, watch a band or a sporting event and play a poker machine as part of a single visit to a hotel.

Within food and beverage sales, the proportion of income earned through food relative to the sale of beverages is similar across all hotels – those with gambling facilities and those without. This indicates similarities in the levels of food service offerings of both types of businesses. It also suggests that patrons of both types of establishments have similar habits in relation to eating and drinking at hotels.

Table 6 Historical comparison of sources of hotel

	Businesses with gambling facilities		Businesses without gambling facilities		All businesses	
	2000-01 %	2004-05 %	2000-01 %	2004-05 %	2000-01 \$m	2004-05 %
Income from sale of liquor and other beverages	60.1	57.6	78.1	77.1	62.7	60.3
Gambling income	27.9	28.3			24.0	24.3
Income from sale of meals and food	8.5	10.1	13.7	15.1	9.2	10.8
Other income	3.5	4.0	8.2	7.9	4.1	4.6
Total	100	100	100	100	100	100

Source: Australian Bureau of Statistics (2006), '8687.0: Clubs, Pubs Taverns and Bars 2004-05, p9

The ABS published figures to illustrate any changes in the breakdown of hotel income between the year ended 30 June 2001 (FY2001) and FY2005. The data illustrates that the proportions across the income categories are broadly stable. Across all types of hotels the proportion of income earned through the sale of liquor and other beverages declined, whereas the proportion of income earned from the sales of meals and food increased. The proportion of income earned through gambling activities experienced a slight increase.

Although broadly consistent, there was some variation between these ABS findings and PwCs survey results. Figure 11 shows that the sale of beverages contributed approximately 50 percent of the total income earned by hotels in our sample, which is lower than the ABS figure. Revenue from gambling activities (including EGMs) contributed just over 30 percent, and revenue from the sale of food contributed over 10%, which are slightly higher than corresponding ABS figures. However, in respect of proportion of revenue earned from gambling activities, this question was only responded to by hotels with gambling facilities. It is therefore appropriate to compare our survey result with the ABS figure for the proportion of revenue earned through gambling activities, by hotels which have gambling facilities. In FY2005 the ABS found that hotels with gambling facilities earned 28.3 percent of their revenue from gambling, which is not dissimilar from the results from our survey, indicating that 31.5% of revenue is earned from gambling.

Figure 9 Percentage contribution to income

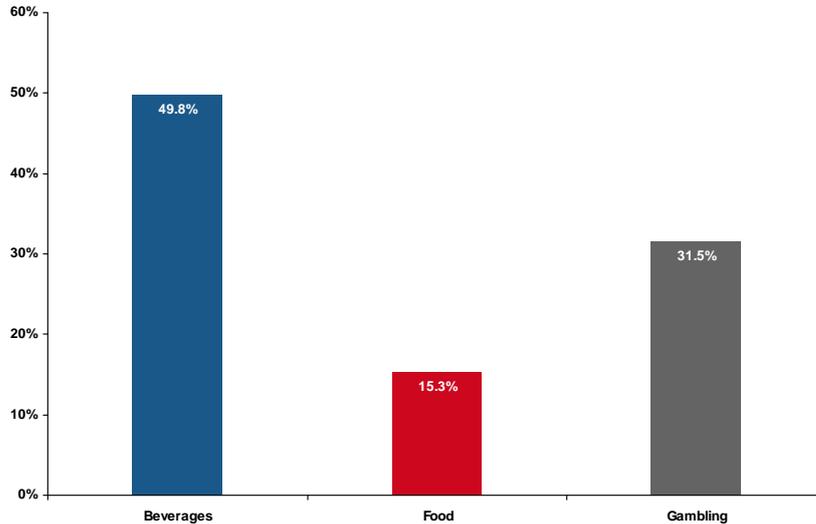
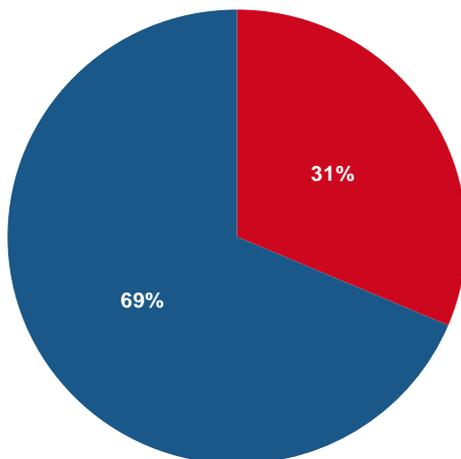


Figure 10 Gambling revenue as a proportion of total income



Our survey results demonstrate that for hotels with gambling facilities, revenue from gambling activities constitute less than a third of their total revenue.

2.8 Expenditure

The ABS survey collected data on the major expenses incurred by hotels. Table 7 shows that the most significant component of expenses for hotels with or without gambling facilities was purchases. These purchases mostly consist of liquor and other beverages and food for resale. Labour costs are the next most significant component of expenses for both types of hotels. Labour costs make up a high proportion of expenses for businesses without gambling facilities (25.7%) compared with businesses with gambling facilities (21.2%). This can be partly explained by the fact that hotels with gambling facilities have additional expenses in the form of gambling taxes and levies (10.5% of total expenses), which means that other forms of expenses are proportionately lower.

Table 7 Hotel breakdown of expenditure FY2005

	Businesses with gambling facilities		Businesses without gambling facilities		All businesses	
	Expense \$m	Proportion of total expenses %	Expense \$m	Proportion of total expenses %	Expense \$m	Proportion of total expenses %
Labour costs	1,891.4	21.2	376.6	25.7	2,268	21.9
Purchases	3,853.3	43.3	623.2	42.5	4,476.5	43.2
Gambling taxes and levies	940.5	10.5	0	0	940.5	9.1
Rent, leasing and hiring	532.1	6.0	108.9	7.4	641.0	6.2
Other expenses	1,684.2	19	359.3	24.4	2,088.5	19.6
Total	8,901.5	100	1468	100	10,369.5	100

Source: Australian Bureau of Statistics (2006), '8687.0: Clubs, Pubs Taverns and Bars 2004-05, p11

2.9 Profit

In its 2006 survey, the ABS estimated the profitability of the Australian hotel industry, segregating hotels with or without gambling facilities. These findings, and findings from an earlier survey completed in 2002, are shown in Table 8.

Table 8 Profitability by hotel type

	Businesses with gambling facilities		Businesses without gambling facilities		All businesses	
	2000-01	2004-05	2000-01	2004-05	2000-01	2004-05
Income \$m	7,636.2	9,565.1	1,246.2	1,549.2	8,882.4	11,114.3
Expenses \$m	7,031	8,901.5	1,182.6	1,468	8,213.6	10,369.5
Operating profit before tax \$m	652	701.7	63.2	82.5	715.2	784.2
Operating profit margin %	8.5	7.4	5.1	5.4	8.1	7.1

Source: Australian Bureau of Statistics (2006), '8687.0: Clubs, Pubs Taverns and Bars 2004-05, p11

A comparison of the operating profit margins of hotels in the 2000-01 year compared with the 2004-05 year shows a decline of 1%. A fall in the profit margins of businesses with gambling facilities is contrasted with an increase in the profit margins of businesses without gambling facilities.

Table 9 Profitability by hotel size FY2005

		0-19 employees	20-49 employees	50-99 employees	100+ employees	Total
Businesses with gambling facilities						
Total income	\$m	2,382.8	3,103.3	1,749.7	2,329.3	9,565.1
Operating profit before tax	\$m	253.5	275.7	114.3	58.2	701.7
Operating profit margin	%	10.7	9.0	6.6	2.5	7.4
Businesses without gambling facilities						
Total income	\$m	723.2	533.3	175.2	117.5	1,549.2
Operating profit before tax	\$m	23.6	37.8	14.3	6.8	82.5

Operating profit margin	%	3.3	7.1	8.2	5.8	5.4
All businesses with gambling facilities						
Total income	\$m	3,106	3,636.7	1,924.9	2,446.7	11,114.3
Operating profit before tax	\$m	277.2	313.5	128.5	65	784.2
Operating profit margin	%	9.0	8.7	6.7	2.7	7.1

Source: Australian Bureau of Statistics (2006), '8687.0: Clubs, Pubs Taverns and Bars 2004-05, p14

For hotels with gambling facilities, there is a consistent trend that larger businesses have lower operating profits. This is intuitive in an economic sense, as hotels may choose to grow revenue at the expense of profit margins, to achieve a greater nominal profit. The profit margins of businesses without gambling facilities do not follow such trends, as both small and large hotels make lower average operating margins than medium sized hotels.

However, it remains the case that hotels with gambling facilities are on average more profitable than those without. This is attributable to the fact that hotels' most significant cost relates to the purchase of liquor and foodstuffs for sale to patrons. Labour costs are the second-largest expense item. In general, gaming operations are less labour intensive than food and beverage sales and do not involve the same degree of ongoing purchase of inputs.

Thus although gaming revenue accounts for around 30 per cent of total revenue in gaming hotels, it is likely to make a more significant net contribution to hotel profits. This additional contribution to profit can be used in one of two ways – it can underpin a higher overall profit margin, or it can help to accommodate a lower margin on food and beverage sales.

The former possibility is suggested by the fact that gaming hotels have a higher percentage profit margin than non-gaming hotels. The latter possibility is reinforced by a gross margin analysis based on ABS data.

Table 10 Gross profitability by hotel type FY2005

		Businesses with gambling facilities	Businesses without gambling facilities	All businesses
Income from sale of liquor, other beverages, meals and food	\$m	6,478.9	1,428	7,906.9
Purchases for sale of liquor, other beverages, meals and food	\$m	3,759.4	593.7	4,353.1
Gross margin	\$m	2,719.5	834.3	3,553.8
Gross margin	%	42.0	58.4	44.9

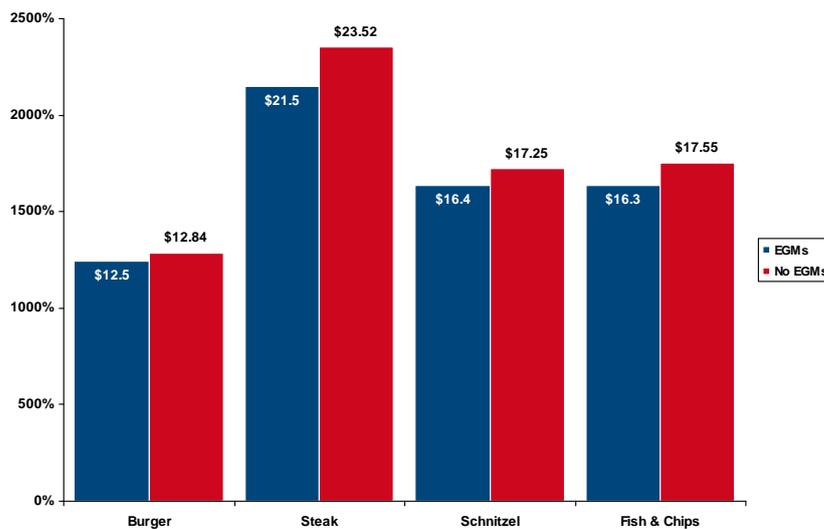
Source: Australian Bureau of Statistics (2006), '8687.0: Clubs, Pubs Taverns and Bars 2004-05, pp. 10, 11

The data demonstrates that in 2004-05, business without gambling facilities made substantially larger gross margins on the sale of liquor and other beverages, and food and meals than businesses with gambling facilities. This difference in gross margins is most likely due to higher prices for comparable food and drink in hotels without gambling facilities. This suggests a degree of cross-subsidisation in hotels with gambling facilities, which allows them to provide lower cost food and beverages to patrons. This also adds support to the notion that gambling, eating and drinking at hotels are all interrelated activities, and that it may not be appropriate to segregate them.

2.10 Pricing

PwC's survey of Australian hotels requested that businesses provide prices or averages prices for four different traditional pub meals. Figure 11 demonstrates the average prices charged for the four meals, across hotels with gambling facilities (EGM's) with those without (No EGMs).

Figure 11 Average prices for traditional meals in hotels with and without gaming facilities



Source: PwC Survey responses

Prices were found to be higher in non-gaming hotels by around 10% for burgers, 10% for steak, 7% for schnitzel and 10% for fish and chips.

It should be acknowledged that in some cases, differences between 'traditional meals' at hotels may reflect the quality and size of the meal as much as any cross-subsidisation. Our survey results for the prices of steaks, for example, ranged from a minimum of \$5, to a maximum of \$36, and respondents were not asked to indicate what type of steak was offered. Higher prices may reflect more generous servings, or better quality, as much as cross-subsidisation. Out of the 733 hotels which contributed data on steak prices, 579 indicated that they have EGMs, and 154 did not indicate that they had EGMs. Given the sample size includes a significant number of EGM and non-EGM hotels, it is reasonable to expect that differences between sizes and quality of steaks between EGM hotels and non-EGM hotels EGMs would be broadly consistent. These results therefore suggest that, on average, EGM hotels charge less for steaks than non-EGM hotels do. Figure 11 above shows that this pattern holds for the other three traditional pub meals, which further suggests that food prices are cross subsidised by EGM activities. Given these results, and the gross margin data obtained from the ABS survey, it seems reasonable to conclude that hotels with EGMs cross-subsidise their food and meals provided to patrons with profit earned from gaming activities.

Also, in drawing comparisons between the prices of food in gaming and non-gaming venues, account must be taken of the fact that where both forms of hotel exist, competitive pressures will tend to compress prices. Thus a hotel without gaming machines may have no choice but to price meals at a level comparable to nearby competitors. As a result, the gap between food prices in gaming and non-gaming hotels might actually understate the impact on prices if gaming machines were absent from hotels altogether.

The absence of gaming machines in Western Australia offers some ability to test the proposition that an absence of gaming machines leads to higher food prices.

Table 11 Food prices by state

	Burger	Steak	Schnitzel	Fish & Chips
NSW	10.89	17.84	14.41	14.32
Vic	14.55	24.17	18.34	19.01
Qld	12.89	23.89	17.50	17.54
WA	14.17	27.04	19.20	19.16
SA	12.50	20.91	15.18	14.04
Tas	11.92	22.23	17.01	17.10
ACT	10.50	26.38	18.70	17.87
NT	12.97	25.07	16.88	16.97
Aus	12.53	21.94	16.53	16.58

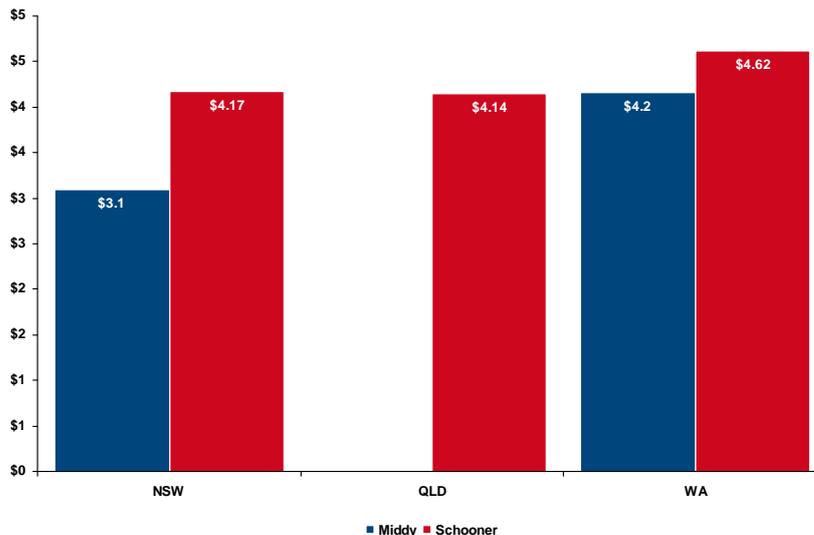
Source: PwC Survey responses

In fact, the PwC survey found consistently higher prices in Western Australia for the four food dishes sampled, when compared with the national average. The gap between Western Australian prices ranged from 23 per cent in relation to steak to 13 per cent in relation to burgers. Moreover, Western Australia had the highest average price for all categories except for burgers, for which it had the second highest price.

Comparisons in relation to beer prices are made more difficult by the variation in the standard beer size across Australian jurisdictions. PwC asked each hotel to nominate a standard beer size and price.

The results suggest that the best benchmark by which to judge Western Australia was the price of schooners and middies, compared with those in New South Wales and Queensland in particular. Typical beer sizes served in the other states and territories are not comparable to those served in Western Australia, and have thus been excluded from this comparison.

Figure 12 Average beer prices

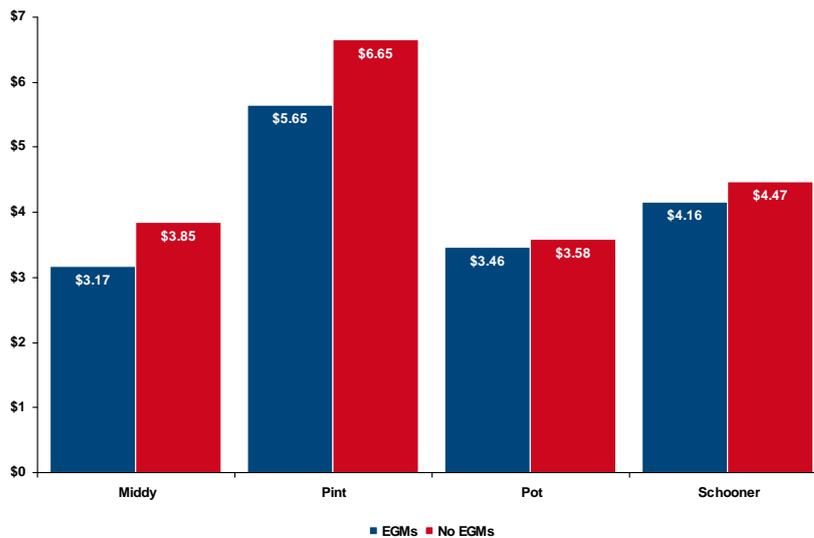


Overall, the prices of schooners and middies in Western Australia was found to be above those in New South Wales and Queensland, reinforcing the point raised in the gross margin analysis – that gaming

revenue can contribute to some margin compression in relation to food and beverage sales in addition to underpinning overall profitability.

Figure 12 shows our survey results of average beer prices in hotels with and without EGMs. Across all beer sizes served at hotels, average prices in hotels with EGMs were consistently lower, than in hotels without EGMs.

Figure 13 Beer prices



2.11 Impact of introduction of EGMs on hotels

As is indicated above, typically hotels which have EGMs are larger, in terms of revenue and employment and more profitable than hotels without EGMs. There is also evidence to suggest that hotels with EGMs subsidise their pricing of food and beverages to their patrons. In our survey, participants were asked to identify specific changes to their hotel following the introduction of EGMs. Over 80% of respondents indicated that employment at their hotel was increased following the introduction of EGMs. On a statewide basis, in Victoria over 90% of hotels increased employment after EGMs were introduced.

Figure 14 Impact of the introduction of EGMs on hotel employment

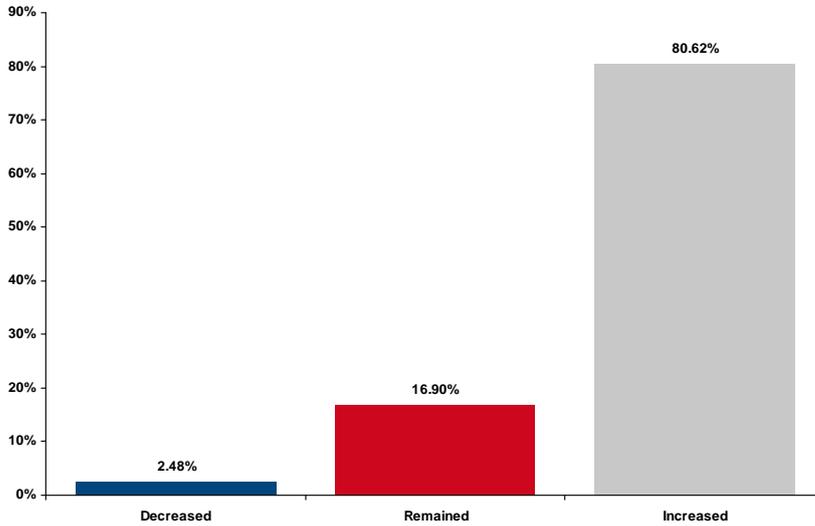
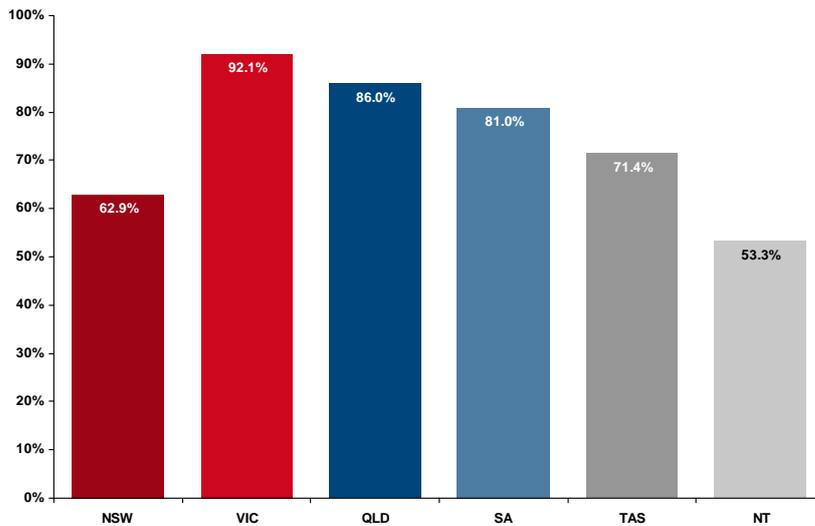


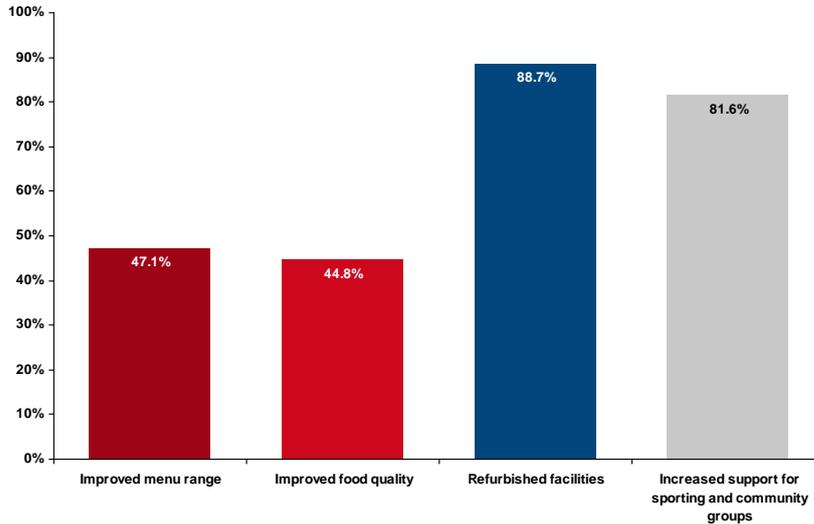
Figure 15 State breakdown of hotels which increased employment after introduction of EGMs



Source: PwC survey responses

Figure 16 below illustrates the survey responses to a range of outcomes following the introduction of EGMs. Almost 90% of respondents were able to undertake capital expenditure to improve facilities, with the average spend on capital expenditure approximately \$2.3 million. Over 80% of respondents indicated that their level of community support and sponsorship increased following the introduction of EGMs. Just under half the respondents indicated that they improved their menu and range of food and drinks products as well as the quality of their food following the introduction of EGMs.

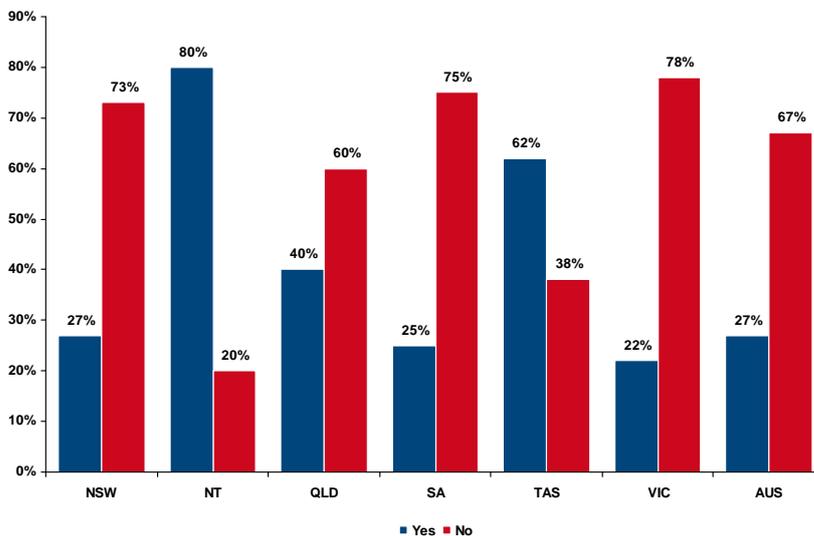
Figure 16 Effect of gaming machines



Source: PwC survey responses

These survey results suggest that the introduction of EGMs has not only contributed to hotels' operating profits, but has provided them with additional cash flow to reinvest in their business and give back to the community.

Figure 17 Could hotels continue to operate if ATMs were removed



Across Australia, the majority of hotels surveyed by PwC indicated that they would not be able to continue to operate if gambling facilities were removed from hotels. These results add further support to the important role that gambling facilities, in particular EGMs, play in the financial viability of many hotels.



03

ROLE OF HOTELS IN THE COMMUNITY



3 Role of hotels in the community

3.1 Overview

For commercial and civic reasons, hotels engage with the broader community in a number of ways. As part of the suite of services and entertainment options provided, hotels play an important role in hosting live music, trivia competitions, community group meetings and other events.

In addition, hotels provide substantial sponsorship of community organisations, including sporting clubs, community groups, health and social services organisations. Through these activities, hotels play a central role in local community life.

In addition to providing direct employment, hotels undertake staff training and contribute to their regional economies through the use of local suppliers.

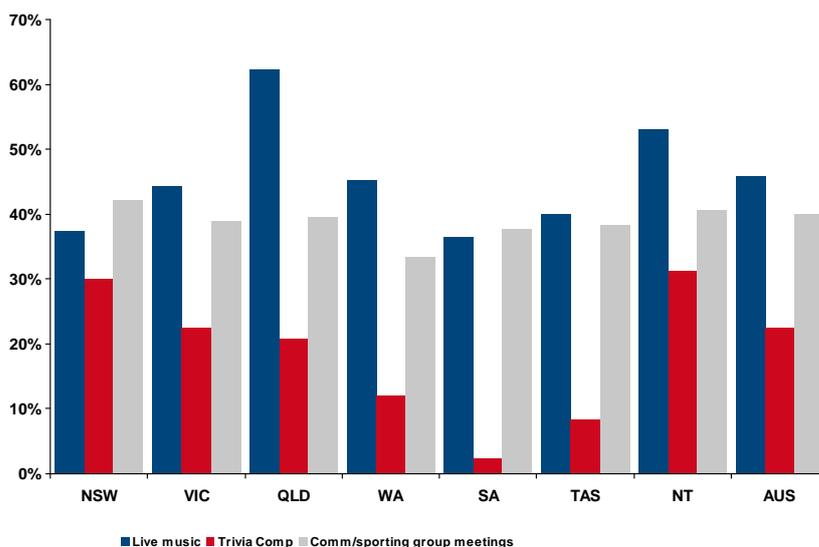
3.2 Hotel activities

It has been noted that hotels have constantly adapted to changing social trends and consumer preferences, and that part of the hotel's commercial strategy is to offer a breadth of entertainment options.

In addition to serving beverages and offering gaming facilities, hotels provide a range of other activities and entertainments, including live music and trivia competitions as well as hosting events such as community meetings.

In response to PwC's survey 46 per cent of hotels indicated that they hosted live music. Some 23 per cent hosted trivia nights and 40 per cent hosted meetings of community or sporting groups.

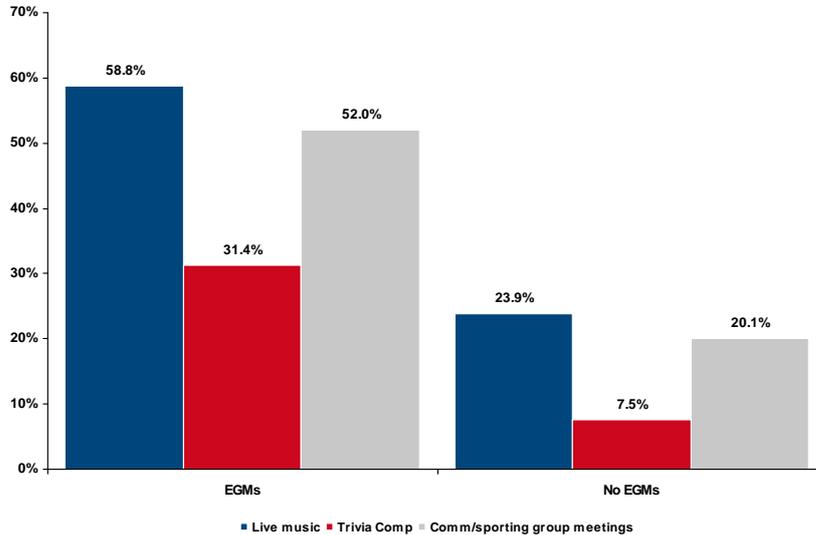
Figure 18 Community events by state



Source: PwC Survey responses

Results were fairly common across states, although Queensland hotels indicated a higher incidence of live music. On average, those hotels identifying themselves as having electronic gaming machines were more likely to host all three forms of community activity. This result disputes the anecdotal suggestion that hotels with gaming electronic machines are less likely to host live music in particular.

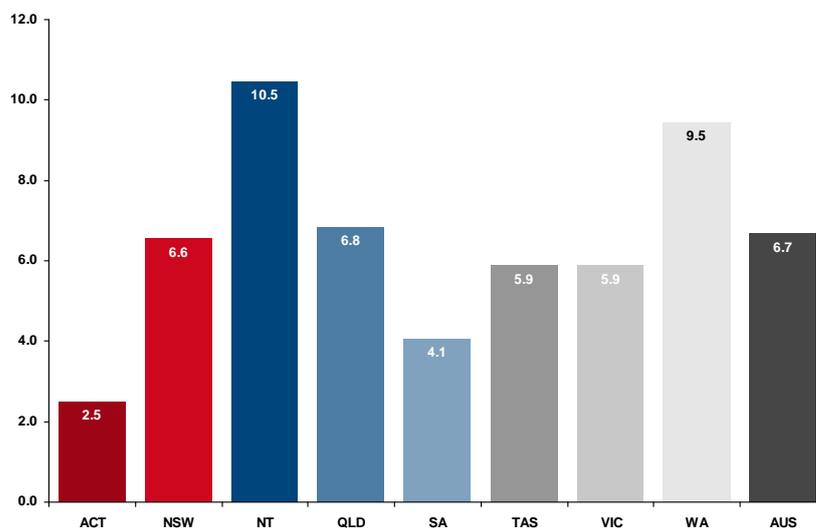
Figure 19 Community events by hotel type



Source: PwC Survey responses

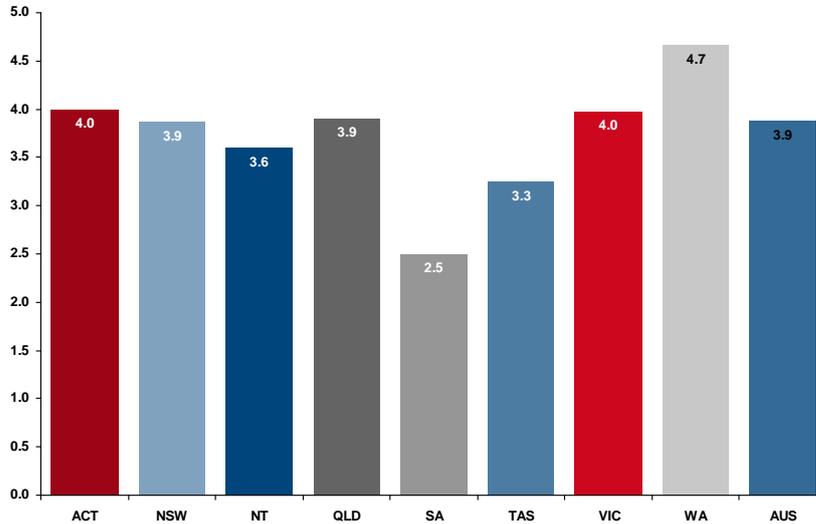
Of those hotels which indicated that they hosted live music, the average regularity of such shows was just over six times a month, suggesting the possibility that several hotels were hosting live music twice a week (e.g. Friday and Saturday nights). Western Australia and the Northern Territory appeared to have the most regular live music shows on average.

Figure 20 Number of live music nights per month



Source: PwC Survey responses

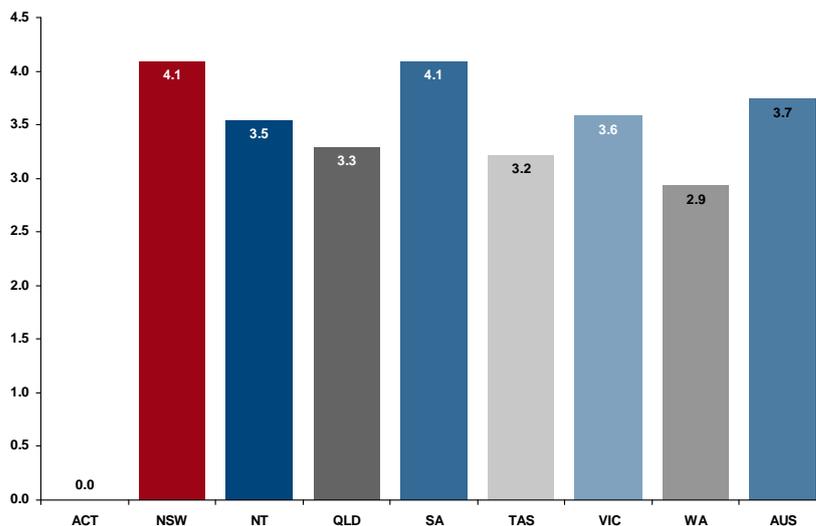
Figure 21 Number of trivia nights per month



Source: PwC Survey responses

Hotels in all states, with the exception of the ACT, indicated that they hosted community or sporting group meetings around four times each month. As mentioned previously, given so few ACT hotels responded to the survey, little reliance should be placed on this result. The Australia-wide figures most likely suggest that multiple such groups made use of the local hotel for their meetings, assuming that individual groups met on a monthly or less frequent basis.

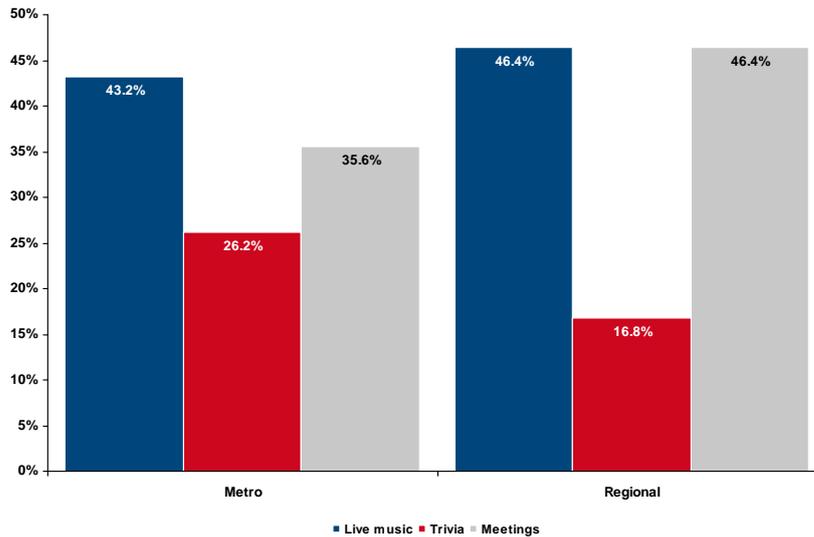
Figure 22 Number of community meetings per month



Source: PwC Survey responses

On average, hotels in regional areas were marginally more likely to indicate that they hosted live music than hotels in metropolitan areas. By contrast, trivia competitions were more common in metropolitan hotels. Regional hotels were more likely to host meetings or local community or sporting groups.

Figure 23 Hotel events by metro / regional location



Source: PwC Survey responses

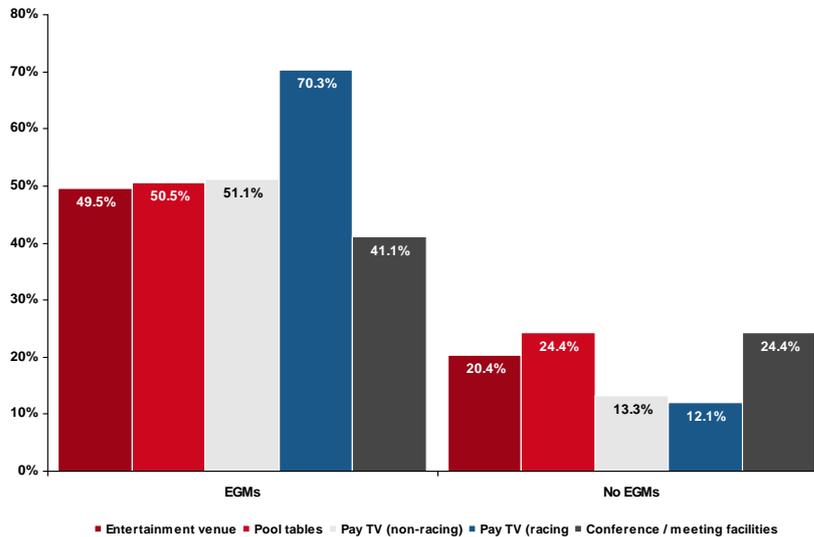
If the incidence and regularity of these events as recorded by the PwC survey were extrapolated across all hotels in Australia, then it could be estimated that annually, Australian hotels host

- 249,828 live music performances
- 71,556 trivia competitions, and
- 122,904 meetings of local sporting and community organisations.

3.3 Hotel facilities

In addition to hosting a range of events and activities, hotels also diversify their entertainment offering through the facilities provided. According to PwC's survey, hotels commonly offered subscription television services, both for racing and for other entertainment (including sport), pool and billiards tables, entertainment venues (including nightclubs) and conference/meeting facilities.

Figure 24 Hotel facilities



Source: PwC Survey responses

Hotels which identified that they had electronic gaming machines were more likely to also have each respective type of facilities than those who did not identify themselves as having electronic gaming machines.

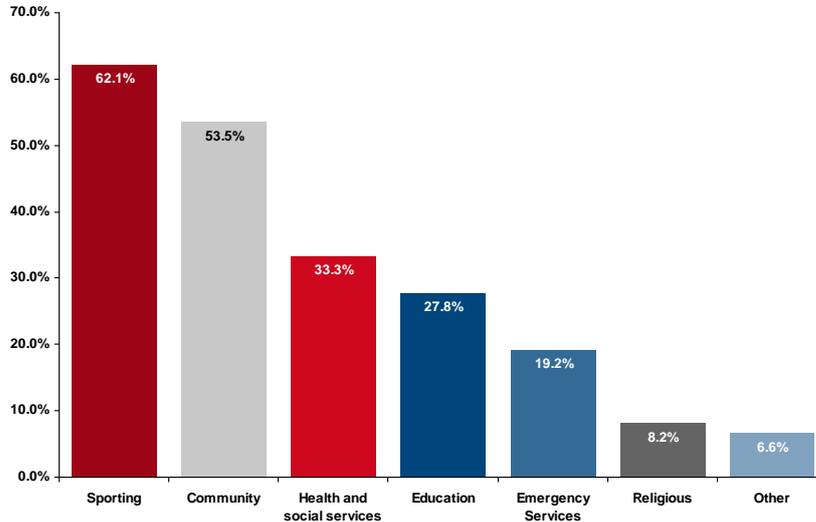
3.4 Sponsorship

Given that hotels tend to be locally owned, it is not surprising that many of them make financial and other contributions to community groups. PwC's survey asked respondents to indicate whether they offered financial support or sponsorship to a range of organisations, classified into

- Sporting teams/clubs
- Community groups
- Health and social services organisations
- Education organisations
- Emergency services organisations
- Religious organisations, and
- Other groups

The results suggested that sporting teams were the most common area for financial support and sponsorship, with a clear majority of hotels supporting at least one organisation. A narrow majority supported one or more community groups, with smaller percentages supporting health, education and emergency services groups. Fewer than 10 per cent supported a religious organisation.

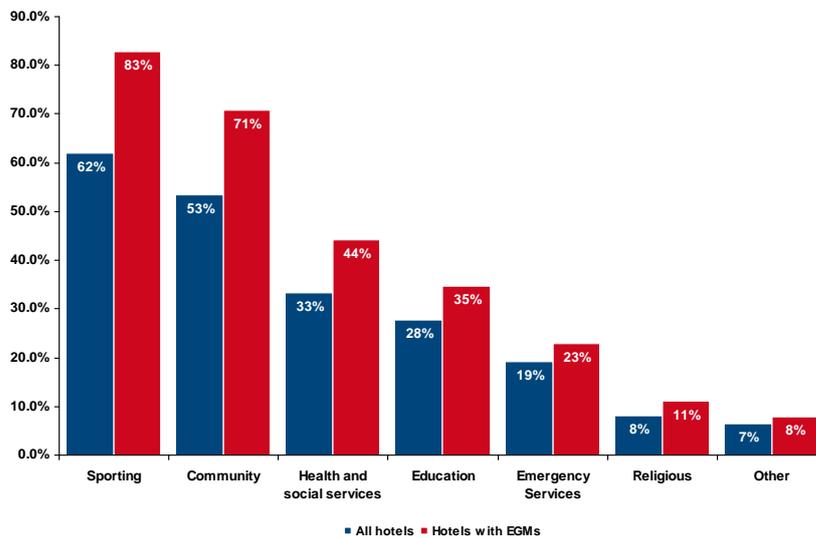
Figure 25 Percentage of hotels supporting community groups



Source: PwC Survey responses

Across all categories, hotels with electronic gaming machines were more likely to provide support or sponsorship to various groups, with over 82 per cent of hotels with gaming machines supporting sporting clubs or teams.

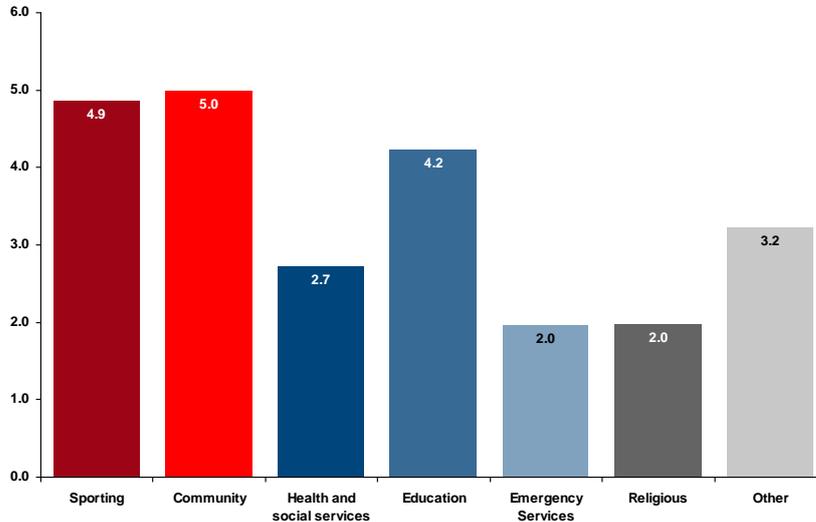
Figure 26 Percentage of hotels supporting specific types of community groups



Source: PwC Survey responses

Of those hotels indicating that they provided some support to sporting and other organisations, it was common for that assistance to spread over multiple groups in the relevant category. For example, hotels providing support to sporting teams did so, on average, for 4.9 individual teams or clubs.

Figure 27 Average number of community groups supported

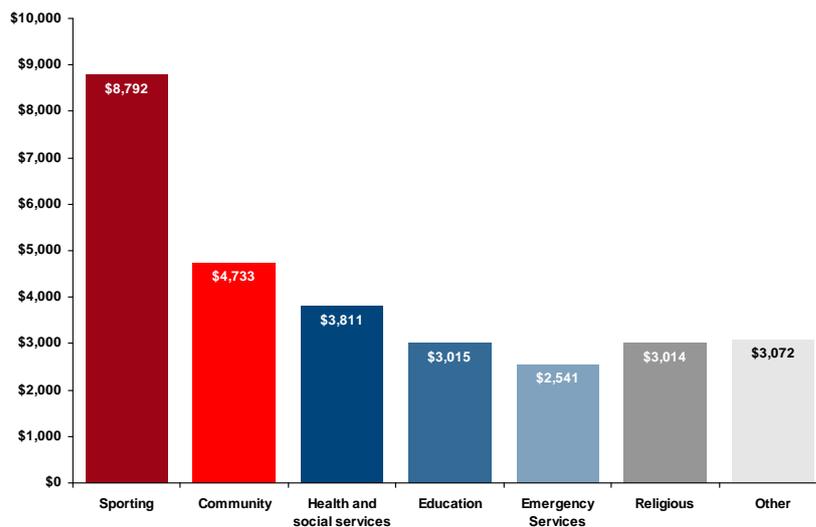


Source: PwC Survey responses

Among those who offered support to various groups, the average amount provided varied across categories. The largest average amount provided was in relation to sporting groups (in addition to sporting groups being the most common recipients of support). Of those providing support, \$8,792 per hotel was provided. In relation to community groups, the average level of support was \$4,733.

Smaller average amounts were provided to health, education, religious and other groups.

Figure 28 Average contribution per hotel



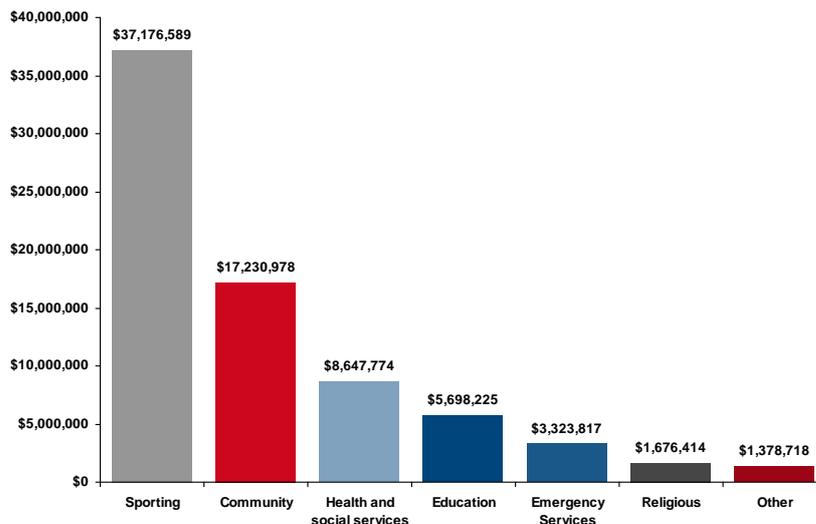
Source: PwC Survey responses

If the patterns of support indicated by the PwC survey were extrapolated across all Australian hotels, then it would be the case that each year, hotels provide some support to:

- 20,597 sporting teams
- 18,209 community groups
- 6,165 health and social services organisations
- 8,015 educational organisations
- 2,568 emergency services organisations
- 1,099 religious groups, and
- 1,450 other organisations.

A similar extrapolation can be done in relation to the amounts provided to the different categories of groups supported. If the patterns of support and average contributions indicated by the PwC survey were replicated across all hotels, then this would amount to some \$75 million in total support and sponsorship per annum. Around half of this amount is attributable to assistance provided to sporting groups and a further 23 per cent attributable to assistance provided to community groups.

Figure 29 Estimated community contributions by hotels

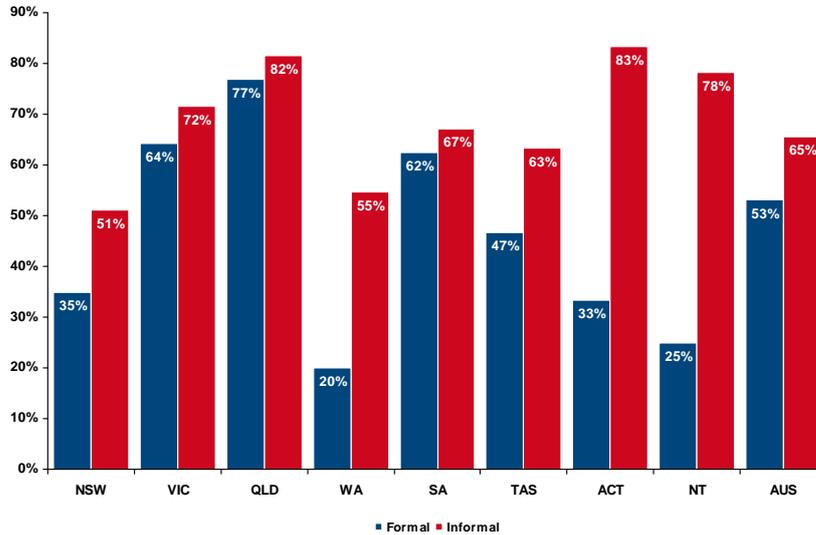


It should be noted that these amounts represent the estimate of total cash sponsorship. In addition to these amounts, hotels often offer substantial in-kind assistance to local community organisations and sporting groups.

3.5 Training

PwC's survey found that hotels provide a combination of formal and informal, or on the job, training to staff. Overall, 53 per cent of hotels indicated providing formal training to their staff, with 65 per cent indicating the provision of informal, on the job training. These percentages differed across states, with Queensland and Victorian hotels most likely to provide formal training, while hotels in Queensland and the ACT were most likely to provide informal training.

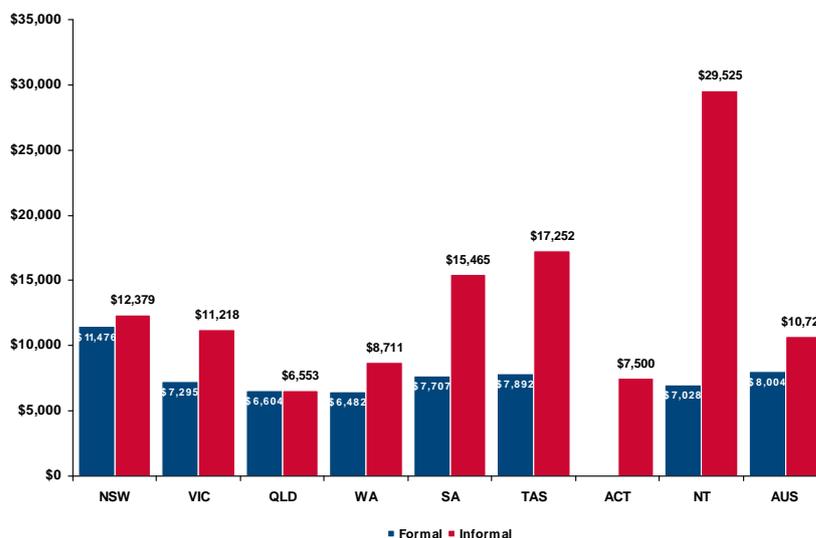
Figure 30 Percentage of hotels providing formal and informal training by state



Source: PwC Survey responses

In general, the average amounts spent on formal training per hotel were similar across jurisdictions, with an Australian average of \$8,004. The average amounts spent on informal training were more varied across jurisdictions, ranging from around \$29,500 in the Northern Territory to around \$6,500 in Queensland.

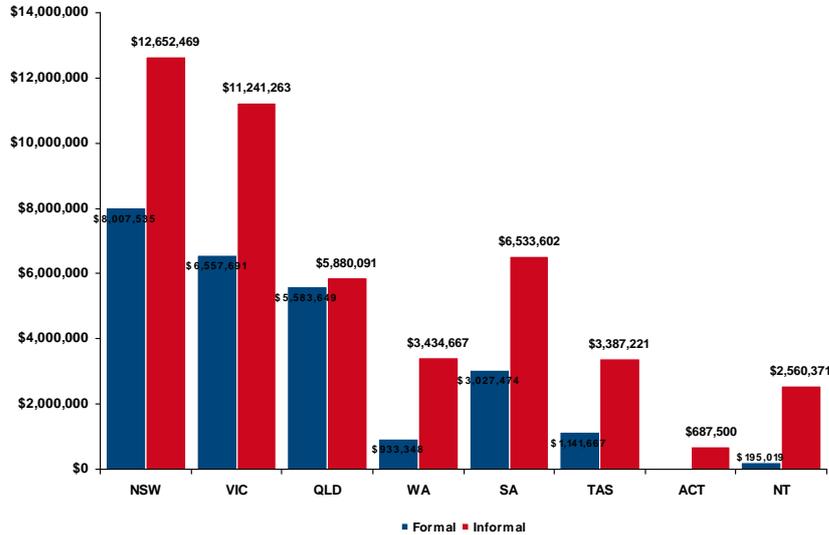
Figure 31 Average training expenditure



Source: PwC Survey responses

If the proportion of hotels providing formal and informal training indicated by the PwC survey were repeated across Australia, along with the average expenditure by those hotels providing training, then the total commitment to formal and informal training by hotels across Australia would be \$71.8 million, with \$25.4 million of this attributable to formal training and \$46.4 million attributable to informal training.

Figure 32 Estimated training expenditure



It is likely that much of the training conducted centres around the regulated components of the hotel industry's operations, focused on gaming and the service of alcohol. All states and territories impose requirements on staff working in these areas to undertake some training in order to understand regulatory obligations.

- In Victoria all employees working in the gaming area are required to undertake an approved course within six months of employment, and undertake a refresher course every three years.
- In Queensland gaming venues are required to have a gaming nominee (who is responsible for the conduct of gaming) who must undergo a two day training course. Venues must also have at least two licensed gaming employees, which are not required to undergo any specific training.
- In South Australia mandatory training is required for all employees, under the Responsible Gambling Code of Practice.
- In Tasmania all employee undertaking gaming duties are required to undertake a course approved by the Tasmanian Gaming Commission, within three months of being licensed.
- In New South Wales for employees with gaming duties to have completed the *NSW Responsible Conduct of Gambling Course*.
- In the ACT the *Code of Practice* requires all employees involved in gaming to complete approved training courses.

Several hotels commented that they had difficulty quantifying the value of informal training provided, since it is, by its nature, on-the-job training concerning aspects of working in a commercial hotel environment.

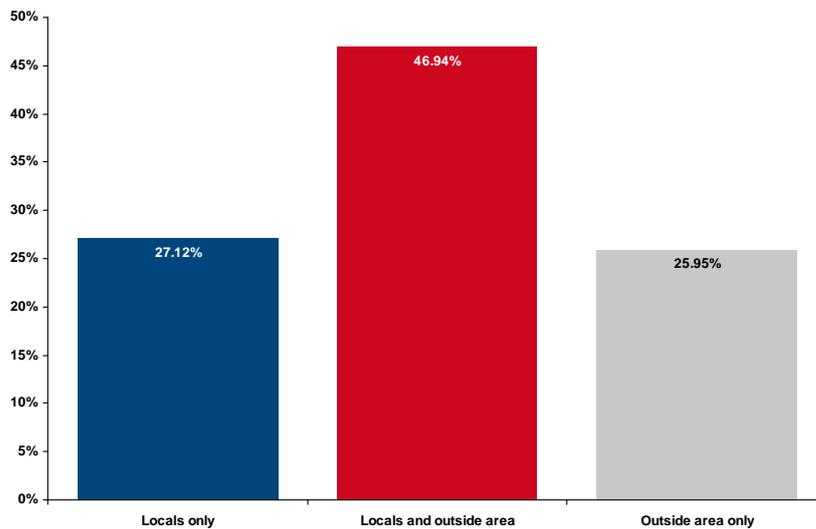
Hotels also commented on the fact that the high proportion of casual staff in the industry meant that on-the-job training was a continual process.

3.6 Suppliers

As part of the PwC survey, hotels were asked to nominate the location of their suppliers. Local suppliers were defined as those within 10 kilometres of the hotel. Of the hotels responding to the question, 47 per

cent stated that they received supplied from both within and outside the local area. Those nominating only local suppliers amounted to 27 per cent, while those nominating only 'outside area' suppliers amounted to 26 per cent.

Figure 33 Location of suppliers



Source: PwC Survey responses

Some care must be exercised in interpreting such a figure, since much depends on the stage of production at which supply is defined. In a general sense, it is almost certain that a significant majority of hotels receive at least some supplies (e.g. alcoholic beverage supplies) from outside their local area.

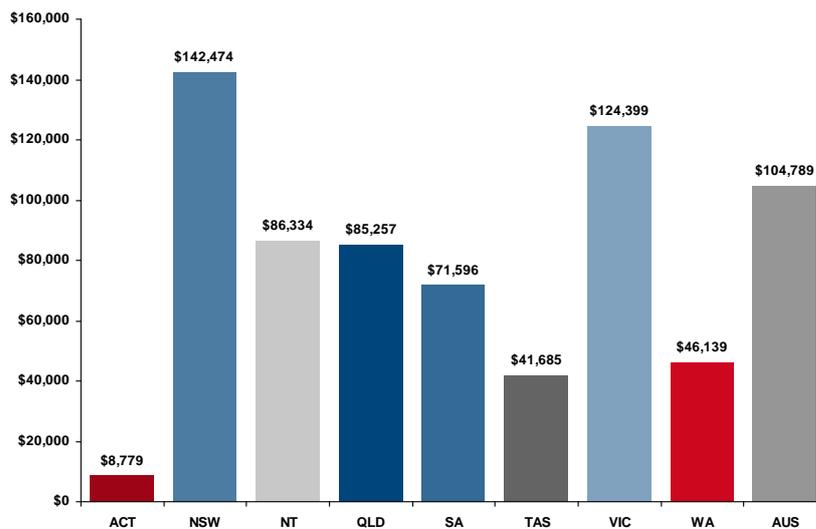
That said, it is worth noting that of those responding to the question, 74 per cent stated that they received at least some supplies from within 10 kilometres of their premises. This indicates the local community focus which characterises the hotel industry. For example, the lack of consolidated ownership in the sector is likely to mean that few supplies are accessed through common, large-scale bulk contracts as may be more prevalent in the franchised café and restaurant businesses, for example.

3.7 Other contributions to local industries and economies

Our survey asked respondents to provide annual amounts for certain significant items of expenditure. Figure 34 illustrates the average hotel expenditure on security during the year ended 30 June 2008. Our survey results indicate that across Australia hotels on average spend just over \$100,000 on security annually. Hotels in New South Wales and Victoria indicated the highest levels of average annual expenditure, whereas hotels in the Australian Capital Territory and Tasmania on average spent the least. As mentioned previously, due to the small number of Australian Capital Territory hotels which responded to this survey, this state breakdown figure should be treated with caution. However what these national results indicate are the strong linkages between the private security and hotels industry in Australia. If this average hotel security expenditure figure is extrapolated across the entire hotel industry, the total industry spend on security is equal to approximately \$713 million annually. However only just over 40% of our survey sample responded positively when asked to indicate average security expenditure. The weighted average annual security expenditure from our survey (including those who did not provide a numerical answer to the question) was equal to \$45,094. If this weighted average is extrapolated across the hotel industry, total average security expenditure would be equal to approximately \$307 million. However this assumes that less than 50% of the hotels in our sample had security, which seems

improbable. The median average annual hotel expenditure on security from our sample was equal to \$75,744, midway between the average and the weighted average. We believe that this figure is the most appropriate to extrapolate to obtain a total annual industry spend on security. Extrapolating the median gives us total annual industry expenditure on security of \$515.6 million. Given this figure it appears quite probable that the hotels industry would be the largest customer of the private security industry in Australia.

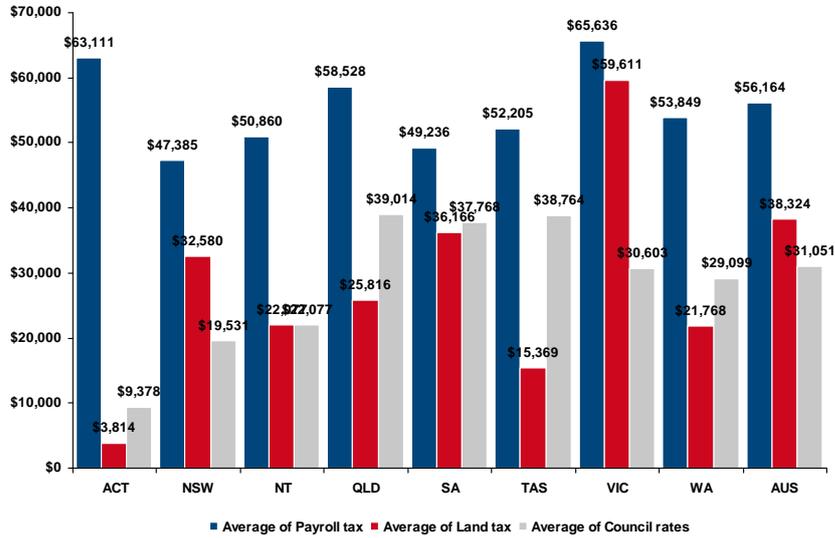
Figure 34 Average hotel security expenditure



Another significant form of expenditure incurred by hotels are various taxes charged by local, state and federal governments. Figure 35 shows the average annual amount that survey respondents spent on land tax, payroll tax and council rates. Out of these three taxes, average annual expenditure on payroll tax was consistently the most significant for hotels Australia-wide. Average expenditure on land tax varied between hotels in different states. On average Victorian hotels spent the most on land tax, which is perhaps partly due to the higher concentration of metropolitan hotels in Victoria. Expenditure on council rates is also a significant burden for hotels. Australia-wide our survey results indicate that hotels spent approximately \$30,000 annually on council rates.

These results further demonstrate the contribution which hotels make to other industries and governments through significant amounts of expenditure.

Figure 35 Average hotel tax expenditure



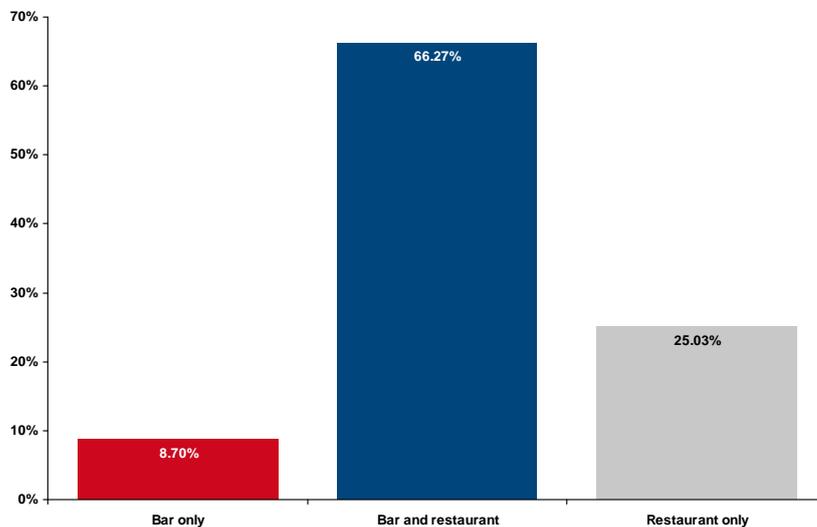
3.8 Food and meals

In addition to traditional bar or counter meals, hotels have increasingly moved towards offering restaurant-style dining as an option for patrons.

The PwC survey asked hotels to nominate the type of meals they served – bar/counter meals or restaurant/bistro meals or both.

Unsurprisingly, among those who responded, a majority (66 per cent) offered both types of meal. It is noteworthy that of those hotels offering only one or the other, a larger percentage offered restaurant/bistro meals as distinct from bar/counter meals. One quarter of respondents offered restaurant meals only compared with 8 per cent who offered counter meals only.

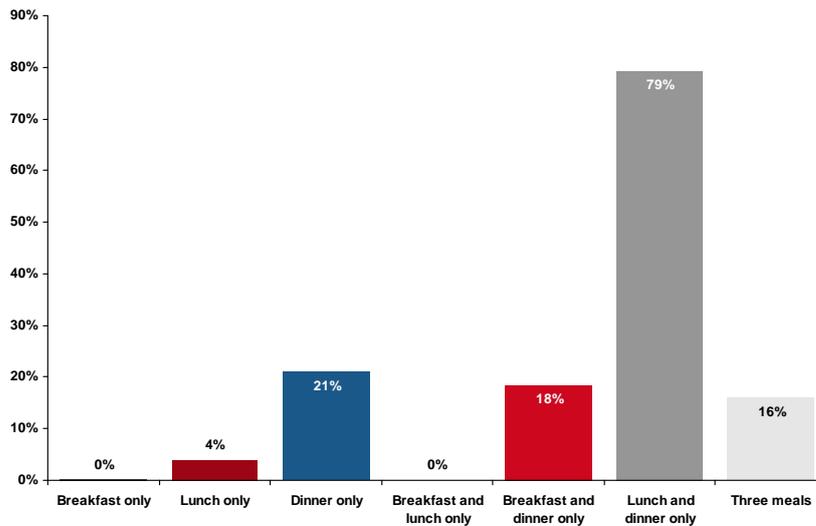
Figure 36 Types of meals served



Source: PwC Survey responses

Hotels were also questioned as to the times at which meals were served at their premises. A significant majority (79 per cent) answered that they served lunch and dinner only, compared with 16 per cent who offered three meals a day. Very small percentages of respondents offered any alternative combinations of meal times.

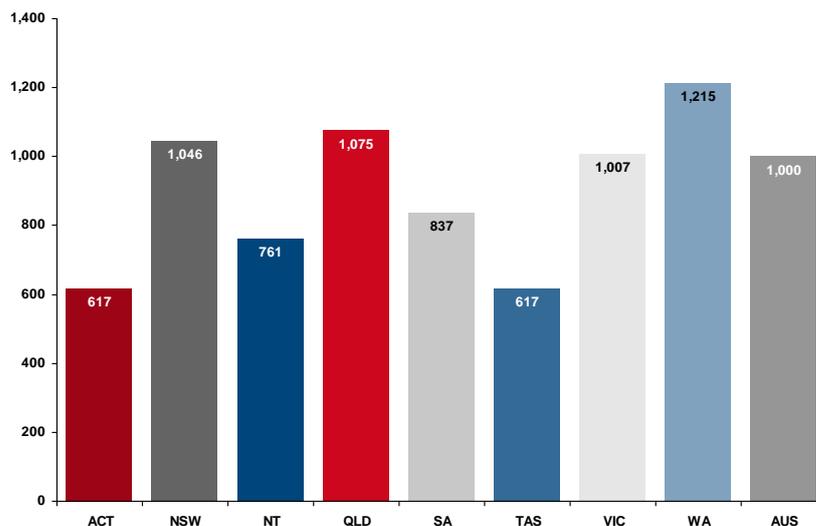
Figure 37 Operation of the kitchen



Source: PwC Survey responses

Respondents were also asked to estimate the average number of meals served per week. For the large states and for Australia as a whole, the average was around 1,000 meals per week.

Figure 38 Average number of meals served per week



Source: PwC Survey responses

Estimating the total number of meals served in hotels across Australia requires some extrapolation from the PwC survey results. Among those hotels responding to the question in the survey, the average number of weekly meals served was 1,000. The median was around 800, suggesting that the average was dragged upwards by some large observations.

If the average percentage of hotels responding to this question in each state was extrapolated across all hotels in the relevant state, along with the average number of meals served, then the total number of meals would come to 4.4 million per week. This would represent around 1.5 per cent of lunches and dinners across Australia.

Applying the median figure for weekly meals from the PwC survey would generate a total figure of 3.6 million or 1.2 per cent of lunches and dinners served across Australia.



04

INDUSTRY TRENDS & OUTLOOK



4 Industry trends and outlook

4.1 Size of hotel industry

According to ABS and IBISWorld figures, over the past 10 years, the number of hotel businesses and premises has declined. Although Chapter 2 discusses some reasons why these figures may underestimate the total number of hotels in Australia, the downward trend in these estimates may nonetheless indicate an overall contraction in the number of hotels over time.

Table 12 Historical comparison of size of hotel industry

	1997-98	2000-01	2004-05	2007-08 ³
Businesses	4,540	4,003	3,454	3,158
Premises	4,964	4,627	4,252	4,017
Average no. of premises per business	1.09	1.16	1.23	1.27

Source: Australian Bureau of Statistics '8687.0: Clubs, Pubs Taverns and Bars 2004-05, 2000-01, 1997-98 & IBISWorld Industry Reports (2008)

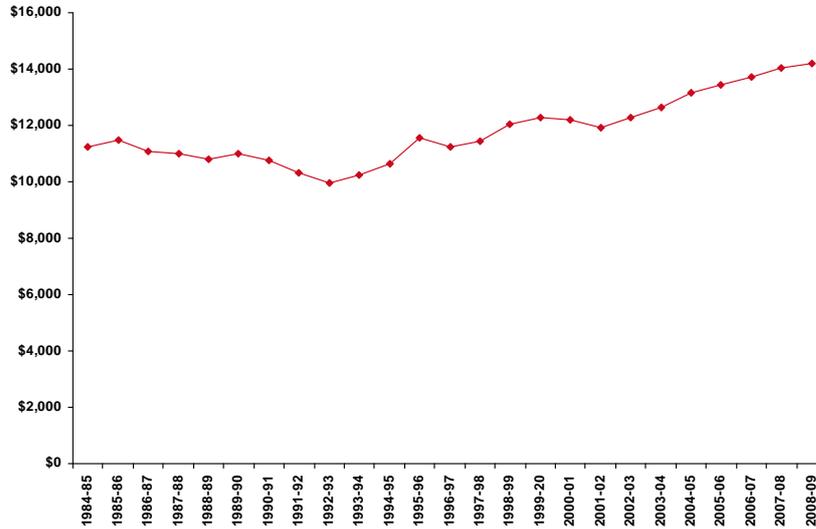
Table 12 shows that while the number of businesses and premises have fallen over the period, the average number of premises per business has increased. This suggests that the industry is becoming increasingly consolidated, which may suggest emerging economies of scale in owning multiple hotel premises. It is unlikely that this is derived from hotels having 'brand' value, such in the case of fast food restaurants, but more likely that centralised management expertise across a number of different hotels can produce operating efficiencies.

4.2 Income trends

For much of the last 25 years, there has been consistent albeit minimal real growth in the revenue of the hotel industry.

³ 2007-08 figures sourced from IBISWorld industry reports (2008)

Figure 39 Hotel industry revenue trend



Source IBISWorld industry report 2008

In real terms revenue growth declined throughout much of the 1980s and early 1990s, before experiencing some periods of sustained growth. In recent years the hotel industry has experienced constant annual real growth, which has coincided overall economic growth, and rises in disposable income of consumers. The relatively mild growth during this period, suggests that the hotel industry is mature, and that significant annual growth fluctuations are unlikely to occur.

However even though industry growth has been moderate for many years now, given the declining number of hotel businesses and premises, the average income per hotel must be increasing. The table below demonstrates the average income per hotel business and premises based on ABS survey data.

Table 13 Average income of hotels based on ABS findings

		1997-98	2000-01	2004-05
Businesses	no.	4,540	4,003	3,454
Premises	no.	4,964	4,627	4,252
Income	\$m	7,995	9,007	11,114
Income per business	\$m	1.76	2.25	3.22
Income per premise	\$m	1.61	1.95	2.61

Source ABS Clubs, Pubs, Taverns and Bars 2000-01 & 2004-05

ABS survey data suggests that income per business and per premises has been steadily increasing since 1997-98. So whilst the number of hotels has been declining, those which survive in the market have been growing.

Our survey also collected income data to investigate the average annual turnover of hotels over the last 5 years. Out of our total survey sample, 88 respondents provided total income data for the last 5 financial years. The average results of these responses are provided in the table below.

Table 14 PwC survey respondents average annual income over the last five years

		2003-04	2004-05	2005-06	2006-07	2007-08
Average annual income per hotel	\$m	4.26	4.45	4.58	4.83	5.01
% change to previous year	%	na	4.48	2.91	5.61	3.60

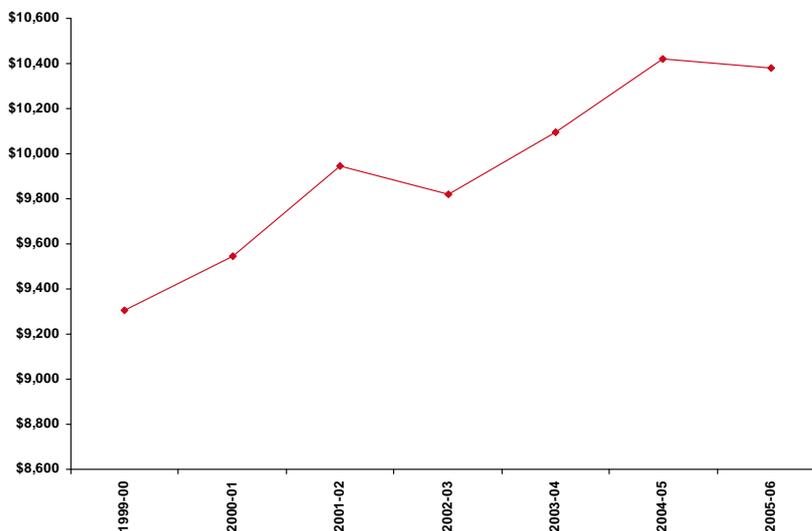
The average income per hotel from our respondents is higher than the average obtained based on ABS data. Given that only 88 hotels provided us with income data for the last five financial years, the sample is not sufficiently large to suggest the average income figures derived from the ABS data are underestimated. However the growth rates derived from the average annual income data provided by survey respondents, provide further evidence of the maturity of the hotel industry. The figures demonstrate small but steady nominal growth over the last four years.

4.3 Gaming expenditure

Australian Gaming Statistics have collected data on gambling expenditure by Australians during the last 25 years. The gaming expenditure referred to in the data includes expenditure on EGMs as well as other forms of gaming such as sportsbetting and casino gaming. A large proportion of the expenditure will have therefore accrued to clubs, casinos and sportsbetting agencies, as opposed to hotels, however the trends evident in the data are interesting to note in the context of this discussion.

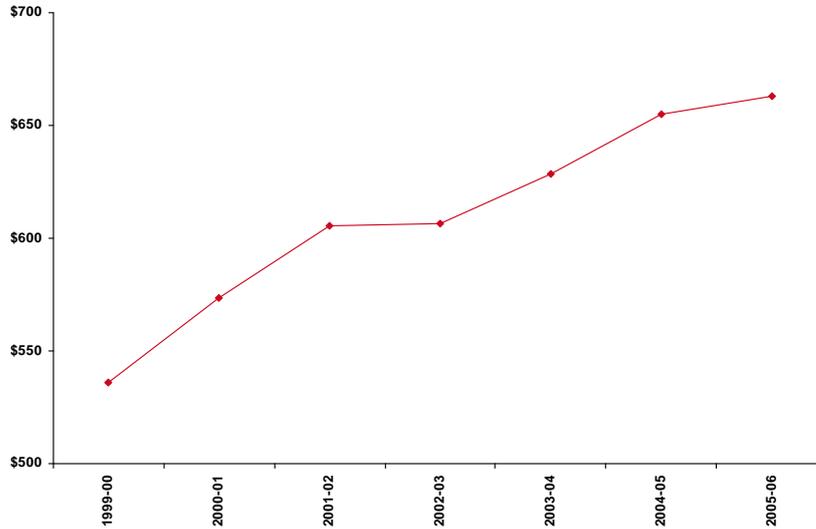
Figure 40 shows that in real terms, gaming expenditure has increased by approximately 10% during the period from 1999/2000 to 2005/2006.

Figure 40 Real gaming expenditure 1999 – 2006



Source: Australian Gaming Statistics 2005-06 (2008)

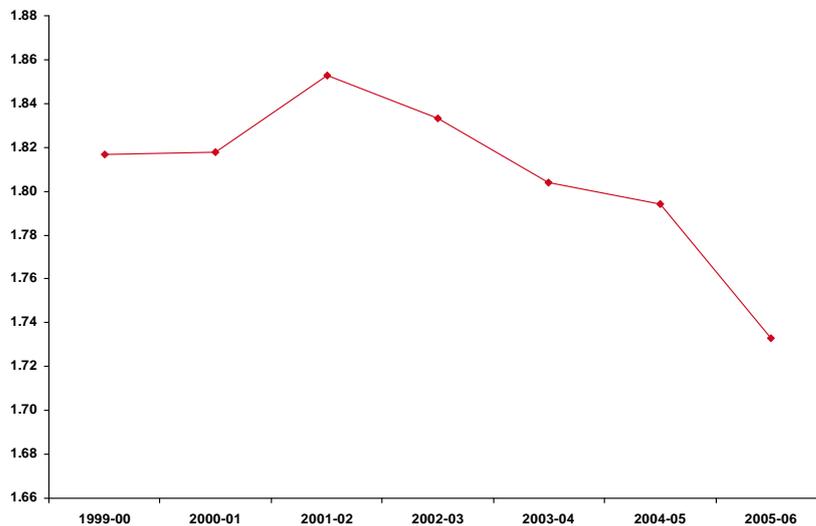
Figure 41 Per capita expenditure on gambling, 1999-2006



Source: Australian Gaming Statistics 2005-06 (2008)

Since the late 1990s gaming expenditure as a percentage of HDI has been steadily decreasing, which probably reflects stricter regulations around gaming, which came in around that period.

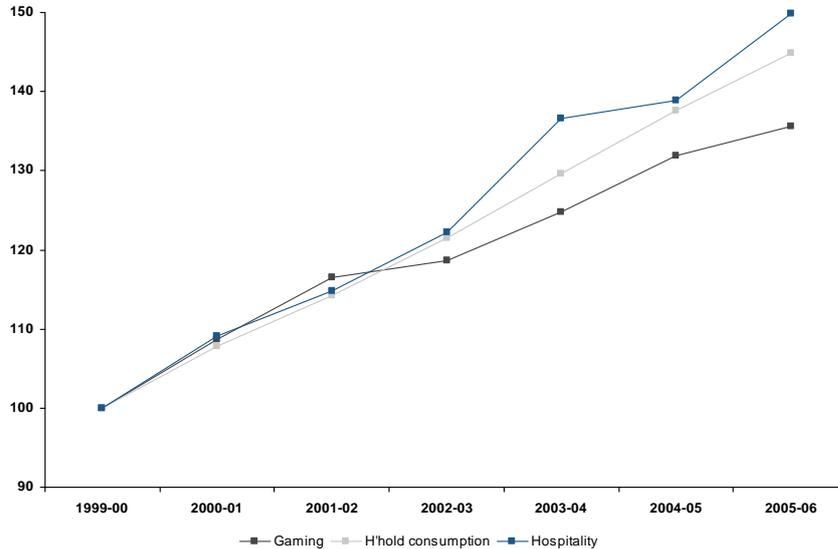
Figure 42 Gambling expenditure as a percentage of HDI, 1999 - 2006



Source: Australian Gaming Statistics 2005-06 (2008)

Expenditure on gaming has risen relatively slowly when compared to household consumption expenditure and hospitality expenditure across the Australian economy.

Figure 43 Gaming versus spending



Source: Australian Gaming Statistics; ABS National Accounts; ABS Retail Trade Australia 2005-06

Table 15 shows the state by state breakdown in gaming expenditure as a percentage of HDI, as well as the change during 2001-02 to 2005-06. In 2005-06 the Northern Territory had the highest gaming expenditure as a percentage of HDI, followed by NSW and Victoria. Western Australia, had the lowest gambling expenditure as a percentage of HDI. Between 2001-02 and 2005-06, Victoria and Tasmania experienced the most significant declines in gambling expenditure as a percentage of HDI, whilst South Australia and the Northern Territory witnessed significant rises. In the case of Victoria, this decline coincided with the state-wide banning of smoking in gaming areas of pubs and clubs, on 1 September 2002.

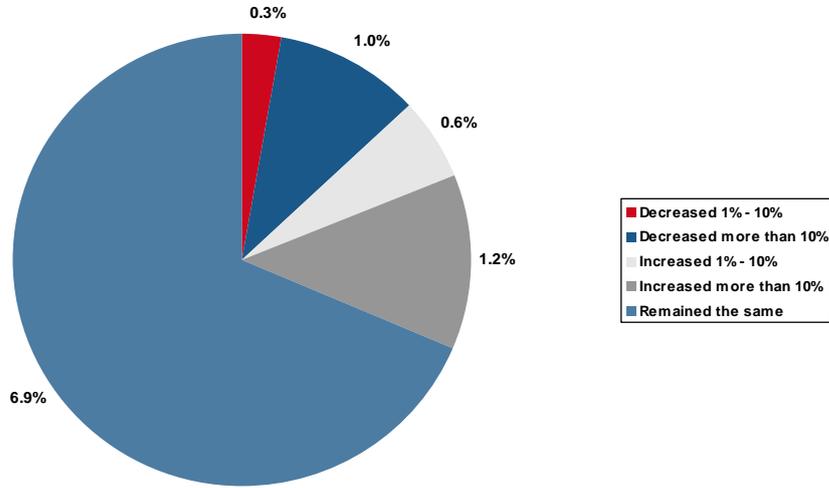
Table 15 Gambling Expenditure as a percentage of HDI

	2001-02	2005-06	% change
NSW	3.45	3.44	-0.29
VIC	3.63	3.01	-17.08
QLD	2.90	2.91	0.34%
SA	2.51	2.63	4.78
WA	1.50	1.44	-4.00
TAS	2.87	2.36	-17.77
ACT	2.07	1.73	-16.43
NT	4.72	5.11	8.26
Australia	3.12	2.93	-6.09

Source: Office of Economic and Statistical Research (2007)

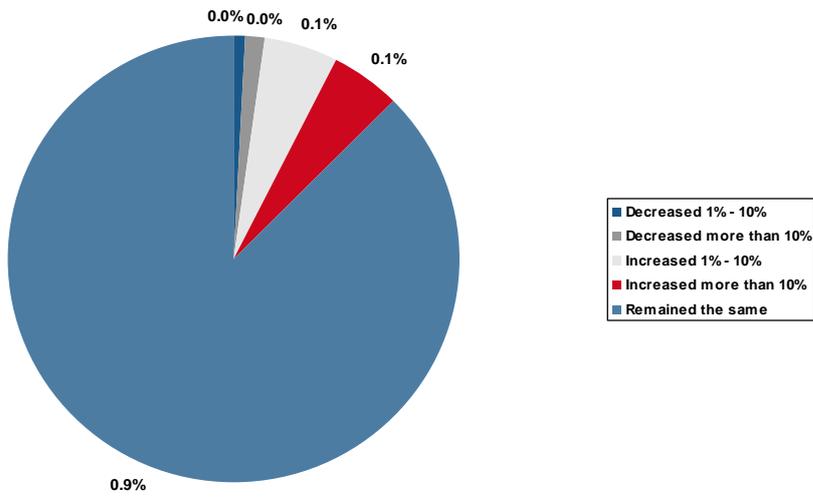
Our survey asked respondents to provide information on the change in the number of EGMs in their hotels over the last five years, and indicate their expectations about the number of EGMs in the future. The overwhelming majority of respondents indicated that in the last five years, the number of gaming machines had remained the same. In response to a separate question, an even greater majority indicated their expectations that over the next three years, the number of gaming machines in their hotel would remain the same. These responses seem to indicate that the market for gaming machines in hotels has stabilised, and that the prevalence of gaming machines in hotels is unlikely to increase, due to both commercial and regulatory factors.

Figure 44 Trend in gaming machine numbers over the last 5 years



Source: PwC survey responses

Figure 45 Expectations on the number of gaming machines over the next three years



Source: PwC survey responses



05

FUTURE POLICY
ISSUES

5 Future policy issues

5.1 Overview

As noted in chapters 2 and 4, the structure and fortunes of the hotel industry are heavily influenced by regulatory settings, particularly in relation to the sale of alcohol and the conduct of gaming operations. As a result, the most pertinent future policy challenges for the industry fit this description.

Gaming policy has particularly influenced the structure of the industry through restrictions on electronic gaming machine numbers, rules concerning the location of machines, the ownership structure for machines, and broader regulatory settings such as smoking bans.

Two key policy issues were canvassed in the PwC survey of AHA members. These related to:

- the location of Automatic Teller Machines in hotels with gaming facilities
- possible introduction of pre-commitment, or smart-card, technology for electronic gaming machines.

5.2 ATMs in gaming venues

The Productivity Commission's National Gambling Survey found that problem gamblers were more likely than non-problem players to withdraw money from an automatic teller machine (ATM) at a venue whilst playing pokies.

Table 16 Propensity of persons to withdraw money from an ATM

	Never or rarely (%)	Often or always (%)
Recreational players	90.0	4.6
Problem gamblers (SOG 5+)	47.0	37.8
Problem players (SOG 10+)	25.2	58.7

Source: Productivity Commission (1999), 'Australia's Gambling Industries, Final Report Summary', p45

The removal of ATMs from hotels risks a considerable inconvenience factor for patrons, given the number of small purchases individuals would make on premise, as well as the community at large, due to the loss of ATM access at a convenient location. Research from the Centre for Gambling Research (CGR) into the use of ATMs in Gaming Venues found that the majority of money withdrawn from ATMs was usually used to purchase either food or beverages, with only approximately a third of surveyed individuals using the money for gambling.

Table 17 Activities money withdrawn from ATM/EFTPOS is usually spent on

Activities	ATM % of Users	EFTPOS % of Users
Drinks while at venue	86	81
Meals while at venue	80	66
Gambling while at venue	36	33
Transport, eg, a taxi home	25	26
Cigarettes while at venue	21	28
Tickets to a game or show while you were there	9	10
Other	11	19

Source: Centre for Gambling Research (2004), 'The Use of ATMs in ACT Gaming Venues: An Empirical Study', p96

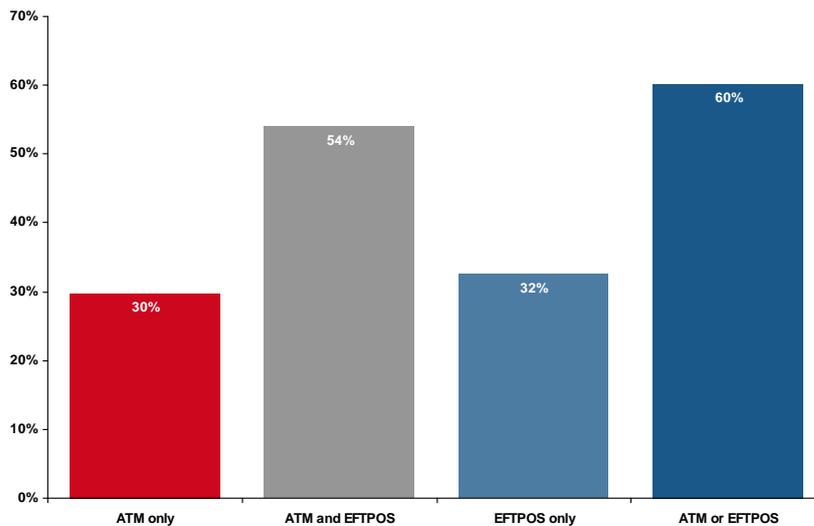
Removal of ATMs could also have adverse effects if it does not directly reduce expenditure by problem gamblers. It has been argued that gaming venues offer a safe place to withdraw money, and if ATMs were removed, it could potentially induce problem gamblers to carry large sums of money on their person, which carries a potential risk. In effect, the implication from all this is, if a problem gambler really wants to get money, then the removal of an ATM will not stop them from doing so –meaning the only person who would be affected (and negatively so) would be recreational gamblers.

Any proposal to remove ATMs from hotels with gaming machines must be assessed by balancing the social benefits from harm minimization versus the social costs borne from inconvenience to the many responsible gamblers and general patrons of the hotel, and individuals in the society at large.

In part, this assessment depends on the extent to which withdrawals from hotel ATMs are used for food and beverages.

The PwC survey found that 60 per cent of respondents indicated that they had either an ATM or EFTPOS facilities in their hotel. The overwhelming majority of these, and 54 per cent of the overall sample, had both facilities. Only a handful responded to the effect that they had an ATM without EFTPOS or vice versa.

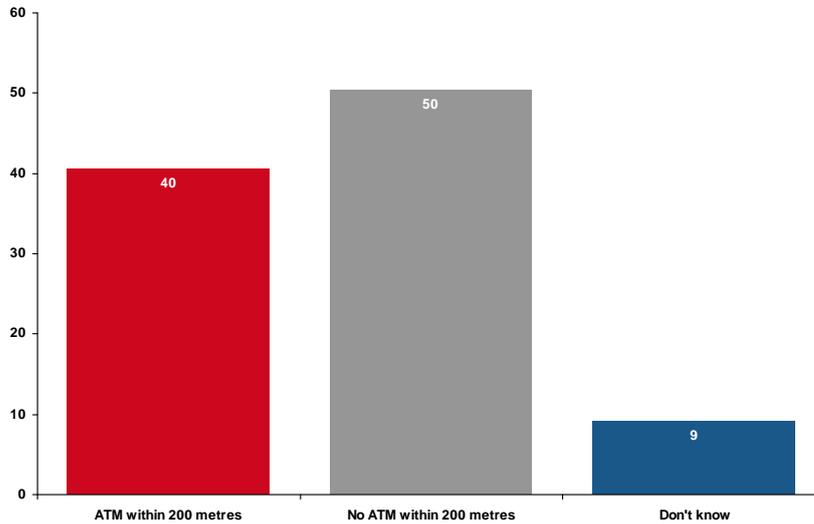
Figure 46 Percentage of hotels with ATM and EFTPOS facilities



Source: PwC Survey responses

Those respondents who stated that they had an ATM on their premises were also asked whether there was another ATM within 200 metres of the hotel. In around half of these cases, there was no ATM within 200 metres, with around 10 per cent unsure of the distance to the nearest alternative ATM.

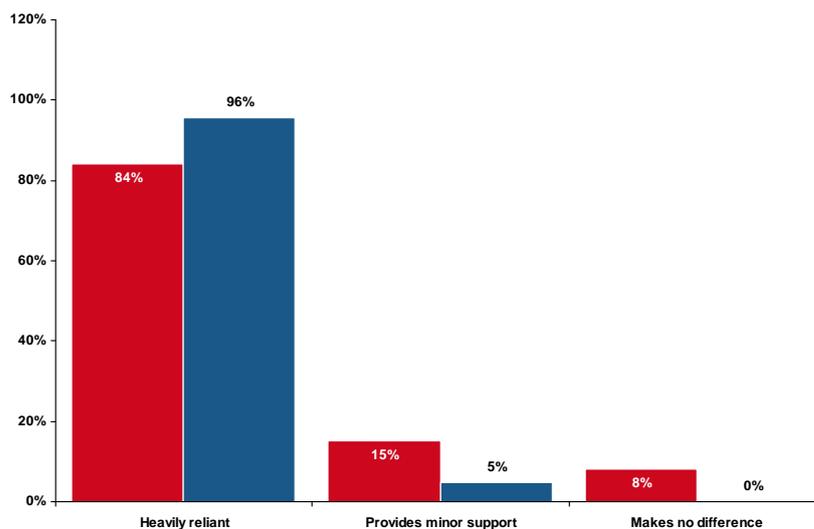
Figure 47 Percentage of hotels with ATM's within 200 metres



Source: PwC survey responses

Several respondents, particularly in non-metropolitan locations, indicated that the hotel had the only ATM, or one of very few, in the local community, thus heightening patrons' reliance on the ATM. Respondents were also asked to assess the reliance of food and beverage sales at their hotel on ATM withdrawals. There were high rates of reliance across hotels with ATMs, with more than 80 per cent indicating 'heavy reliance' on ATMs for food and beverage withdrawals. Perhaps unsurprisingly, hotels where there was no ATM within 200 metres indicated greater reliance on average.

Figure 48 Hotel reliance of ATM for food and beverage sales



Source: PwC survey responses

PwC also asked hotels to nominate the value of weekly withdrawals from the ATM in their hotel. The average figure across all hotels responding to the question was \$58,795 in withdrawals per week. This equates to just under \$3.1 million per annum, compared with an average withdrawal value per ATM

across the Australian economy of \$5.9 million per annum⁴. Thus in general, it can be said that hotel ATMs dispense levels of cash below the average for all ATMs.

To put the average annual withdrawal figure in context, it amounts to 59 per cent of the average revenue of the hotels responding to this question. Clearly not all purchases within a hotel are funded from ATM withdrawals in that hotel, and nor is all money withdrawn from hotel ATMs spent within that premises. However, the relatively high ratio of ATM withdrawals to hotel revenue serves to reinforce the high levels of reliance on ATMs stated by hotels. Where there was no alternative ATM within 200 metres of the hotel, the ratio of withdrawals to hotel revenue was higher, at 63 per cent. In principle, this could reflect a general lack of availability of ATMs in the area leading to a higher tendency of people to withdraw money for general purposes from the hotel ATM.

Where there was an alternative ATM within 200 metres, the withdrawal value as a proportion of hotel revenue was 54 per cent. Given that other ATMs were available in the area, it is less likely that the hotel ATM was being heavily used for general withdrawals, reinforcing the likelihood that hotel ATM withdrawals are funding in-hotel purchases.

Hotels were asked whether a percentage of ATM users left the hotel immediately after using the ATM. Although 74 per cent of hotels recognised some incidence of this behaviour, the estimated level of it was low. Overall, hotels estimated that around 13 per cent of ATM users left the hotel immediately after using the ATM. By implication this leaves a considerable majority who stayed in the hotel and in all likelihood made purchases following the ATM withdrawal.

Because of the inter-related nature of hotel product service offerings, it is difficult to form a definitive view as to whether ATM withdrawals are being used primarily to fund gaming activity or food and beverage and other purchases. This is linked to the point made in chapter 2 concerning the tendency of patrons to purchase a variety of hotel products and services rather than just one – hence the fact that non-gaming revenue tends to be high in those hotels where gaming revenue is also high.

Thus the aggregate size of ATM withdrawals tends to be correlated with overall hotel revenue, including gaming revenue. This, of itself does not establish that ATM withdrawals are being used predominantly for gaming activity.

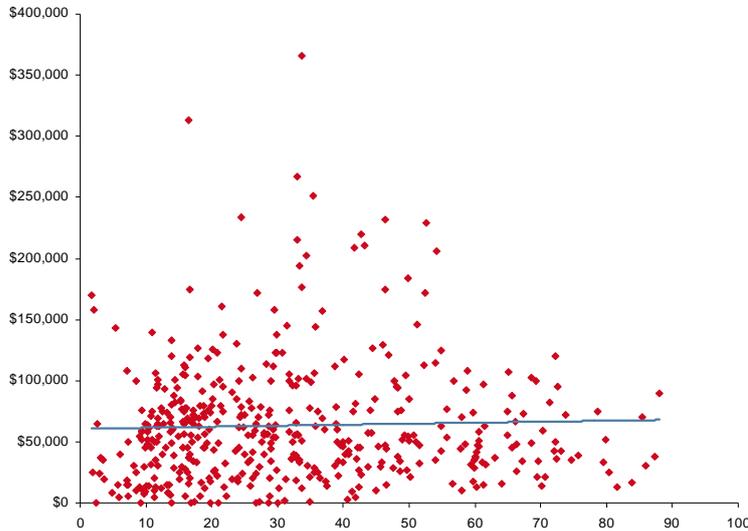
One possible test is to assess each hotel's gaming intensity, defined as the ratio of gaming income to total income, and compare this figure to ATM withdrawals to assess any correlation. If high ATM withdrawals were correlated with high gaming intensity, this would suggest that, for a given level of income, gaming revenue is higher where ATM withdrawals are higher. That is, there would be a strong positive correlation between gaming intensity and ATM withdrawals.

This would imply that in a scatter diagram plotting the two variables (gaming intensity and ATM withdrawals) the line of best fit would show a clear positive slope, with most observations close to the line of best fit.

In fact, this does not appear to be the case.

⁴ Reserve Bank Bulletin, February 2009, tables C4 and C7

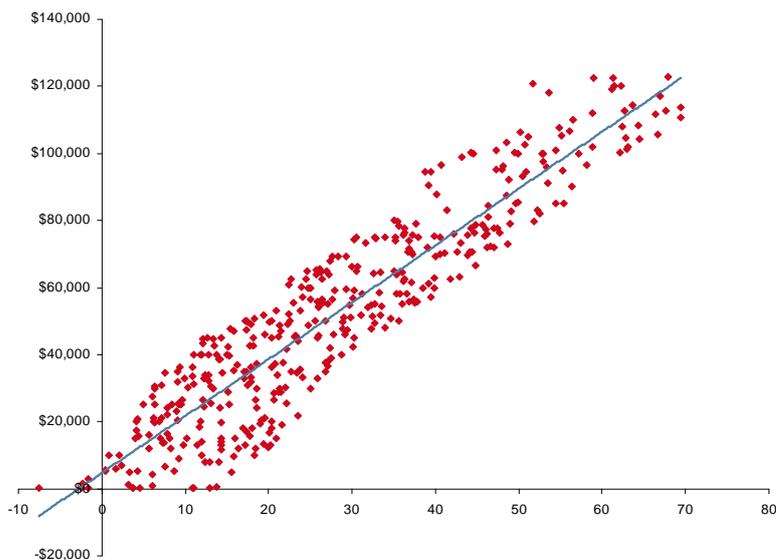
Figure 49 ATM withdrawals and gambling intensity



Source: PwC survey responses

PwC assessed this question using the dataset consisting of those hotels who provided answers in relation to overall income, gaming income and ATM withdrawals. The result was that the correlation was very weak and the gradient of the line of best fit was low. This result does not disprove the theory that ATM withdrawals are used predominantly to fund gaming, but offers no material support for it. Figure 50 is based on hypothetical data and illustrates a positive correlation between ATM withdrawals and gambling intensity. In Figure 50 the gradient of the line of best fit is much higher than in Figure 49. The comparison of these two graphs further illustrates that data collected from the PwC survey does not support a positive relationship between ATM withdrawals and gambling intensity.

Figure 50 ATM withdrawals and gambling intensity (hypothetical relationship)

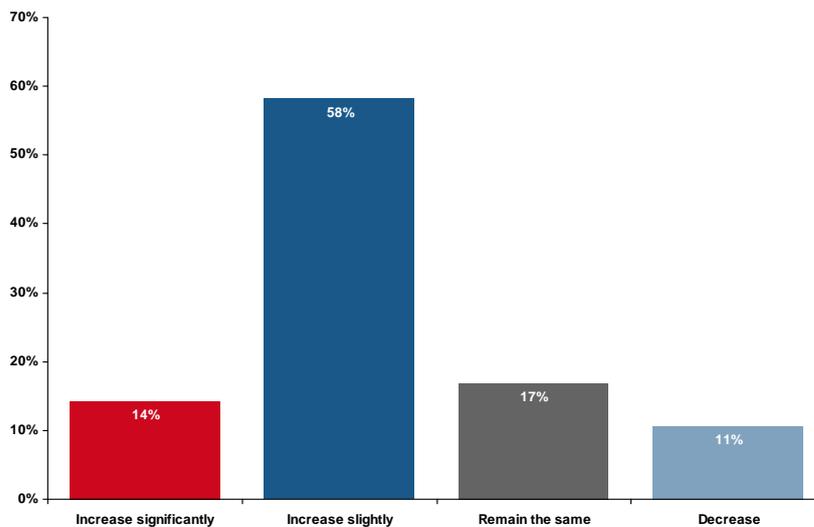


Few definitive conclusions can be drawn as to the use of money from ATMs. However, it does appear very likely that a substantial portion of ATM withdrawals in hotels are used for purposes other than

gaming. Restrictions on ATMs in hotels with gaming facilities thus risks generating substantial economic losses while seeking to address the problem gambling behaviour of a specific group.

Hotels were asked to assess the impact of the removal of ATM and EFTPOS facilities from hotels with gaming facilities. The impacts were assessed according to four variables: food and beverage prices, employment, community sponsorship and capital expenditure.

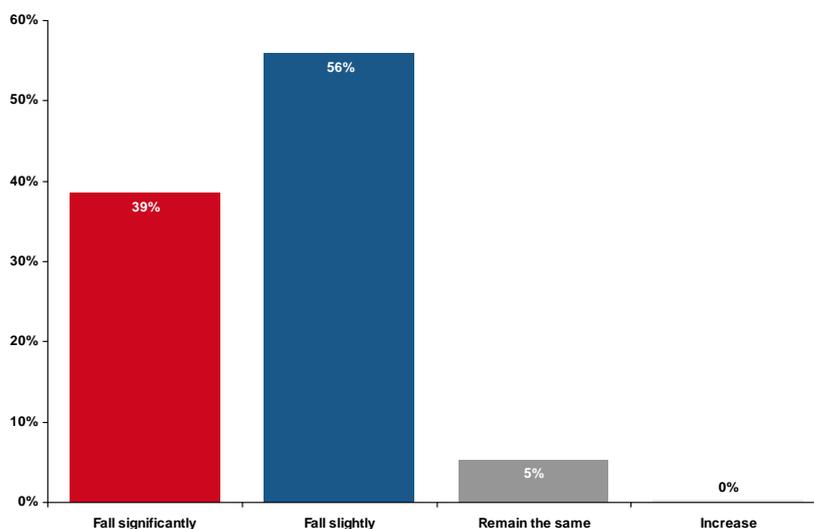
Figure 51 Expectations of impact of ATM/EFTPOS removal on prices



Source: PwC survey responses

In relation to prices, most hotels (58 per cent) felt that they would increase slightly rather than significantly in the absence of ATMs or EFTPOS. In fact, a greater percentage felt prices would stay the same than said that they would increase significantly. Around 10 per cent felt that prices would decrease, possibly as a result of the need to attract additional customers.

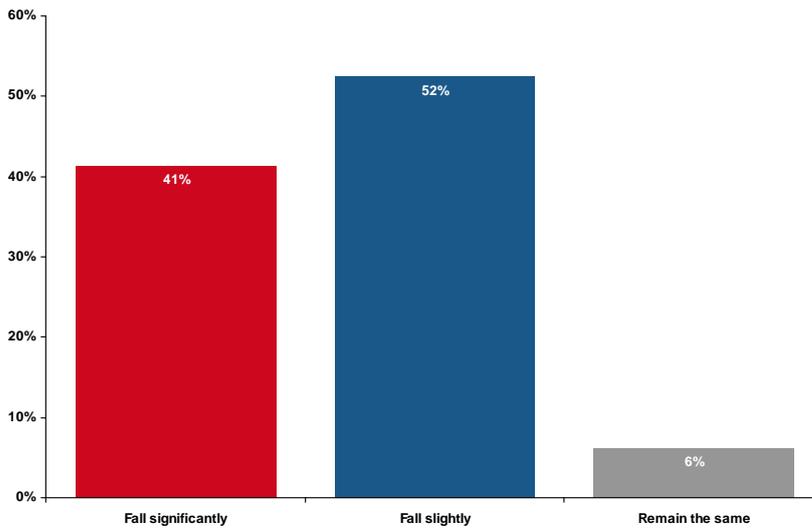
Figure 52 Expectation of impact of ATM/EFTPOS removal on employment



Source: PwC survey responses

Similarly, a majority of hotels felt that employment would fall slightly. However, unlike for prices, a high proportion (38 per cent) also felt that there could be a significant employment effect while very few believed that employment levels could stay the same or increase as a result of the loss of ATM and EFTPOS facilities.

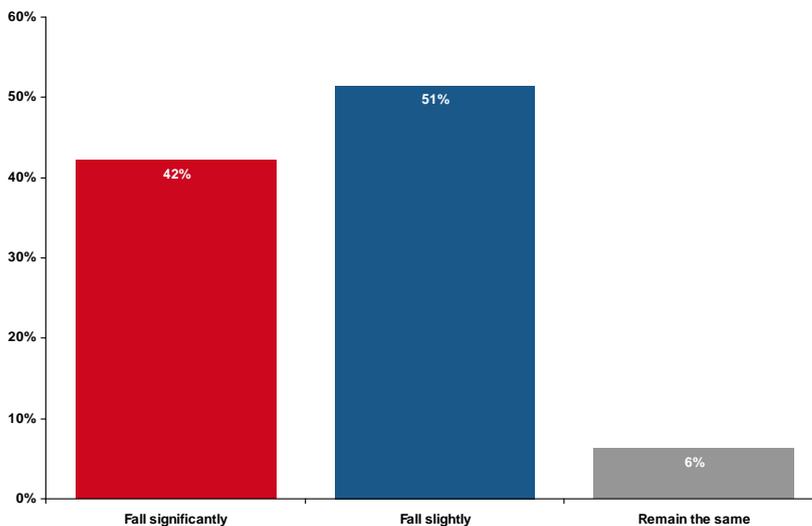
Figure 53 Impact of ATM/EFTPOS removal on sponsorship



Source: PwC survey responses

In relation to sponsorship, although the total percentage predicting some fall was the same as for employment (at around 93 per cent), the proportion seeing a significant fall was larger at more than 40 per cent. Finally, in relation to capital expenditure, very similar percentages saw the removal of ATM and EFTPOS facilities resulting in a significant or slight fall as was the case for sponsorship.

Figure 54 Impact of ATM/EFTPOS removal on CAPEX



Source: PwC survey responses

While these results are qualitative and rely on judgments made by hotel proprietors and managers, it is clear from the survey results that many hotels did not wish to overstate the impact of the changes, in all four cases more hotels predicted slight, rather than significant, consequences. This is not to diminish the potential costs to hotels, though it lends some weight to the credibility of the responses.

In addition, the responses provided can offer some insights into the mechanisms by which hotels are most likely to adjust behaviour in the face of a regulatory impost such as the removal of ATM and EFTPOS facilities. It seems that capital expenditure and community sponsorship are perceived as the most discretionary areas of spending and could be the first options in addressing a revenue shortfall brought on by regulatory change. Employment also seems to be more likely to be used as a lever than price, presumably because the latter is dictated in large part by competitive pressures in the marketplace.

5.3 Pre-commitment

Another potential regulatory step to tackle problem gambling would be the implementation of mandatory pre-commitment through smartcard technology. This would require all players to register and use a smartcard, with a predetermined spending limit, in order to play EGMs.

Little formal research has been undertaken into the introduction of a mandatory pre-commitment system. The basis for the implementation of such a system would appear to be the suggestion that problem gambling is fuelled by a level of irrationality in the course of play, which could be overcome through pre-commitment during a more rational pre-play phase.

The irrational tendency to chase losses is a particular focus for advocates of smart card systems. Mandatory pre-commitment is aimed at targeting this particular facet of gambling by keeping players aligned with their predetermined spending limit (defined before they start playing) and preventing overspending.

The framework which most mandatory pre-commitment systems follow have similar characteristics, although specifics can vary, including the range of the limit, and the accessory features that come with the card. Players must register for a smartcard (involving an authentication process, so as to prevent individuals from obtaining more than one card) before they can play, and are unable to play without the use of this card. Each card has a predetermined limit over a day, week or month (or a combination of these), and once this limit has been reached, the individual cannot play until the period rolls over. Also, whilst it is not a strict necessity, most proposals suggest a nation-wide uniform system.

Other features which have been considered include:

- On-screen reminders/alerts regarding how much a player has lost in a given day and how long they have been playing
- Automatic interruption after a prolonged period of play
- More sophisticated/convenient self-exclusion methods
- A limit which, rather than being preset, is set by the individual ahead of time

There have also been several objections to the functionality of mandatory pre-commitment. One major criticism of the system is the inconvenience that it would impart on recreational gamblers, many of whom may gamble spontaneously, and would have their enjoyment reduced by being required to register for a system that ultimately does not benefit them.

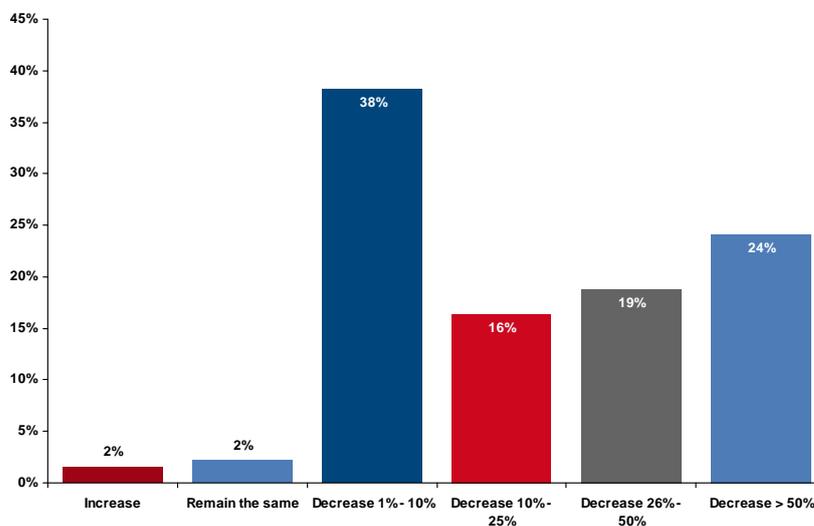
In addition, implementation of such a system into all gaming machines would represent a sizeable capital expenditure on the part of gaming operators, as well as the immediate inconvenience the new system

would create for recreational gamblers. Even if things do eventually return to an equilibrium state, these short run transitional costs should not be ignored.

In the absence of a specific and detailed pre-commitment proposal, it is difficult to gauge the effect it would have on the hotel industry. Factors such as the elasticity of gambling entertainment⁵ and the proportion of problem gamblers in the population (amongst others) will affect the net benefit that can be realized from such a system and as such, affect the reception people would have to its initial introduction.

PwC asked hotels to estimate the predicted impact on gaming at their premises if patrons were required to use a personalised smart card prior to gambling.

Figure 55 Expectations of impact of smart cards



Source: PwC survey responses

The highest number of responses were to the effect that gaming activity would fall by between 1 and 10 per cent. However, a clear majority (59 per cent) felt that gaming activity would fall by more than 10 per cent. Some 24 per cent of hotels felt that gaming activity would be dramatically affected, falling by more than half.

It should be noted that the question specifically referred to the impact on gaming revenue. Because of the inter-linkages which exist between the various product and service offerings at hotels, the dollar impact (though not necessarily percentage impact) on gaming revenue is likely to understate the overall impact on hotels.

Figure 56 and Figure 57 below indicate survey respondents beliefs about the impact that the introduction of smart cards would have on employment at their hotel, and their ability to sponsor community groups.

⁵ Elasticity refers to the response in demand for a good or service following a change in price. In this example, the 'elasticity of gambling entertainment' refers to the strength of consumer demand for gambling entertainment, and how that demand is likely to be affected if smart cards are introduced, which will decrease the convenience of gambling.

Their responses underlie their belief that the introduction of smart cards would reduce hotel revenue, and financial viability.

Figure 56 Smart card impact reducing employment

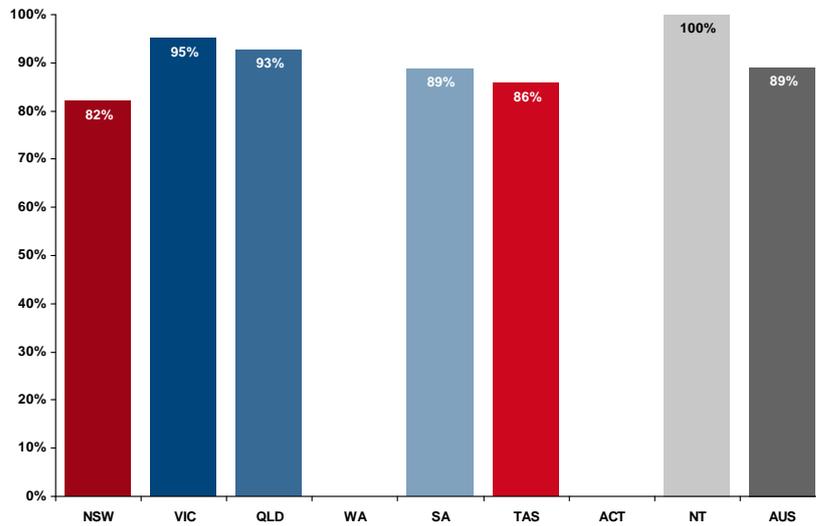
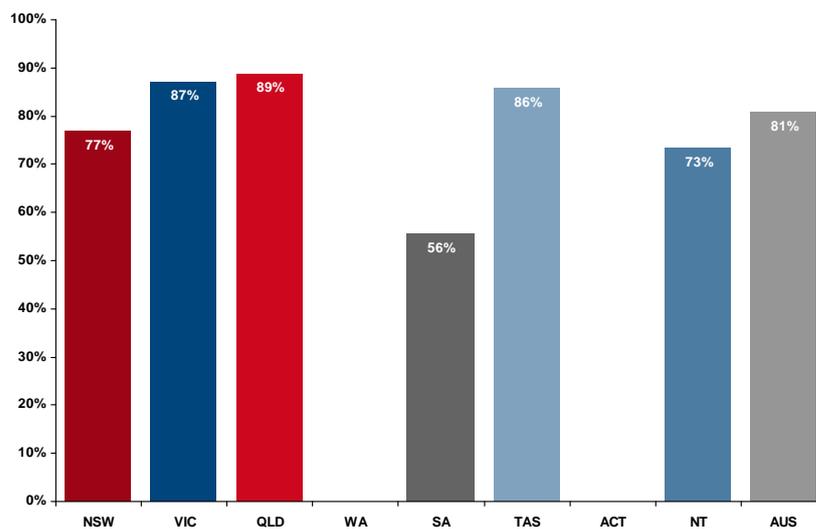


Figure 57 Smart card impact in reducing community sponsorship





06

HOTELS, GAMING & ECONOMIC WELFARE



6 Hotels, gaming and economic welfare

6.1 Overview

As has been seen in chapters 2 and 3, the hotel industry makes a substantial contribution to the Australian economy through income, employment and training, as well as strengthening local communities through sponsorship and the hosting of community events.

Much of that contribution either relates to, or relies on, gaming activities - in particular, through economic gaming machines. The detailed survey data discussed in sections 2 and 3 suggest that without gaming, the hotel sector would look very different. For example, it is likely that the sector would:

- be smaller overall, with fewer hotels, as is the experience in Western Australia
- employ and train fewer workers per hotel
- charge higher prices for a range of food and beverages
- engage in less sponsorship of sporting, community, health, educational and other groups
- possibly offer less in the way of other entertainments such as trivia nights, live music and community meetings
- spend less on capital and be less able to upgrade premises on an ongoing basis.

Assessments of some of these impacts are difficult for a number of reasons.

Firstly, the specific activities of hotels are often not captured by aggregate statistics – hence the detailed localised contributions made by hotels can get lost in larger economy-wide analyses. It is for this reason that PwC conducted its survey to provide greater detail about the specific activities and contributions which could be lost or jeopardised if the hotel sector was to contract.

Secondly, in a dynamic economy, if a particular sector is forced to contract, the money or resources spent in it will tend to flow to other sectors, thus ameliorating the apparent macroeconomic effect.

Thirdly, the economic welfare generated by the hotel sector needs to be assessed in light of the fact that some of the expenditure on gaming machines is attributable to problem gamblers, for whom the dollars spent might not reflect a rational and beneficial decision, as is generally assumed in the consumption of economic goods.

This section deals with the second and third points outlined above by examining two forms of economic modelling: computable general equilibrium (CGE) modelling of the overall economy and welfare modelling of the market for gambling services through electronic gaming machines.

6.2 CGE modelling

CGE modelling is a technique aimed at capturing the inter-linkages which exist between sectors of the economy (that is, the tendency for one sector's outputs to be another sector's inputs, or a substitute for a yet further sector's output). It also addresses the fact that when a particular sector is forced to contract, the spending in that sector will generally be replaced by the consumption of alternative goods (or saved). Thus it is rarely the case that all of the dollars spent or people employed in a particular sector would be lost altogether in the absence of that industry.

This is not to say that the forced contraction of an individual sector never results in overall economic loss. It tends to lead consumers, investors and workers to focus their resources on sectors which are implicitly a second-best option, leading to an overall efficiency loss. However, the overall loss is generally not equal to the size of the contraction in the sector under consideration.

CGE modelling can thus be used to determine the overall economic contribution which a particular industry, or part of an industry, makes. It does this by assessing the impact on the economy which would occur if that industry or component were removed. The impact can be assessed in terms of the resulting change to GDP, consumption, employment, investment, capital, real wages and the impact on individual states and sectors.

In this instance, PwC sought to assess the economic contribution made by gaming activities in the hotel sector. Thus PwC, through the Monash University Centre of Policy Studies, modelled the effect of removing electronic gaming machines from Australian hotels. This was done using the TERM model.

To undertake this modelling, some important data and policy assumptions were required.

One data limitation is that although expenditure data (player loss) is available in aggregate for clubs and pubs for years up to 2005-06, there is no publicly available breakdown between clubs and hotels.

PwC made the simplifying assumption of apportioning expenditure on the basis of the number of machines in each type of venue in each jurisdiction. In certain jurisdictions, such as Victoria, it is known that hotel EGMs generate higher expenditure per machine than club EGMs. However, this may not necessarily be the case in all jurisdictions, particularly those in which the numerical restriction on machines per hotel is substantially lower than that applying to clubs. For this reason, the assumption of a common expenditure per machine in clubs and hotels was the best available assumption.

An important dimension to the modelling was that state governments were assumed to maintain their existing overall revenue or budget balance. Thus the loss of gaming tax revenue was required to be recouped through an appropriate alternative tax. It was assumed for simplicity that the lost revenue was recouped through an increase in payroll tax. Payroll tax was chosen on the basis that it is the largest tax by revenue in all jurisdictions and is broadly based. Had it been assumed that lost gaming tax revenue was recouped through higher stamp duty or car registration, the results would have reflected the substantially different incidence that these taxes have across different sectors. Nor was it seen as appropriate to assume that the lost revenue was made up through higher Goods and Services Tax (GST) since it is levied at a uniform rate and individual states are unable to calibrate a specific GST increase to match their lost revenue.

The GST revenue lost in relation to gaming activity is assumed to be made up through the GST paid on the alternative spending which replaces gambling activity.

The tax revenue derived from gaming machines in hotels is not disaggregated in all jurisdictions. New South Wales and South Australia provide specific figures, but other states disclose only the tax received from EGMs across clubs and pubs. In relation to tax revenue, apportionment based on number of machines is not possible, since the tax rates applying to clubs and hotels differ in almost all jurisdictions. Thus an attempt was made to calculate the tax revenue based on the specific tax rates applying to hotel EGM revenue in each state. In many cases, the tax rate is a uniform percentage amount, rather than a progressive scale.

The key data assumptions, based on 2005-06 figures are outlined below.

Table 18 Key data assumptions

2005-06					
	EGM expenditure	Clubs	Hotels	EGM tax revenue	Hotel tax revenues
New South Wales	5,023.552	3,787	1,236.54	998	417
Victoria	2,472.454	1,229	1,243.83	911	490
Queensland	1,775.561	942	833.73	565	299
Western Australia					
South Australia	751.032	95	655.95	293	276
Tasmania	109.367	8	101.03	29	25
ACT	191.963	189	3.13	31	1
NT	186.145	125	60.98	20	32
Total	10,510	6,375	4,135	2,849	1,540

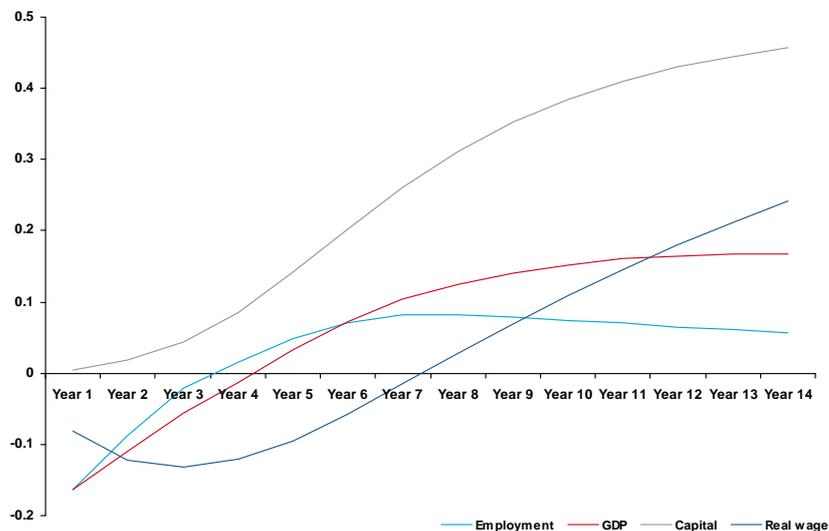
Under the model simulation, the expenditure on gaming machines in hotels ceases. Initially, this is only partly compensated for by increases in other items of household consumption, thus initially there is a rise in household savings at the national level.

There is also an impact across a range of industries because of the rise in payroll tax. There is also a reduction in the rate of return earned by capital invested in the hotels sector, which ultimately stimulates a shift in investment to other sectors. However, production in these other sectors only increases after a time lag, reflecting the time taken for these new investments to become operational.

The simulation was run over both a short and long run, allowing the impacts on employment, consumption, GDP and individual sectors of the economy to be assessed over a 13 year period. Because the most recent data is for the 2005-06 year, the shock is assumed to take place in 2007, with the long term effects being traced through until 2020.

Initially, there is a reduction in employment, consumption, GDP and real wages, which persists for the first three years. By contrast, investment and the capital stock remain unaffected at first and rise thereafter. In the medium term, employment recovers, because adjustment in the labour market occurs through lower real wages rather than higher unemployment.

Figure 58 Economic impacts of removal of EGMs



The first year effects are that:

- Aggregate employment across Australia falls by 0.163 per cent. This equates to 14,818 jobs
- Real GDP contracts by 0.163 per cent
- Real wages fall by 0.08 per cent, and
- Household consumption falls by 0.3 per cent.

However, these are aggregate numbers across the whole of the Australian economy. Of particular interest is the effect on individual sectors and individual states.

Understandably, the sector hardest hit is the restaurants, cafes, hotels and clubs sector, which loses a total of 81,237 jobs, both as a consequence of the direct reduction in spending in the hotel sector and the imposition of an increased payroll tax.

The jobs lost in the restaurant, café, hotel and club sector amount to

- 20,594 in New South Wales
- 19,734 in Victoria
- 21,950 in Queensland
- 14,010 in South Australia
- 1,235 in Western Australia
- 1,933 in Tasmania
- 1,470 in the Northern Territory, and
- 313 in the Australian Capital Territory.

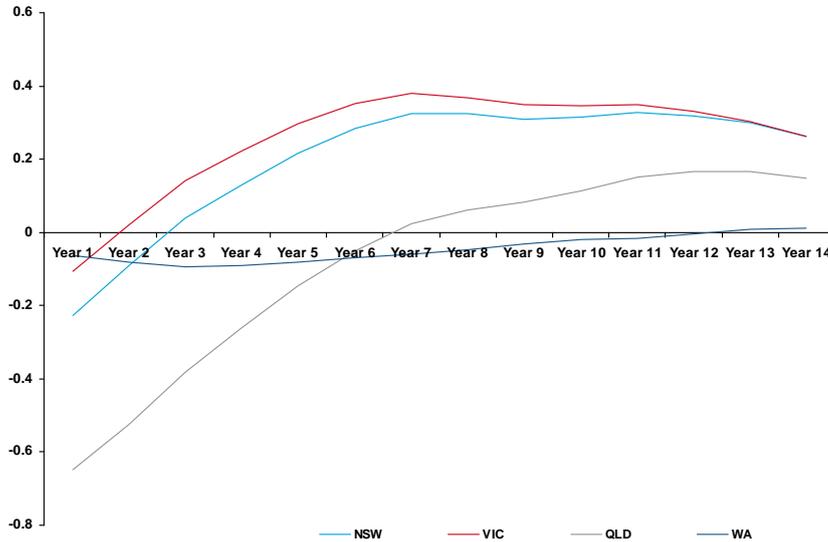
In addition, it is estimated that around 190 jobs are lost in Victoria and New South Wales in the food and drink manufacturing industry.

Over time, as adjustments occur, these first year effects are overcome and in some cases reversed. For example, the higher payroll tax is seen to lead to a more capital intensive economy which ultimately increases the capital stock, real wages and GDP.

In using CGE modelling, it is standard practice to use household consumption as a proxy for welfare. A rise in household consumption is taken to imply a rise in the well-being of households, who gain benefit from the goods and services they consume.

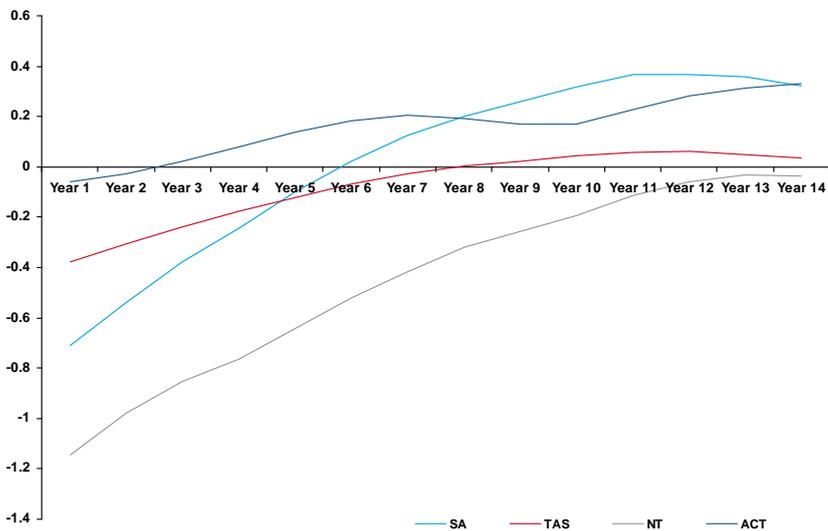
The path of household consumption over the period to 2020 is indicated in the charts below. In relation to the four largest states, Western Australia is least affected by a removal of gaming facilities from hotels. Despite the fact that Western Australia has no electronic gaming machines in hotels, the impact arises from general changes in the composition of the national economy, which have minor effects on a range of sectors, including sectors in Western Australia. Queensland, by contrast, suffers a more significant initial reduction in household consumption, as a result of the relatively large value of hotel EGM expenditure as a proportion of the Queensland economy. Victoria and NSW both see an initial reduction in household consumption.

Figure 59 Consumption by state (larger states)



Among the smaller states, the ACT is least affected, reflecting the very small hotel sector in that jurisdiction. By contrast, South Australia and the Northern Territory are more heavily affected in the short term, with Tasmania representing an intermediate case.

Figure 60 Consumption by state (smaller states)



It is worth noting that all states, to some extent, experience a rise in household consumption following the initial shock. This appears to reflect the rise in payroll tax which leads to a more capital intensive economy and ultimately higher GDP and consumption.

This result reflects a potential weakness in using household consumption as a proxy for welfare - namely that it assesses the impact on an aggregate variables, ignoring distributional issues or the relative benefit derived by consumers from consumption of different goods and services. In this instance, a longer term rise in aggregate consumption is being brought about by a restriction in the consumption choices available to households, which may not be a reliable indicator of welfare.

Related to this point is a further lesson from CGE modelling: namely that it is rare for an initial shock to have a lasting impact on the economy in aggregate. People, investment and spending are redeployed to other sectors. Nonetheless, the sector impacts can be lasting and to some extent, the size of these sectoral impacts indicates the size of the transition that must be managed in order for the economy to return to pre-existing levels of employment, consumption and GDP.

Under this model simulation, the hotels sector never fully recovers in any state except Western Australia (and to a large extent in the ACT). In all other states, the sector remains smaller in 2020 than in 2007, if gaming machines are removed from hotels.

A further important lesson is that the employment impact associated with a dollar of spending in a particular industry cannot be accurately assessed simply by measuring the labour-intensity of that industry. For example, it is not accurate to state that a dollar spent on gaming generates less employment than a dollar spent on other activities simply on the basis of relative labour intensity. The true employment impact depends on the flow-on impacts across the economy.

As we have seen, in the case of gaming, one of the key flow-on effects is the need to raise tax revenue from alternative sources. This has the effect of reducing employment across a range of industries.

The implication of the CGE modelling outlined here is that gaming machines in hotels effectively contribute just under 15,000 jobs overall to the economy, in that this would be the estimated short term impact on employment from the removal of machines from hotel premises.

Estimating the overall net contribution of any industry involves conceptual difficulties. The hotel industry is no exception. Superficially, the industry attracts significant direct expenditure and in turn produces other flow-on effects through the employment of staff, payments to suppliers and investments in the local economy. Many of these contributions were illustrated in section 3.

It is important to note, however, that in the absence of the hotel industry, both consumer spending and productive resources would flow into other sectors of the economy. That is, they are not all tied to the hotel sector.

Making allowance for this fact, it is still the case that if the hotel industry was to disappear, there would be a substantial short term impact. Much consumption expenditure and productive resources would flow elsewhere, but the net effect of such an economic shock would still be negative. The most useful proxy for welfare, household consumption, would fall in net terms.

PwC estimates that in the absence of the hotel sector, even allowing for some adjustments of spending and resources, the short term impact on household consumption would be a \$3.5 billion contraction.



AUSTRALIAN HOTELS

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