



July 2005

## INDUSTRY UPDATE

### No Free Games for Clubs

The New South Wales Licensed Clubs Industry

Licensed Clubs play an important role in Australian society, providing the Community with facilities and services, as well as providing many Australians with a place to spend their recreational time. NSW is an important area to concentrate on when analysing the Licensed Club Industry in Australia, as it contains a large proportion of the Clubs in the Country (Approximately 35% of all clubs in Australia). Types of Licensed clubs include Bowling, Leagues/Football, Ethnic & Religious, RSL, Sport/Recreation and Golf Clubs.

#### Industry Analysis\*

There are approximately 1500 Licensed Clubs operating in NSW of which 1375 are members of the registered clubs association, Clubs NSW.

Some Important points to note:

- NSW constituted 39 per cent of all club premises in Australia;
- Queensland had the second highest proportion of establishments, with 19 per cent of total clubs;
- Bowling clubs are the most common type of licensed club in NSW (Approx. 32% overall), although Bowling clubs only account for approximately 11% of total licensed clubs membership in NSW;
- Larger clubs such as Leagues clubs and RSL's account for a large proportion of licensed club membership, accounting for approximately 55% of all memberships;
- Bowling Clubs account for a high proportion of clubs earning \$1m or less in Gaming Machine Revenue, and a high proportion of those earning less than \$200k; and
- Leagues/Football clubs and RSL clubs make up the largest proportion of high gaming machine revenue earning clubs.

#### Financial Performance of Clubs in NSW\*

Clubs' major sources of revenue include Gaming Machine Revenue (68.4%), Bar Sales (14.8%) and Food Sales (7%). According to the Study undertaken by The Allen

Consulting Group, the group in which the highest proportion of clubs were considered to be "Non-

Profitable" came from the group of clubs earning between 0 - \$200k in gaming machine revenue. In this group, 37.1% of clubs were considered to be "Non-Profitable" in 2004. Interestingly, a great proportion of this group were bowling clubs. RSL/Services and Leagues/Football clubs made up a large proportion of clubs that earned over \$1m in gaming machine revenue. On the surface, information points to the fact that many bowling clubs seem vulnerable to financial pressures.

#### Issues Currently Affecting the Licensed Club Industry

##### *Changes to Gaming Machine Taxes*

Changes to Gaming Machine Tax in NSW are likely to have some negative impacts on clubs earning Gaming Machine revenue in excess of \$1m. These changes are expected to reduce the profitability of the NSW club industry as a whole, but not to adversely affect clubs earning less than \$1m in gaming machine revenue. In this environment, clubs that are adversely affected are likely to adjust operations in order to compensate for the taxation changes. Clubs affected by changes to gaming tax could pursue various revenue raising and cost cutting measures such as the adjustment of bar/food prices, and reductions in funding for community activities. It is possible that these measures could adversely affect the membership and patronage of clubs, in turn affecting overall profitability. At the very least, changes to gaming machine taxes will force many clubs to review competencies and construct viable solutions to improve the efficiency of their operations.

##### *Regulatory & Legislative Changes*

##### *Smoking in Clubs*

A major issue affecting all licensed clubs involves legislative changes relating to Smoking in clubs, in which smoking is likely to be restricted to increasingly smaller areas of space within clubs. This change may have negative effects on the patronage of licensed clubs.



### Regulation of Trading Hours & Gaming Practices

Changes to trading hours and the regulation of gaming practices are also issues that are likely to affect licensed clubs in the foreseeable future. The changes are likely to affect gambling revenue primarily through restrictions on hours of operation, changes relating to patronage in gaming areas of clubs, and regulations in relation to responsible gaming practices.

### *Membership Decline*

Decline in membership is also a major issue in some sectors of the industry, particularly in relation to bowling clubs. Obviously, clubs with declining rates of membership are likely to face problems of patronage and subsequently profitability. Although industry-wide analysis suggests that total licensed club membership is increasing, anecdotal evidence suggests that membership rates in certain areas of the industry are heading in the opposite direction. Cases in which bowling clubs have sold off major assets, have been taken over, or have been closed down permanently, have become common in many areas of the state, particularly in Sydney. Declining rates of club membership can be seen as a key factor in many of these cases. Various reasons exist for this decline particularly relating to shifting demographics. Declining membership has led to diminishing rates of member participation in club activities, and club patronage. Within the industry, there have been increasing examples of clubs attempting to offer new services and facilities in order to attract new members, pointing to the fact that declining rates of club membership has been recognised as a major issue facing clubs. In respect of membership decline, bowling clubs seem the most likely entities to face problems in the future.

### Solutions

There are a variety of solutions that are available to clubs experiencing financial difficulty. In many cases, although clubs may possess significant tangible assets, inefficiencies and poor trading performances may have led to poor cash flow and a deteriorating financial position. Without cash flow, clubs are unable to implement strategies for change such as refurbishments or membership drives. In this respect, solutions need to be applied that improve the long-term viability and trading performance of the entity, without unnecessarily weakening the asset position of the entity.

A full and complete understanding of the financial position of the entity is essential in the creation of viable solutions. In this regard, the engagement of an independent insolvency practitioner to act as an **Investigating Accountant** can provide the means for the creation of workable solutions. The **Investigating Accountant** will understand the financial situation of the club, analyse the financial pressures, and work to develop strategies to improve the club's long-term future viability. Formal insolvency appointments such as a **Voluntary Administration** may be necessary to facilitate the appropriate environment for the restructuring of a licensed club.

### Taylor Woodings Recent Industry Experience

In 2004, Taylor Woodings acted as the Voluntary Administrators of the Hunters Hill Club located at Hunters Hill in Sydney. Similar to many other bowling clubs in financial difficulty, the club had extensive assets, however the poor trading performance of the licensed club, and declining membership over time had placed the club in a deteriorating financial position. A Deed of Company Arrangement was proposed for the club and was implemented. The Deed involved an injection of funds obtained from the Club's own property's assets and a restructuring of the Club's operations. Creditors' debts were fully satisfied, and the Club continues to trade under the stewardship of its directors.

**Should you wish to discuss this matter or require more detailed advice on a particular situation please contact Quentin Olde, Partner, [Quentin.Olde@twcs.com.au](mailto:Quentin.Olde@twcs.com.au).**

Disclaimer: This publication is for information purposes only and should not be relied on in place of advice.

\* All facts and figures sourced from reports commissioned by Clubs NSW in 2004. It should be noted that the research conducted in these reports related to the 1375 clubs in NSW that are members of Clubs NSW, the registered clubs association.