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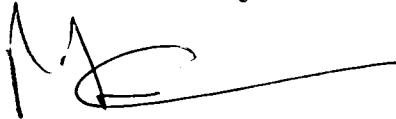
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5/11/98

**Gambling Inquiry
Productivity Commission
PO Box 80
BELCONNEN ACT 2616**

The attached is a private submission by Mr Peter Dryden, however it has the support of the Warrnambool City Council as indicated in the letter from the Mayor Mr David Atkinson appended to the submission

Yours Sincerely



Peter F Dryden

Submission to Productivity Commission Inquiry into Australia's Gambling Industries

This submission addresses matters raised in the Issues Paper published as part of the Inquiry. In particular it attempts to address issues canvassed in Part 7 of the Issues Paper : Benefits and Costs to Local Communities The specific focus of the submission is the economic importance of gambling industries to the City of Warrnambool in the South West of Victoria .In providing a regional focus the submission attempts to quantify the effects of leakages of expenditure from the region, and the inequities involved in the mechanisms for redistribution of gambling funds

Background

The City of Warrnambool is the major centre in the South West region of Victoria .Its population as enumerated at the 1996 census was 26679, and is currently in excess of 28,000 . Population growth rate over the period 1986 – 1996 was 10.8% or an annual growth rate of 1.5%. All other municipalities in the South West recorded population declines for the same period, with an overall decline of 2.4%

A brief economic profile is as follows :

Industry

Whilst Warrnambool is dependant on rural industries for its prosperity, the major employment is provided by the service industries, in particular retail and wholesale trade which provided 27.2% of employment in 1996.

In comparison to Victoria as a whole, employment in manufacturing is underrepresented, and trade overrepresented.

Employment / Unemployment

Based on 1996 census data Warrnambool reported an overall unemployment rate of 10.9% and a teenage unemployment rate of 20.6%

Although there has been a 14.4% increase in employment over the period 1986 – 1996 this has been concentrated in part time work, and the number of persons employed on a full time basis has declined.

Prior Research

Whilst there is no existing research on the economic impact of gambling industries on Warrnambool, the research program of the Victorian Casino and Gaming Authority includes studies with a regional focus

Economic Impact

In respect to economic impacts of electronic gaming machines (EGM's) the study of Non Metropolitan Communities attempts to establish economic impact for a number of regional areas in Victoria. The study cautions that it is not possible to reliably estimate

the net benefit or cost of EGM's to particular regions but does not provide argument as to why the methodology adopted is inappropriate for individual regions

The methodology is based on estimating spending on EGM's and calculating the distribution of this expenditure after allowing for leakages from the region. The study found that EGM's generated significant economic activity in the regions

The study of the Impact of EGM's on Small Rural Communities was unable to quantify economic impacts due to the unavailability of statistical data. The study concludes that the effect is minimal in dollar terms and that the effect of the introduction of EGM's is not discernable from "normal" variations in the data

A controversial conclusion of the study of the Impact of Expansion of Gaming on the Victorian Retail Sector was that growth in expenditure on gaming consequent on the introduction of EGM's and the opening of Crown Casino was funded through reduction in savings and did not impact on the retail sector.

The research is thus at best inconclusive, and at worst contradictory in respect to economic impact on non metropolitan regions. It should be noted that this research only relates to one section of the gambling industries ie EGM's

Economic Impact of Gambling Industries on the City of Warrnambool

The gambling industry in Warrnambool is composed of the following sectors :

- Gaming EGM's located in clubs (163) and hotels (92)
- Gambling Lotteries
 Minor Gambling Bingo, Charity Raffles etc
 Racing Codes Gallops, Harness and Greyhounds

Economic impacts are estimated for each sector as detailed below :

Gaming

Applying the methodology utilised in the study of Non Metropolitan Communities the table below provides estimates of the total and retained expenditure on EGM's in Warrnambool

Table 1
Warrnambool : Expenditure on EGM 's

			Retained
Total Spending	\$9.3 m (a)		
Breakdown (b)			
Income to Tatts / Tabcorp	3.1 m	50% (c)	\$1.55 m
Income to Clubs	1.1 m	100% (d)	1.1 m
Income to Hotels	2.0 m	100% (e)	2.0 m
Tax Revenue)3.1 m	75% (f)	2.3 m
Community Support Fund)	(g)	0.5 m
			\$7.45m

- (a) Total Expenditure (losses) 1997/8 National Association of Gambling Studies figure 1996/7 of \$15.8 m discounted to allow for over-estimation of country average takings per machine, and reduction in number of EGM's in Warrnambool hotels in 1997/8
- (b) Breakdown of expenditure based on 1/3 ,1/3,1/3 split between EGM owners, venue operators and government
- (c) Percentage retained in region to cover running and other costs
- (d) Assumes all clubs locally controlled and operated
- (e) Assumes all hotels locally owned
- (f) Assumes flow back of tax revenue to region as government spending
- (g) Assumes flow back as spending from CSF

The interpretation of Table 1 is that of the net expenditure (losses) on EGM's in Warrnambool of \$ 9.3 m, an estimated \$7.45m is retained in the local economy or flows back as a result of government distributions (It is assumed that the effects of non resident spending on EGM's in Warrnambool and of resident spending outside Warrnambool would cancel out and can be ignored)

This figure is obviously dependent on the assumptions made in respect to leakages from the local economy. Nevertheless, an expenditure impact of the order of \$7.5 m is significant for the local economy The significance can be measured in a number of ways :

- employment impact
- proportion of aggregate household income
- comparison of expenditure to other industries

The significance of the expenditures is considered later in this submission in relation to total gambling expenditure.

Distributional Effects

In assessing the overall impact of expenditure on EGM's in a regional context it is obviously important to consider any changes in spending and saving patterns The Victorian Casino and Gaming Authority study on the effects on retail spending ranked regions on the basis of the likelihood of gaming expenditure substituting for retail expenditure Warrnambool ranked in the middle in terms of substitution likelihood, and this is backed by anecdotal evidence of the introduction of EGM's affecting retail spending. It is also of interest to note that there is some evidence of substitution effects within gambling expenditure. In Warrnambool the introduction of EGM's lead to a reduction in expenditure on lottery gambling.

Other Gambling Expenditure

Apart from gaming the bulk of expenditure on gambling activities in Warrnambool relates to lottery gambling and betting on racing products supplied by the three racing codes.

Lottery Gambling

Lottery gambling is conducted via retail outlets in Warrnambool. Based on discussions with outlet operators it is likely that annual expenditure is in the order of \$5 – 6 m. With this type of expenditure there is a significant leakage from the region and minimal employment effects.

Minor Gambling

Minor gambling covers bingo, raffles and lucky envelopes. It has not been possible to quantify expenditure but for Warrnambool is unlikely to exceed \$1 m per annum.

Betting on Racing Codes

Figures produced for a study of the importance of the equine industry in the South West of Victoria indicated a net annual expenditure on betting of \$13.7 m. The allocation of this expenditure was estimated as follows :

Government 50%

TAB costs 30%

Racing Clubs 20%

These breakdowns were taken from the ACIL study of the importance of the horse racing industry

Based on the above figures Table 2 below estimates the regional impact of expenditure.

Table 2

Expenditure on Gambling on Horse Racing Western District 1995/6

		Retained Expenditure	
		%	Amount
Net Expenditure (a)	\$13.7 m		
Allocation (b)			
Government	6.9 m	50%(c)	3.4 m
TAB Costs	4.1 m	80% (d)	3.2 m
Racing Clubs	2.7 m	100% (e)	2.7 m
	<hr/>		
	\$13.7m		\$9.3 m

(a) Source : South West Equine Study May 1997

(b) Derived from ACIL study

(c) Estimated return of tax receipts to local economy

(d) Estimated retention of expenditure in local region

(e) Distributions by local racing clubs to racing industry and suppliers

Whilst the expenditure covers the South West of Victoria and is based on 1995/6 figures it is still a useful guide to expenditure on gambling on the racing codes which benefits the local economy

Distributional Effects

Whilst obviously present for lottery and racing gambling, there is not the recent substitution effect attributable to the introduction of EGM's and therefore would not impact on retail and other expenditures.

Significance of Gaming and Gambling Expenditure

Table 3 summarises the estimated expenditure on gambling in the Warrnambool economy

Table 3
Economic Impact of Gambling Expenditure On Warrnambool Economy

	Expenditure	Retained Expenditure
Gaming	\$9.3 m	\$7.45 m
Gambling		
- Lotteries	5.0 m	1.0 m (a)
- Minor Gambling	1.0 m	1.0 m (b)
- Racing Codes	13.7 m	9.3 m
		<hr/> \$16.75 m

As revealed by Table 3 gambling industries are estimated to have a net expenditure impact in excess of \$16 m in the local Warrnambool economy. To assess the significance of this figure it is useful to provide the following comparisons :

- ◆ Gambling expenditure represents 0.3 % of annual aggregate household income in the Warrnambool economy. This small percentage is consistent with figures from other studies of gambling expenditure in regional areas
- ◆ Whilst it has not been possible to survey in detail the employment provided by "gambling industries", it is likely that the direct employment would not exceed 100 equivalent full time jobs ,which in turn might indirectly support another 50 jobs

- ◆ Comparison to other local industries expenditure is fraught with difficulties due to the differing characteristics of expenditure. Previous research has indicated the magnitude of expenditure by regional industries/institutions :
 - Tertiary Education - the local university campus is estimated to produce expenditure of \$20 m in the local economy
 - Horse industry (for the South West of Victoria \$44 m
 - Local TAFE Institute \$11m

It could be concluded that given the low employment effect and significant leakages of expenditure on gambling from the region that the magnitude of expenditure is not sufficient in comparison to industries whose expenditure has more direct economic benefit.

Conclusion

This submission has attempted to provide some estimates of the economic impact of gambling expenditure on the local Warrnambool economy. Such estimates are seen as necessary to provide a context within which to assess the overall benefits of gambling industries in regional areas.

On the basis of the magnitude and characteristics of gambling expenditure as disclosed by the analysis documented in this submission, there are grounds to query whether the benefits to the community are significant enough to overcome any negative social impacts of gambling.

There is already some evidence to suggest that regional economic impacts of gambling industries are not uniform, and this situation is exacerbated by use of blunt policy instruments.

Persons Consulted

Mr Tom Rogers	Rogers Newsagency Warrnambool
Mr Peter Walsh	Mac's Hotel Warrnambool
Mr Barry Peters	Warrnambool Gambling Lobby Group
Mr David Robb	Chaiman Warrnambool Racing Club

References

ACIL Australia Pty Ltd (1992) The Contribution of the Racing Industry to the Economy of Victoria

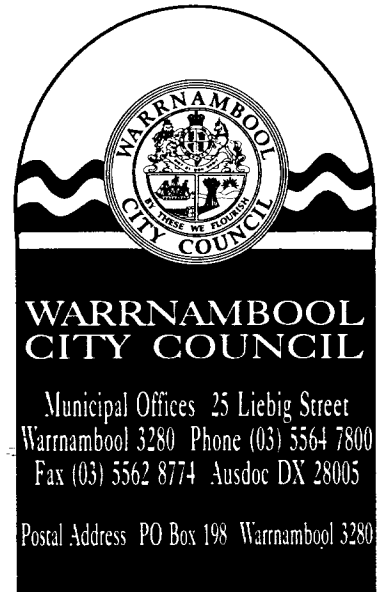
Centre for Regional Development Deakin University (1997) South West Horse Industry Study

Victorian Casino and Gaming Authority (1997) The Impact of the Expansion of Gaming on the Victorian Retail Sector

Victorian Casino and Gaming Authority (1997) Impact of Electronic Gaming Machines on Small Rural Communities

Victorian Casino and Gaming Authority (1997) Social and Economic Effects of Electronic Gaming Machines on Non-Metropolitan Communities

In reply please quote



TO WHOM IT MAY CONCERN

The submission in respect to Economic Effects of Gambling to the Gambling Industry Inquiry by Mr. Peter Dryden has my full support.

A city such as Warrnambool has had a mixed reaction to the introduction of authorised gambling in the community and this has impacted on industry, tourism and employment. Some financial implications have also been experienced by the retail section of the city.

Mr. Peter Dryden has carried out a major research project on employment for the Warrnambool Economic Development Unit of the City Council and has presented some very interesting information for the benefit of the wider community. This information was used to implement an Employment Task Force within the municipality.

Having read the material to be presented, I must concur with the submission believing it to accurately represent the situation from an economic perspective in relation to Warrnambool City. I urge members of the Gambling Inquiry to give serious consideration to the matters therein.

In conclusion, I commend the Commonwealth Government and the Productivity Commission for giving the community an opportunity to make comment through this inquiry and I look forward, with interest, to the outcomes.

A handwritten signature in cursive script, appearing to read 'David Atkinson', is written in black ink.

DAVID ATKINSON
Mayor
Warrnambool City

3 November 1998