

# SIA

## Hidden Treasure: Using the SIA Process Effectively

Increasing the number of gaming machines has long been seen as an easy way of improving a club's cash flow. However, over the last five years revenue has flat-lined and since 2002 the process of adding or transferring ten or more machines has also required a Class 2 Social Impact Assessment Application to be submitted to the Liquor Administration Board. These applications have a reputation for being daunting, complex and expensive but conducted wisely the investment can be well worth its weight in gold.

BY GREG RUSSELL

**M**uch more than an application for increased gaming machine entitlements, Social Impact Assessments (SIA) are a rich source of information for developing strategic plans. And by breaking the process into two phases also greatly reduces the risk and cost associated with non-approval.

A successful Class 2 SIA application hinges on being able to answer two key questions:

- Is there a clear community benefit that will be supported from profit generated by an increase in gaming machines?; and,
- Is the total investment required to establish these machines commercially viable and the best use of the club's capital?

If the answer to either of these questions is no, then undertaking a full Class 2 SIA application is fundamentally flawed. Without a clearly defined project that is aligned with real community needs, there is little hope that the application will be approved. Clubs must also be aware that the increase in projected revenue and profit from additional gaming machines and other services must earn a minimum of 10 per cent

on the required investment or there will be questions why other revenue raising strategies are not being pursued. Thus, the first phase of the application process is making sure that these two questions can be answered with a definitive yes.

### Choosing a Viable Community Benefit

It's very important to remember that it isn't what a club thinks its community needs but **what the council and community have identified as needs** that will provide the necessary weight for a Class 2 SIA approval. Engaging with local councils and community groups is an important part of this process.

A sensible starting point is to review your local council's *Social Plan*. In accordance with the *Local Government (General) Amendment (Community and Social Plans) Regulation 1998*, all councils are required to submit and update their *Social Plan* on a regular basis. These plans normally identify community needs and a council's strategies to meet them, along with the timing and priorities. Typically, council financial resources are unable to meet all desired projects, providing fertile ground for club funding.

### Will More Machines Increase Revenue?

It's simply not good enough to have an informal discussion about how many more machines will make a difference to your club's revenue surpluses. Such guesswork doesn't provide the necessary analysis required to identify the "real" commercial viability of increased gaming. A better way to approach this issue is to adopt a market driven perspective and ask: **How often does demand for gaming machines exceed supply?**

Demand is greater than supply to the extent that a club's existing number of gaming machines is limiting the opportunities for members and visitors to gain full enjoyment from a club's facilities. A market driven perspective on this balance also assesses external factors such as competition, population growth, and demographic changes in the community.

If a club's gaming machines are "maxed out" on a regular basis at different times of the week, then some club patrons will be forced to go elsewhere or may choose to spend their money on other forms of entertainment. Asking questions from a marketing perspective allows clubs to properly determine whether or not existing gaming machines are achieving satisfactory utilisation levels. The challenge for a club is to find the "spot" where demand and supply are essentially in equilibrium at peak trading times. At this point, the capital costs associated with acquiring more gaming machines, such as refurbishment costs, and the additional funds required to support new community services, should be met by the "real profit" generated.

If, on the other hand, such research shows there are only a few times of the week when gaming machine utilisation levels are unsatisfactory, then the addition of more gaming machines will result in a very negligible revenue increase. In this scenario, it is highly unlikely that a club will earn an adequate return on the investment. Instead, a club should focus its resources on other activities that meet the needs of its members in a more

revenue generating way - this might include redeveloping other facilities, considering new business initiatives, or amalgamation to name just a few.

If, after preliminary research, a club is confident that a decision to pursue increased gaming machines will result in a real revenue surplus and have been able to identify an appropriate new community facility and/or service to support, then undertaking a formal Class 2 SIA is the logical next step.

### Embarking on the SIA Process

The SIA process is a rigorous one and should not be taken lightly. Nevertheless, in addition to the anticipated approval of the application there are significant benefits to be had.

An initial review of a local council's *Social Plan* will have been undertaken in the first phase of the SIA process. This information must be enhanced with secondary data collected from local council(s), the Australian Bureau

“If a club is confident increased machines will result in a real revenue surplus and have identified a new community facility to support, then a formal Class 2 SIA is the logical next step.”

of Statistics, Chambers of Commerce, and other government sources. This material will assist in establishing a clear community profile. A club must also undertake a user survey to provide basic demographic data on where its patrons live, the proportion of visitors to members, the frequency of gaming machine play, and the use of other club facilities.

The combination of the user survey and other sources of information will enable a club to describe the key characteristics of its local community in significant detail. This data also facilitates comparison of a club's local community with the wider Sydney area or Regional NSW communities, as the case may be. As a result, major socio-demographic trends in the local community are formally identified. This information, while mandatory for the SIA, also supplies quantitative, fact-based background that is invaluable for alignment with a club's overall strategy and marketing plans.

The next step is then to gather

data on local gaming machine expenditure trends. This information is analysed and compared to a range of benchmarks across the State. Such information highlights any increased risk of gambling related problems, or conversely lack of risk, that may result from increased gaming within a club's local community.

### Taking the proposal to the community

Once all of the above information is gathered then a summary of the pros and cons of the increased gaming machine proposal is completed. This summary forms the basis for an extensive community consultation process - a key requirement of the SIA application.

A wide range of stakeholders are contacted, representing all areas of the community. Such feedback provides clear opinions on the strength of the SIA as well as unfiltered information on

how the general community perceives a club and its operations. Such valuable feedback allows clubs to stay in touch with their reason for being and provides them with hard data upon which to base operational decision that will keep services aligned with changing demographics in the future.

Naturally, it is hoped that a well-stated case for increased gaming machines will meet community and LAB approval, but in order to truly leverage the SIA process, clubs need to also have the capacity to recognise the value they receive. Treating the SIA process as a community and market research exercise rather than simply a legal compliance will provide clubs with a much better result. ■

**About the Author:** Greg Russell is a chartered accountant with expertise in hospitality and gaming. His company's services include strategic planning, financial analysis & modelling, reporting, amalgamations, social impact assessments, and restructuring.