



# The Economic Contribution of Federal Group to Tasmania

A report for the Federal Group

December 2016

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# Glossary

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ABS	Australian Bureau of Statistics
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
FTE	Full Time Equivalent
GDP	Gross Domestic Product
GSP	Gross State Product
GOS	Gross Operating Surplus
IO	Input Output
IVS	International Visitor Survey
NILS	No Interest Loan Scheme
NVS	National Visitor Survey
TRA	Tourism Research Australia
TAS	Tasmania

# Executive summary

Deloitte Access Economics was commissioned by Federal Group to undertake an economic contribution study of the Federal Group’s activities in the Tasmanian Economy. The Federal Group is Tasmania’s largest private sector employer and plays an important role in the state’s economy through its provision of hospitality, gaming, accommodation and logistic services.

In addition to the revenue and ‘valued added’ it generates directly, the Federal Group also:

- buys supplies which generate flow-on impacts to suppliers
- facilitates tourist activity in Tasmania through the provision of tourist attractions and advertising
- supports numerous sporting, artistic, business, charity and community groups in Tasmania.

## Economic contribution

In 2015-16, the direct economic contribution of Federal Group to the Tasmanian economy, as measured by its value added to the economy, was \$245.41 million. The indirect economic contribution of Federal Group was \$97.71 million. The largest contributor was the gaming division.

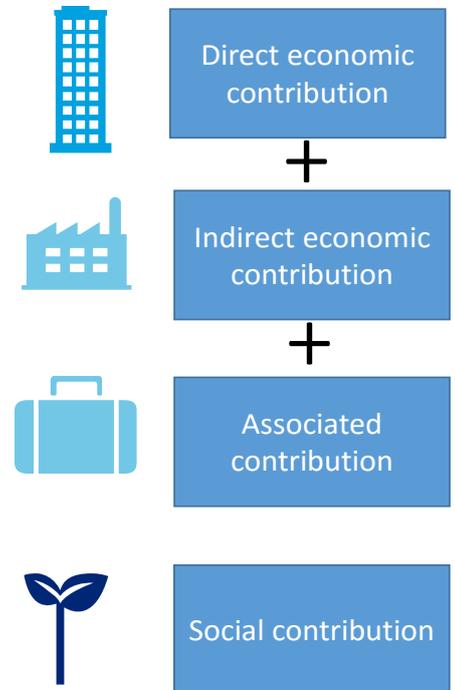
Combining the direct and indirect contribution gives total value added by the Federal Group of \$343.12 million in 2015-16. This represents 1.3% of the entire Tasmanian economy and 1.8% of the non-government sector.

### Direct and indirect economic contribution of Federal Group, 2015-16

Business Area	Direct value added (\$m)	Indirect value added (\$m)	Total (\$m)
Accommodation	\$11.81	\$7.53	<b>\$19.34</b>
Hotels and Bottle shops	\$25.23	\$16.24	<b>\$41.47</b>
Gaming <sup>1</sup>	\$207.84	\$66.47	<b>\$274.31</b>
Transport	\$0.93	\$0.55	<b>\$1.48</b>
Other	-\$0.40	\$6.92	<b>\$6.52</b>
<b>Total</b>	<b>\$245.41</b>	<b>\$97.71</b>	<b>\$343.12</b>

## Employment impact

The direct and indirect employment contribution of the Federal Group in Tasmania in 2015-16 totalled 2,337 full time equivalents (FTEs). This represents around 1% of all Tasmanian employment and 1.2% of private sector employment. This reflects direct employment of 1,325 FTEs in



<sup>1</sup> “Gaming” includes all of the revenue and expenditure associated with Wrest Point and Country Club including non-gambling functions such as food and beverage services and accommodation.

addition to indirect employment of 1,012 FTEs brought about by Federal Group's purchase of inputs.

### Associated contribution

Federal Group's economic contribution extends beyond the direct and indirect value added created by the company. By providing tourist attractions and facilities for Tasmania, and through advertising, Federal Group encourages tourists to the state. The impact of this is difficult to measure; however, two separate components can be identified:

- the expenditure of guests who stay at Federal Group's accommodation on other (non-Federal Group) activities in Tasmania. We have estimated this expenditure at \$48 million
- additional tourist activity by individuals who (a) stay on in Tasmania after visiting Federal Group properties, or (b) are encouraged to visit Tasmania due to Federal Group's attractions and marketing. These impacts are more difficult to estimate, but are likely to be material to the Tasmanian economy. We have estimated this to provide a value-added impact of \$10.4 million.

### Social contribution

In 2015-16 the Federal Group provided over \$1.8 million of support to over 100 organisations across the Tasmanian community.

#### Social contribution of the Federal Group, 2015-16

Type of organisation	Cash (\$ ,000)	In-Kind (\$, 000)	Both Cash and In-Kind (\$,000)	Total
Arts	72	0	60	<b>132</b>
Education	90	14	0	<b>104</b>
Charity/Social Support	117	141	73	<b>331</b>
Tourism and Industry Development	165	75	32	<b>272</b>
Sporting	69	249	66	<b>384</b>
Other/unclassified	72.5	78.5	439	<b>590</b>
<b>Total</b>	<b>585.5</b>	<b>557.5</b>	<b>670</b>	<b>1,813</b>

Note: The other/unclassified category includes a range of smaller donations and support (<\$3,000) to arts, education, charity/social, tourism and sporting entities.

While it is beyond the scope of this report to quantify the benefits of the \$1.8m contribution, they will include:

- greater social interaction and cohesion
- substantially improved quality of life, particularly via the activities of the Federal Group's charity and social partners
- increased educational and employment opportunities
- the development of the Tasmanian business community, through funding of a range of industry associations.

# 1 Introduction

Deloitte Access Economics was commissioned by Federal Group to undertake an economic contribution study of the Group’s activities to the Tasmanian Economy. Federal Group is Tasmania’s largest private sector employer and plays an important role in the state’s economy through its provision of hospitality, gaming, accommodation and logistic services.

Federal Group’s economic impact, however, extends beyond the direct employment it generates and the hospitality and logistic services it provides. The Federal Group also:

- buys supplies which generate flow-on impacts to suppliers
- facilitates tourist activity in Tasmania through the provision of tourist attractions and advertisements aimed at tourists
- supports numerous sporting, artistic, business, charity and community groups in Tasmania.

The contribution of Federal Group can therefore be broken down into four separate categories:

Figure 1.1: Estimates of contribution of Federal Group

## Contribution of Federal Group to the Tasmanian economy

	Nature of contribution	Description	Measure
	Direct economic contribution	The income directly generated by Federal Group as measured by profit and wages paid.	<ul style="list-style-type: none"> <li>• Value added</li> <li>• Employment</li> </ul>
	+		
	Indirect economic contribution	The income of (profit and wages) of firms that provide inputs to Federal Group.	<ul style="list-style-type: none"> <li>• Value added</li> <li>• Employment</li> </ul>
	+		
	Associated contribution	Expenditure by persons who stay at Federal Group facilities, or who visit Tasmania due to Federal Group advertising, but which isn’t captured by the direct and indirect economic contribution estimates above.	Value added
	Social contribution	The benefit to the community arising from Federal Group’s social programs.	Impact of recipient organisations on Tasmanian community

Drawing on a range of data and modelling techniques, this report estimates the size of these contributions. In particular, it estimates the direct and indirect value added and employment of Federal Group, the tourism expenditure associated with Federal Group and qualitatively discusses the Group's social contribution to Tasmania.

The estimates of the direct and indirect economic contribution, as well as the associated tourism contribution are based on Input-Output (IO) modelling techniques. The Australian Bureau of Statistics produce IO tables which provide the value added for each sector of the Australian economy, as well as the linkages between sectors. This allows the activities of Federal Group to be traced through the economy, and the value added created at each stage to be estimated.

This report is structured as set out below.

- Chapter 2 provides background to the report
- Chapter 3 provides the estimates of economic contribution at the national level
- Chapter 4 estimates the associated tourism contribution of the Federal Group's activities
- Chapter 5 present a study of the social contribution of Federal Group
- Technical details of the economic modelling are presented in Appendix A.

## 2 Background and approach

### 2.1 Federal Group

Federal Group is the oldest continually operating hotel group in Australia, having opened its first hotel in 1885 in Melbourne: the Federal Coffee Palace. In 1956 the Group entered the Tasmanian market and purchased the Wrest Point Riviera Hotel in Hobart. In 1968 a referendum was held in Tasmania on whether to grant a casino licence to Wrest Point Hotel (the first of its kind in Australia). At the time, Tasmania's tourism industry was highly seasonal and it was hoped that a casino would attract year-round visitors. A majority of Tasmanians voted for the casino and in 1973 Australia's first casino was opened at Wrest Point.

Since then the group has opened a number of prominent developments in Tasmania, including the Country Club Casino and Resort in 1982 near Launceston, and the Wrest Point Convention Centre in 1984. In 1993, the Group secured the rights to manage electronic gaming machines and Keno in Tasmania. In 1990, the Group established COPE Sensitive Freight and in 2006 purchased the 9/11 retail liquor business. In 2007, the company purchased the internationally acclaimed Henry Jones Art Hotel in Hobart and in 2010 opened Saffire Freycinet resort in the East Coast of Tasmania (Federal Group, 2016).

From 2000 Federal Group also acquired and developed a number of tourism properties and established the "Pure Tasmania" tourism brand. Pure Tasmania was promoted in key Tasmanian visitor markets interstate and overseas.

Pure Tasmania incorporated five separate destination resorts and experiences: Strahan Village, Freycinet Lodge, Cradle Mountain Chateau, Saffire Freycinet, and the Henry Jones Art Hotel. Each resort included a range of premium accommodation, dining and unique ways to experience the local area.

The brand was twice awarded as the best Tourism Marketing campaign in Australia at the National Tourism Awards (2005, 2009) and won the Tasmanian award in this category four times (2005, 2007, 2008, 2010).

With the sale of Federal Group's regional tourism businesses to the RACT (Strahan Village and Gordon River Cruises, Freycinet Lodge, Cradle Mountain Chateau) in 2014, the Group ceased using the Pure Tasmania brand.

Today Federal Group owns and operates a number of major businesses in Tasmania; it is most notably associated with casino, hotel, convention and entertainment complexes across the State, as well as bottle shops, freight and the management of gaming and Keno machines in Tasmania. Federal Group employs roughly 1,900 Tasmanians, is a key player in tourism brand promotion of Tasmania and is a significant contributor to the broader community.

The Federal Group has announced considerable future capital expenditure and investment outlays associated with both new properties (the MACq01 and Port Arthur hotel) and existing properties (a refurbishment of Wrest Point and the Launceston Country Club), which will provide further support to the local community, jobs and income.

## **2.2 Tourism in Tasmania**

Tourism is a key industry in Tasmania. More Tasmanians are employed in the tourism industry as a proportion of total employment than any other Australian State or Territory (Tasmanian Government, 2015). Roughly 15,000 Tasmanians are directly employed in tourism jobs. In 2014 just over one million tourists visited Tasmania.

In 2015 the Tasmanian Government and the tourism industry (represented by the Tourism Industry Council Tasmania) jointly agreed the latest T21 tourism strategy. The strategy aimed to grow annual visitor numbers to Tasmania to 1.5 million by 2020 (Tasmanian Government, 2015).

To this end, over the year to September 2015, Tasmania boasted the fastest growth in international arrivals of any state (at 19%). Arrivals from Chinese tourists rose 40% during this time (Deloitte Access Economics, 2016).

# 3 The economic contribution of Federal Group to Tasmania

Economic contribution studies provide an estimate of the impact of a company on the economy at a particular point in time, both directly through the company's own operations, and indirectly as the impact of its activities filter through the economy.

Financial measures, such as revenue and cost of goods sold, are used to estimate a company's **direct contribution** to the economy. This direct contribution is calculated using the income approach to Gross Domestic Product (GDP) which sums returns to capital and returns to labour. Returns to capital are calculated through Gross Operating Surplus, and returns to labour through wages.

This approach is consistent with the framework used by the Australian Bureau of Statistics in compiling the *Australian National Accounts*.

In addition to this direct component, the demand for upstream inputs and further interlinkages with other sectors of the economy are modelled. This expenditure drives the **indirect contribution** to value added.

## 3.1 Methodology

### 3.1.1 Data provided by Federal Group

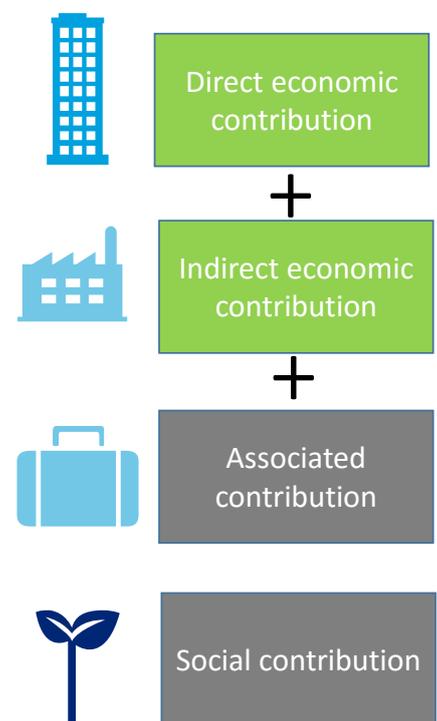
Federal Group provided Deloitte Access Economics with a detailed breakdown of the Group's revenue and expenditure in Tasmania for the 2015-16 financial year.

Expenditure was divided into five business areas: accommodation, hotels (pubs) and bottle shops, transport, gaming and other business areas.

"Gaming" encompass all of the activities of Network Gaming, Wrest Point and Country Club. This includes all of the activities within the casinos, encompassing non-gambling functions such as food and beverage and accommodation.

Consequently, to avoid double counting, "Accommodation" only includes the revenue and expenditure on Federal group accommodation that is not directly connected to a casino, such as Saffire Freycinet and Henry Jones Art Hotel.

Other business areas primarily provide back office support, including finance and non-business-area-specific sales and marketing, to the other areas of Federal Group.



## The Economic Contribution of Federal Group to Tasmania

Data on expenditure and revenue outside of Tasmania was also provided by Federal Group. This report, however, focuses exclusively on Tasmania and so does not use revenue or expenditure data from other states.

### **3.1.2 Methodology**

As noted above, the economic contribution of the Federal Group for the financial year 2015-16 is split into direct and indirect components. The direct component is based on the value added measure, calculated by determining the returns to labour and the returns to capital, derived from Federal Group's financial data. Direct impact therefore measures the income that Federal Group directly produces for the Tasmanian economy (which accrues either to workers as wages or owners of capital as profit).

#### **Direct contribution**

While revenue is more commonly reported in financial accounts, value added provides a more accurate assessment of a company's contribution to the overall economy. This is because value added does not include the value that is created by upstream industries. The direct contribution therefore isolates the value created by Federal Group.

The returns to capital, or gross operating surplus (GOS), is determined by calculating the ongoing operational profit and operational costs, prior to the impacts of interest, tax, depreciation and amortisation. The returns to labour are calculated by aggregating compensation provided to employees either through wages or other employment benefits.

#### **Indirect contribution**

The second aspect involves measuring the flow-on contribution of the company's activities. The indirect contribution calculates the value added created by the industries that produce inputs for Federal Group. It is based on the profit and wages that are generated as a result of Federal Groups expenditure in these industries. Only expenditure that occurs in Tasmania is considered, with inputs purchased overseas or in other states excluded from the analysis.

When calculating the indirect contribution associated with the Hotels and Bottle Shops division, expenditure on alcohol for sale in the bottle shops was excluded, in line with the practice of excluding the wholesale cost of retail items.

## **3.2 Economic contribution results**

### **3.2.1 Economic impact**

In 2015-16, the direct economic contribution of Federal Group to the Tasmanian economy was \$245.41 million (Table 3.1 below). This contribution was predominately provided by the gaming division, followed by the Hotels and Bottle Shops, then Accommodation. Since 'Other Business Areas' is mainly provides internal support services for the customer-facing businesses, it has a minimal revenue stream resulting in a negative value add.

The indirect economic contribution of Federal Group was \$97.71 million. Again, this contribution was predominately provided by the gaming division, followed by the Hotels and Bottle Shops, then Accommodation.

## The Economic Contribution of Federal Group to Tasmania

Combining the direct and indirect contribution gives total value added by Federal Group of \$343.12 million in 2015-16. This represents 1.3% of the Tasmanian economy and 1.8% of the non-government sector.

Table 3.1: Direct and indirect economic contribution of Federal Group, 2015-16

Business Area	Direct value added (\$m)	Indirect value added (\$m)	Total (\$m)
Accommodation	\$11.81	\$7.53	<b>\$19.34</b>
Hotels and Bottle shops	\$25.23	\$16.24	<b>\$41.47</b>
Gaming <sup>2</sup>	\$207.84	\$66.47	<b>\$274.31</b>
Transport	\$0.93	\$0.55	<b>\$1.48</b>
Other	-\$0.40	\$6.92	<b>\$6.52</b>
<b>Total</b>	<b>\$245.41</b>	<b>\$97.71</b>	<b>\$343.12</b>

### 3.2.2 Employment impact

In 2015-16, Federal Group directly employed 1,325 full time equivalent (FTE) individuals in Tasmania (Table 3.2 below). This contribution was predominately provided by the gaming division, followed by the Hotels and Bottle Shops, then the Accommodation division.

In the same year, Federal Group's purchase of inputs supported the indirect employment of 1,012 FTE individuals in Tasmania.

Combining the direct and indirect employment contribution gives total FTE employment supported by Federal Group of 2,337 in 2015-16. This represents around 1% of all Tasmanian employment and 1.2% of private sector employment<sup>3</sup>.

Table 3.2: Direct and indirect employment (FTE) of Federal Group, 2015-16

Business Area	Direct FTE employment	Indirect FTE employment	Total FTE employment
Accommodation	138.6	94.2	<b>232.9</b>
Hotels and bottle shops	273.1	194.8	<b>467.9</b>

<sup>2</sup> As noted in section 3.1.1, "gaming" includes all of the revenue and expenditure associated with Wrest Point and Country Club including non-gambling functions such as food and beverage services and accommodation

<sup>3</sup> Public sector employment figures are based on the 2014-15 financial year.

## The Economic Contribution of Federal Group to Tasmania

Gaming <sup>4</sup>	792.4	680.2	<b>1,472.5</b>
Transport	16.7	4.1	<b>20.8</b>
Other	104.4	38.3	<b>142.7</b>
Total	<b>1,325.18</b>	<b>1,011.55</b>	<b>2,336.7</b>

### 3.3 Federal Group's taxation contribution

Federal Group is a significant contributor to the Tasmanian government taxation revenues. Due to various gambling taxes, Federal Group pays more tax to the Tasmanian government than other companies of a similar size.

In 2015-16, Federal Group payed \$87.4 million in Tasmanian state government taxes, including land tax, stamp duty, payroll tax and gaming tax and licenses. This represents approximately 8.5% of all Tasmanian state tax revenue (Tasmanian Department of Treasury, 2016)<sup>5</sup>.

In the same year, the Group payed \$32.8 in Federal Government taxes, including company tax, GST and fringe benefit tax. A further \$2.1 million was paid to local government in the form of rates.

The payment of tax is reflected in the direct economic impact figures above.

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<sup>4</sup> As noted in section 3.1.1, "gaming" includes all of the revenue and expenditure associated with Wrest Point and Country Club including non-gambling functions such as food and beverage services and accommodation

<sup>5</sup> This figure includes GST on gaming of \$21.4M, which, while distributed to the states as a grant, is levied by the Federal Government.

# 4 Associated tourism due to Federal Group

Federal group's economic contribution extends beyond the direct and indirect valued added created by the company. Through advertising and by providing tourist attractions and facilities, Federal Group encourages tourists to visit the state. This Chapter discusses tourist activity associated with Federal Group, and in particular:

- the expenditure of guests who stay at Federal Group's accommodation on other (non-Federal Group) activities in Tasmania. This will include:
  - non-accommodation expenditure by guests while staying at Federal Group facilities (discussed below in section 4.1), and
  - accommodation expenditure by guests who come to Tasmania to stay at Federal Group hotels, but who then spend additional time in other hotels (section 4.2)
- tourist activity by individuals encouraged to visit Tasmania due to Federal Group's marketing and promotions, but who do not actually visit Federal Group facilities (section 4.3).

## 4.1 Non-accommodation expenditure of visitors to Federal Group accommodation

### 4.1.1 Methodology

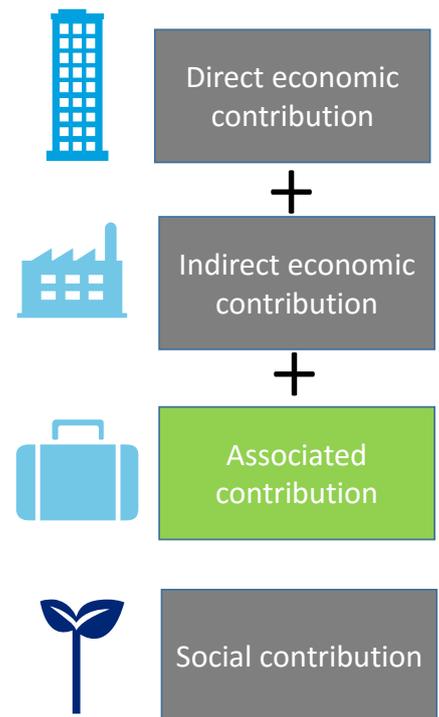
Federal Group operates a number of hotels including Wrest Point, Country Club, Saffire Freycinet, and the Henry Jones Art Hotel. In the 2015-16 financial year over 150,000 room nights were spent in Federal Group accommodation.

The Tasmanian Visitor Survey (Tourism Tasmania, 2016) provides a broad breakdown of total domestic tourist expenditure in Tasmania between transport, accommodation and all other items. This data was used to estimate the ratio of non-accommodation spending to accommodation spending by Tasmanian interstate tourists.

Using International Visitor Survey data and National Visitor Survey data (TRA, 2016), it was possible to calculate the difference in the ratio of non-accommodation spending to accommodation spending by interstate and international tourists in Australia. This proportional difference was used to adjust the TVS ratio (which was for interstate tourists) for international tourists.

This ratio was applied to expenditure on Federal Group accommodation to estimate the total additional consumption expenditure that the average interstate and international guest undertakes in Tasmania besides accommodation.

When calculating the tourist impact associated with Federal Group's accommodation, guests from within Tasmania were not considered as their income is likely to have otherwise been used in Tasmania were it not spent on tourist activities.



Using International Visitor Survey data and National Visitor Survey data, Deloitte Access Economics created a representative expenditure bundle for high income international and interstate tourists who visited Tasmania. The TRA expenditure data is more granular than the Tasmanian Visitor Survey, allowing for a more detailed bundle.

Using these bundles, the non-accommodation expenditure of visitors to Federal Group accommodation was mapped to their respective Input-Output industries to estimate the flow-on impact of this spending. Expenditure on gaming was also excluded as this spending is likely to have been accrued to Federal Group.

#### 4.1.2 Results

The results of this associated spending is shown in Table 4.1 below. In the 2015-16 financial year, guests staying in Federal Group’s accommodation also spent on average an estimated \$28.7 million on other goods and services in Tasmania. This has a flow-on impact of \$19.7 million, providing a total expenditure impact of \$48.4 million.

Table 4.1: Additional non-accommodation expenditure of visitors to Federal Group accommodation

	Direct additional expenditure (\$m)	Indirect additional expenditure (\$m)	Total (\$m)
International	\$5.26	3.60	<b>8.86</b>
Interstate	\$23.47	16.06	<b>39.53</b>
<b>Total</b>	<b>28.73</b>	<b>19.65</b>	<b>48.39</b>

## 4.2 Additional time spent in Tasmania by Federal Group customers

Section 4.1 estimates the additional expenditure of Federal Group’s guests while they are staying in the Group’s accommodation. It is likely, however, that the accommodation and attractions provided by Federal Group could encourage individuals to spend further time in Tasmania at non-Federal Group locations.

### 4.2.1 Methodology

We have assumed that, due to their uniqueness within Tasmania, the Wrest Point Convention Centre and Saffire Freycinet resort in particular attract tourists to Tasmania would otherwise not have visited the state. This section estimates the additional time spent by visitors to these venues in other parts of Tasmania and the associated expenditure of this extra time.

#### Visitation attributable to Wrest Point convention centre

To estimate the additional visitation attributable to Wrest Point convention centre, first the number of interstate and international visitor trips to Tasmania due to conferences (including accompanying a conference attendee) was obtained from IVS and NVS data.

The average length of stay in Tasmanian of visitors who come to the state for a convention was compared to the average length of stay in Hobart of visitors who come for a convention. This provided the average additional time convention visitors spent in the rest of the state (time spent in Hobart

was assumed to be in a Federal Group venue and therefore was not counted).

To account for the fact that visitors may stay in other Federal Group accommodation options across State, this figure was halved, providing a more conservative estimate.

IVS and NVS data was used to estimate the average daily expenditure of interstate and international visitors to Tasmanian who stay in commercial accommodation.

This daily spend figure was combined with the estimate of the provided the average additional time convention visitors spent in the rest of the state to estimate the tourism contribution of the convention centre.

#### Visitation attributable to Saffire Freycinet resort

The estimation of additional visitation attributable to Saffire Freycinet followed a similar methodology to the estimation for the convention centre.

The number of visitors to the resort was provided by Federal Group. It was assumed that 60% of interstate and 80% of international visitors to the resort had travelled to Tasmania primarily due to Saffire Freycinet.

Using IVS and NVS data, we calculated the average length of stay of visitors to Triabunna-Bicheno within the region. This was compared to the average length of stay of visitors to Triabunna-Bicheno in the wider state. This gave the estimated additional time spent by visitors to Saffire Freycinet in the rest of Tasmania. It was conservatively assumed that half of this additional time was spent in Federal Group accommodation.

The IVS and NVS data was then used to estimate the average daily expenditure of interstate and international visitors to Tasmanian who stay in commercial accommodation.

This daily spend figure was combined with the estimate of the average additional time Saffire Freycinet visitors spent in the rest of the state to estimate the tourism contribution of the resort.

#### 4.2.2 Results

Table 4.2 below shows the estimated economic impact by of additional time spent in Tasmania by visitors attracted to Federal Group's accommodation and venues. Guests visiting Tasmania to go to a convention or Saffire Freycinet conservatively spent an estimated additional \$6.2 million in the rest of the state away from the convention or the resort. This had a flow on effect of \$4.2 million, providing a total estimated impact of \$10.4 million.

Table 4.2: Economic contribution of additional time spent in Tasmania by Federal Group customers

		Direct (\$m)	Indirect (\$m)	Total (\$m)
Wrest Point Convention Centre	International	0.86	0.59	<b>1.46</b>
	Interstate	0.99	0.64	<b>1.63</b>
Saffire Freycinet	International	0.40	0.28	<b>0.68</b>
	Interstate	3.93	2.68	<b>6.60</b>
<b>Total</b>		<b>6.19</b>	<b>4.19</b>	<b>10.37</b>

### **4.3 Federal Group advertising effect**

Federal Group spent approximately \$1.8 million on advertising and marketing outside Tasmania in 2015-16. While this expenditure would have focussed on Federal Group properties it is likely that some people would have been encouraged to visit Tasmania (and not attend a Federal Group property) who would not otherwise have done so.

Data from previous work undertaken by Deloitte Access Economics (2013) suggests that each \$1 of 'destination marketing' by Tasmania which was unmatched by other states would generate between \$6 and \$19 in GSP – that is a return on investment of between 1:6 and 1:19.

The GSP effect of those enticed to visit Tasmania and stay at Federal Group accommodation or use their attractions has already been captured in this report in chapters 3 and 4. However, the effect of individuals that were encouraged to visit Tasmania due to Federal Group's advertising and not attend a Federal Group property and who would not otherwise have done so, is additional to this.

This shows that even if the number of additional visitors drawn to Tasmania through the Federal Group's advertising is small, the returns to the State can be significant.

# 5 Social contribution of Federal Group

Federal Group also creates value through a range of direct and indirect contributions to the community. This includes direct financial support for local community organisations and sporting groups, charities, industry associations and other groups.

In addition to cash contributions, the Federal Group also provides in-kind support to these organisations. This in-kind support can include:

- Providing services such as printing, design and the preparation of reports and advertising material
- Making assets available for use - for example using Wrest Point facilities for the Point to Pinnacle and City to Casino running events, and providing venues for the Festival of Voices and Ten Days on the Island
- Providing prizes such as accommodation and dining packages to organisations to use for fundraising purposes.

The economic activity impact associated with social support provided to the community is part of the base direct economic contribution assessment discussed in Chapter 3. However, as with all social activities the Federal Group’s contribution extends well beyond generating economic activity.

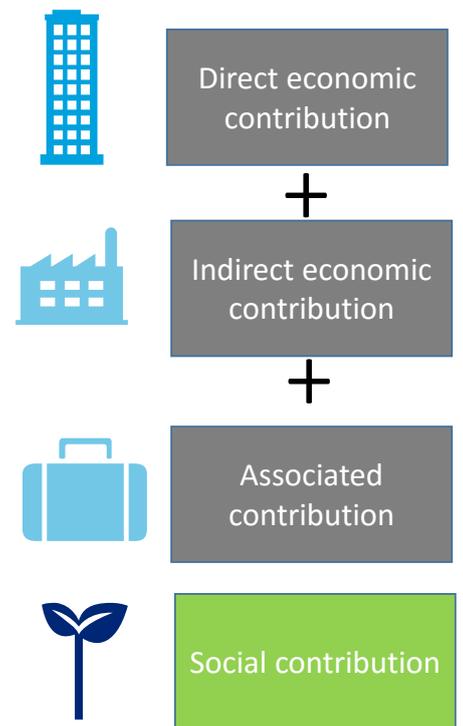
The social benefits generated by the Federal Group are therefore discussed below. In some cases we have provided an indication of the quantity of benefits that might be generated, based on publicly available work undertaken elsewhere by Deloitte Access Economics. Please note that this quantification is illustrative only and will not necessarily be applicable to the activities supported by the Federal Group.

## 5.1 Overview of contributions

For many years the Federal Group has been one of the largest providers of funds and in-kind support to the Tasmanian community. In 2015-16 the Federal Group provided over \$1.8 million of support to well over 100 organisations across the Tasmanian community. This support is summarised below.

Table 5.1: Social contribution of the Federal Group, 2015-16

Type of organisation	Cash (\$ ,000)	In-Kind (\$, 000)	Both Cash and In-Kind (\$,000)	Total (\$ ,000)
Arts	72	0	60	<b>132</b>
Education	90	14	0	<b>104</b>
Charity/Social Support	117	141	73	<b>331</b>



## The Economic Contribution of Federal Group to Tasmania

Tourism and Industry Development	165	75	32	<b>272</b>
Sporting	69	249	66	<b>384</b>
Other/unclassified	72.5	78.5	439	<b>590</b>
<b>Total</b>	<b>585.5</b>	<b>557.5</b>	<b>670</b>	<b>1813</b>

Note: The other/unclassified category includes a range of smaller donations and support (<\$3,000) to arts, education, charity/social support, tourism and industry development and sporting organisations, as well as larger donations to entities that do not fit neatly into any of these categories.

In addition to the support provided by Federal Group to the Tasmanian community, the Farrell family Foundation provided an additional \$319,000 to Tasmanian and non-Tasmanian community groups in 2015-16. Please note that as this report focusses only on the activities of the Federal Group, these contributions are not reflected in the discussion below.

While some of the contributions provide a marketing and advertising benefit to Federal Group, a large proportion either provides no direct benefit, or has benefits to the Federal Group that are much less than the amount contributed.

### 5.2 Outcomes of contributions

Although the Federal Group provided \$1.8m in contributions to the community, the actual impact on community will be much greater than this. While it is beyond the scope of this report to quantify these benefits, the benefits include:

- Greater social interaction and cohesion
- Substantially improved quality of life, particularly via the activities of the Federal Group's charity and social partners
- Increased educational and employment opportunities
- Development of the Tasmanian business community, through funding of a range of industry associations
- Promotion of Tasmania as a tourist destination.

In-kind contributions provide community organisations with a platform to raise revenue and boost their profile. As an example, the Variety children's charity estimated that cash and in-kind contributions from Federal Group of \$108,000 in 2014-15 enabled it to generate revenue of \$290,990.

Some of these benefits are discussed below.

### 5.3 Sporting assistance

The Federal Group provided more than \$384,000 in support to a range of sporting organisations and activities in 2015-16. Recipients included relatively high profile entities such as AFL Tasmania as well as a number of much smaller organisations. Many recipients were football clubs.

In terms of the benefits of such assistance, and while research is clear that sport is not a magic bullet to 'cure all' social ills, participation in and through sport can help processes of belonging, trust and inclusion; and if managed correctly, sport can be an excellent medium for encouraging

awareness and valuable public debate on wider social issues (Oliver, 2014).<sup>6</sup>

For example, a study of community football clubs in Victoria identified that the return on value of community football clubs included increased social connectedness, community wellbeing, and personal mental and physical wellbeing of participants (La Trobe University, 2014). In addition, it identified employment outcomes, personal development, and civic pride in the community. The social return on investment was estimated to be \$4.40 return for every \$1 spent to run a club.

If replicated in Tasmania, this would suggest Federal Group's contribution to sporting organisations would have benefits in the range of \$1.5 to \$2 million per annum.

#### **5.4 Tourism and industry development**

The Federal Group is a significant contributor to a range of industry associations such as the Tasmanian Tourism Industry Council, Tasmanian Hospitality Association, Tasmanian Chamber of Commerce and Industry and the Property Council of Australia.

The contribution of the Federal Group to broader Tasmanian tourism is discussed in section 4.

#### **5.5 Arts and Festivals**

The Federal Group contributed more than \$132,000 to the Tasmanian arts community in 2015-16. Much of this support was in the form of smaller cash donations to local community organisations. For example, the Bay of Fires Art Prize, Tasmanian Theatre Awards, Glamorgan-Spring Bay Art, Junctions Arts Festival, Kickstart Arts and Artist in Residence Program each received cash grants of \$3000 to \$6000.

The Federal Group also supports some of the larger art events and festivals, including the Glover Prize (Federal Group is the principal supporter and has been since the beginning of the prize), Ten Days on the Island, the Festival of Voices and the Unconformity Festival.

The role of creative industries in supporting economic growth is recognised in the Commonwealth Government's paper *Creative Industries, a Strategy for 21<sup>st</sup> Century Australia*. The strategy notes the significant contribution of Australia's creative industries and states that "achieving a competitive creative industries sector is vital to Australia's prosperity" (Commonwealth Government, 2011).

From a Tasmanian perspective, in 2011 there were 5,796 Tasmanians who worked in a cultural industry for their main occupation (ABS Cat No. 6273.0, Employment in Culture, Australia, 2013). By way of comparison, this is more than the number of Tasmanians employed in 'electricity, gas, water and waste services', or 'administrative and support services' industries.

Importantly, improved sustainability of Tasmania's creative industries, including through greater employment opportunities, is likely to help stem the loss of Tasmanian residents and indeed promote migration to Tasmania, by those who work or would seek to work in these industries and more

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<sup>6</sup> as noted in *The Power of Sport – Building Social Bridges and Breaking Down Social Barriers*, Paul Oliver, Curtin University September 2014.

broadly by those who wish to be exposed to these offerings. Indeed flourishing creative industries are also posited to attract a 'creative class' of highly-educated and well paid professionals across a range of industries (Florida, 2002).

### **5.6 Charity and social support**

The Federal Group contributes to a range of charities and social programs across the State. This support exceeded \$331,000 in 2015-16. Variety Tasmania is the largest recipient of support (see case study below) along with a large number of other charities including:

- NILS which provides interest free loans to individuals or families on low incomes
- Carers Tasmania, which supports the health, wellbeing, resilience and financial security of carers
- The Cancer Council
- Brave Foundation, which supports those experience teenage pregnancy and parenting.
- Mosaic, a disability support provider
- The Make-a-wish foundation, which grants wishes to children battling life-threatening illnesses
- Possability, which assists Tasmanians with a disability
- The Heart Foundation
- Save the Children
- The Perry Cross Foundation, which supports spinal research.

The benefits and positive outcomes provided by these charities are numerous and generally lead to substantially improved quality of life for those supported, with benefits including:

- Improving independence and reducing social isolation
- Building physical, social and intellectual skills
- Changes in quality of life through employment
- Avoidance of facility-based care
- Release of pressure on carers
- Reduced reliance on government services and financial support
- Increased workforce participation and productivity.

Although the value of these benefits is difficult to estimate, they are tangible and can in some cases be measured. For example, a recent Deloitte Access Economics study noted that informal carers provided an estimated 1.9 billion hours of care in 2015. If all hours of informal care provided in 2015 were replaced with services purchased from formal care providers, the replacement value of informal care would be \$60.3 billion (Deloitte Access Economics, 2015). This highlights the importance of the support provided to families and other carers of socially, mentally and physically disadvantaged provided by charities such as Carers Tasmania.

### **5.7 Education**

In 2015-16 the Federal Group provided more than \$104,000 to educational organisations. Recipients included the University of Tasmania, the Beacon Foundation (which supports (typically disadvantaged) young people's transition from education to employment) and the 24 carrot school gardens program

The benefits of investing in education are well documented. For example, previous work by Deloitte Access Economics has identified that the economic benefits of programs that prevent early school leaving are around \$12 for every \$1 invested. In addition better health, increased life satisfaction and a reduced propensity to commit crime have also been identified.

### **5.8 Other assistance**

The Federal Group is the principal sponsor of Crime Stoppers Tasmania and this has been the case since Crime Stoppers was established in Tasmanian 20 years ago.

Federal Group senior management are strongly encouraged to take a leading role in the community. Most are on the Board of at least one community organisation, and several members are on multiple entities.

A case study of the Federal Group's assistance to Variety, the children's charity is provided overleaf as an example of the importance of the Federal Group's work.



One of the many entities supported by the Federal Group is Variety, the children's charity. Variety supports children growing up with disability, serious illness or disadvantage.

Key outcomes from Variety's work include:

- Substantial improvements in quality of life for children, including greater mobility, educational opportunities and improved health outcomes
- Reducing the financial burden for families with affected children
- An easing of the burden on carers

Variety typically supports those children and families with the most acute needs and for whom other avenues of support are not available.

The Federal Group, along with the Farrell family, has supported Variety since it was established in 1990. It is by far the largest single supporter of Variety in Tasmania. In recognition of "*the commitment, contribution and generosity both in sponsorship and spirit*" Variety presented the Chairman's Citation to the Farrell family at the Variety Australia National Convention in Sydney in 2014. The Federal Group is Variety Tasmania's only designated Platinum Sponsor.

In the 2015-16 financial year the Federal Group provided \$73,000 in cash and \$43,000 in in-kind support to Variety. The Farrell family also separately provided additional support. This assists Variety in two key ways.

Firstly, the cash support directly provides around 15% of Variety's cash income. This offsets Variety's operational costs and contributes directly to its Grants Program. It enables Variety to deliver the equipment grants that are fundamental to Tasmanian children in need.

The in-kind support both assists Variety to reduce its own expenses, but more importantly, provides world class facilities to generate additional income. Some examples of the type and impact of in-kind support include the following:

- The Federal Group hosts the annual Chairman's luncheon at the Henry Jones hotel. This is one of Variety's top revenue raising events.
- The Federal Group provides professional design services to complete graphic design, preparation and printing of Annual Review, receipt books, invitations marketing, envelopes, road signs and gift cards
- Wrest Point hosts Variety's Monster Book Fair which has quickly grown to be the largest book fair in Tasmania, and which attracted approximately 3,000 visitors in 2015.

Net event revenue from functions supported by the Federal Group from November 2014 to October 2015 was \$290,990, representing over half of Variety's total income. In addition, the Federal Group's support provides unquantifiable and intangible benefits including social outcomes, volunteer time, brand engagement and marketing.

Importantly, the fact that Federal Group assistance is long-standing and ongoing allows Variety to plan and budget with confidence and helps to avoid the financial viability and sustainability issues that face other small charities.

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# Appendix A: Economic Contribution modelling framework

Economic contribution studies are intended to quantify measures such as value added, exports, imports and employment associated with a given industry or firm, in a historical reference year. The economic contribution is a measure of the value of production by a firm or industry.

All direct, indirect and total contributions are reported as gross operating surplus (GOS), labour income, value added and employment (with these terms defined in 0).

## Definitions of economic contribution estimates

<b>Estimate</b>	<b>Definition</b>
Gross operating surplus (GOS)	GOS represents the value of income generated by the entity's direct capital inputs, generally measured as the earnings before interest, tax, depreciation, and amortisation (EBITDA).
Labour income	Labour income is a subcomponent of value add. It represents the value of output generated by the entity's direct labour inputs, as measured by the income to labour.
Value added	Value added measures the value of output (i.e. goods and services) generated by the entity's factors of production (i.e. labour and capital) as measured in the income to those factors of production. The sum of value added across all entities in the economy equals gross domestic product. Given the relationship to GDP, the value added measure can be thought of as the increased contribution to welfare.
Employment (FTE)	Employment is a fundamentally different measure of activity to those above. It measures the number of workers (measured in full-time equivalent terms) that are employed by the entity, rather than the value of the workers' output.
Direct economic contribution	The direct economic contribution is a representation of the flow from labour and capital committed in the economic activity.
Indirect economic contribution	The indirect contribution is a measure of the demand for goods and services produced in other sectors as a result of demand generated by economic activity.

**Total economic contribution** The total economic contribution to the economy is the sum of the direct and indirect economic contributions.

Source: Deloitte Access Economics (2016)

### **Value added**

The measures of economic activity provided by this contribution study are consistent with those provided by the Australian Bureau of Statistics. For example, value added is the contribution the sector makes to total factor income and gross domestic product (GDP).

There are a number of ways to measure GDP, including:

- expenditure approach – measures expenditure: of households, on investment, government and net exports; and
- income approach – measures the income in an economy by measuring the payments of wages and profits to workers and owners.

Below is a discussion measuring the value added by an industry using the income approach.

### **Measuring the economic contribution – income approach**

There are several commonly used measures of economic activity, each of which describes a different aspect of an industry's economic contribution:

- Value added measures the value of output (i.e. goods and services) generated by the entity's factors of production (i.e. labour and capital) as measured in the income to those factors of production. The sum of value added across all entities in the economy equals gross domestic product. Given the relationship to GDP, the value added measure can be thought of as the increased contribution to welfare.

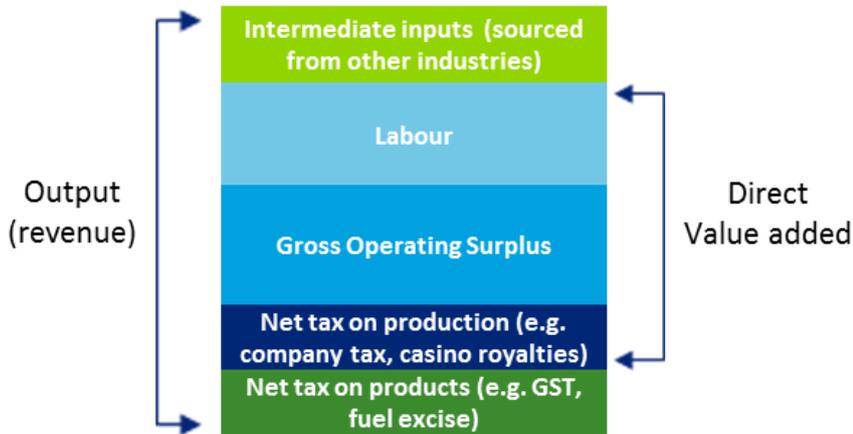
Value added is the sum of:

- Gross operating surplus (GOS) represents the value of income generated by the entity's capital inputs, generally measured as the earnings before interest, tax, depreciation and amortisation (EBITDA).
- Tax on production less subsidy provided for production. Note: given the manner in which returns to capital before tax are calculated, company tax is not included or this would double-count that tax. In addition it excludes goods and services tax, which is a tax on consumption (i.e. levied on households).
- Labour income is a subcomponent of value added. It represents the value of output generated by the entity's direct labour inputs, as measured by the income to labour.

Figure i shows the accounting framework used to evaluate economic activity, along with the components that make up output. Output is the sum of value added and the value of intermediate inputs used by the firm.

The value of intermediate inputs can also be calculated directly by summing up expenses related to non-primary factor inputs.

Figure i: Economic activity accounting framework



Source: Deloitte Access Economics.

Contribution studies generally outline employment generated by a sector. Employment is a fundamentally different measure of activity to those above. It measures the number of workers that are employed by the entity, rather than the value of the workers' output.

#### Direct and indirect contributions

The **direct** economic contribution is a representation of the flow from labour and capital in the company.

The **indirect** contribution is a measure of the demand for goods and services produced in other sectors as a result of demand generated by the direct economic activity of Federal Group. Estimation of the indirect economic contribution is undertaken in an input-output (IO) framework using Australian Bureau of Statistics IO tables which report the inputs and outputs of specific sectors of the economy (ABS 2013).

The total economic contribution to the economy is the sum of the direct and indirect economic contributions.

Other measures, such as total revenue or total exports are useful measures of economic activity, but these measures alone cannot account for the contribution made to GDP. Such measures overstate the contribution to value added because they include activity by external firms supplying inputs. In addition, they do not discount the inputs supplied from outside Australia.

#### Limitations of economic contribution studies

While describing the geographic origin of production inputs may be a guide to a firm's linkages with the local economy, it should be recognised that these are the type of normal industry linkages that characterise all economic activities.

Unless there is unused capacity in the economy (such as unemployed labour) there may not be a strong relationship between a firm's economic contribution as measured by value added (or other static aggregates) and the welfare or living standard of the community. The use of labour and capital by demand created from the industry comes at an opportunity cost

as it may reduce the amount of resources available to spend on other economic activities. This is not to say that the economic contribution, including employment, is not important. As stated by the Productivity Commission in the context of Australia's gambling industries<sup>7</sup>:

Value added trade and job creation arguments need to be considered in the context of the economy as a whole ... income from trade uses real resources, which could have been employed to generate benefits elsewhere. These arguments do not mean that jobs, trade and activity are unimportant in an economy. To the contrary they are critical to people's well-being. However, any particular industry's contribution to these benefits is much smaller than might at first be thought, because substitute industries could produce similar, though not equal gains.

In a fundamental sense, economic contribution studies are simply historical accounting exercises. No 'what-if', or counterfactual inferences – such as 'what would happen to living standards if the firm disappeared?' – should be drawn from them.

The analysis – as discussed in the report – relies on a national IO table modelling framework and there are some limitations to this modelling framework. The analysis assumes that goods and services provided to the sector are produced by factors of production that are located completely within the state or region defined and that income flows do not leak to other states.

The IO framework and the derivation of the multipliers also assume that the relevant economic activity takes place within an unconstrained environment. That is, an increase in economic activity in one area of the economy does not increase prices and subsequently crowd out economic activity in another area of the economy. As a result, the modelled total and indirect contribution can be regarded as an upper-bound estimate of the contribution made by the supply of intermediate inputs.

Similarly the IO framework does not account for further flow-on benefits as captured in a more dynamic modelling environment like a Computerised General Equilibrium (CGE) model.

### **Input-output analysis**

Input-output tables are required to account for the intermediate flows between sectors. These tables measure the direct economic activity of every sector in the economy at the national level. Importantly, these tables allow intermediate inputs to be further broken down by source. These detailed intermediate flows can be used to derive the total change in economic activity associated with a given direct change in activity for a given sector.

A widely used measure of the spill-over of activity from one sector to another is captured by the ratio of the total to direct change in economic activity. The resulting estimate is typically referred to as 'the multiplier'. A multiplier greater than one implies some indirect activity, with higher

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<sup>7</sup> Productivity Commission (1999), *Australia's Gambling Industries*, Report No. 10, AusInfo, Canberra, (page 4.19).

multipliers indicating relatively larger indirect and total activity flowing from a given level of direct activity.

The IO matrix used for Australia is derived from the ABS 2012-13 IO tables (2013). The industry classification used for IO tables is based on the Australian and New Zealand Standard Industrial Classification (ANZSIC), with 114 sectors in the modelling framework.

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