

Post Election Briefing Paper for Minister of Internal Affairs

Prepared by Charity Gaming Association (Inc)

Class 4 Gambling – scope and issues

Scope

1. The Class 4 gambling sector in New Zealand encompasses just under 20,000 electronic gaming machines deployed in 1500 pubs and clubs. Over 5000 people are estimated to be employed directly or indirectly in the ownership and operation of Class 4 gambling.
2. By contrast Australia has approximately 200,000 machines of which 100,000 are located in NSW (which has a population about the same size as NZ). The profits of poker machine gambling in Australia are retained by the clubs and pubs that own and operate the gaming machines.
3. The net proceeds of Class 4 gambling (after payment of taxes and the costs of delivery of the product) are earmarked for distribution to the community (Gambling Act 2003 and associated regulations). As at September 2008 this amounted to approximately \$300 million.
4. Thousands of community organisations and many thousands of individual New Zealanders benefit directly from the fundraising carried out by licensed Class 4 gambling operators and the subsequent distribution of grants to the community. We know of no other country in the world where poker machines have been harnessed specifically to provide a baseline for community fund raising.

5. Revenues are in decline as a result of the economic climate and the reducing number of venues and machines. In the period from June 2004 until June 2007 total Class 4 revenue declined from \$1035m to \$950m.
6. In the first quarter of 2008 (January to March) revenue declined 11% on the previous quarter. In the six months from 1 April 2008 to 30 September revenue from Class 4 non-club gambling declined 4.5% on the previous year.
7. The amount available for grants to communities has declined in direct proportion.
8. MOH research conducted in 1999 and 2003 showed that prevalence of problem gambling remained relatively constant at about 1.2% of the adult (18+) population at a time when the numbers of gaming machines in the community doubled. A new study is in the field and expectations are that prevalence of problem gambling is likely to have declined.
9. MOH statistics show since 2003 the numbers of people seeking treatment for gambling addiction in New Zealand has been in decline. The numbers of gamblers seeking help from the Gambling Helpline decreased by 38% to 1812 in 2007 and the numbers of people (gamblers and others) seeking face to face treatment declined 46% to 1490 by the end of 2007.
10. In Australia the Productivity Commission estimated in 1999 that problem gambling prevalence was about 2.1% of the adult population. The Productivity Commission is about to embark on a new assessment of the impacts of gambling in Australia.

Issues

1. Venue Payments

- a. Non-club gaming machine owners (the licensed Class 4 gambling fundraisers) operate their machines in venues owned by a publican or similar enterprise.
- b. The publican is entitled to be reimbursed for the actual, reasonable and necessary costs associated with the operation of the gaming machines on his/her premises.
- c. Since 2004 the payment of venue costs has been governed by a complicated and inequitable formula set out in a Gazette Notice.
- d. The Gazette Notice sits alongside a number of other financial performance requirements specified in legislation or regulation.
- e. These include the minimum return to authorised purposes of 37.12%, increased compliance costs for DIA fees and licences, increased Problem Gambling Levy, costs of electronic monitoring (EMS) \$60+m in capital costs plus \$8+m per year in running costs and player information displays (PIDS) \$80+m capital cost, increased rents and other venue costs such as labour.
- f. The outcome has been the development of a competitive market for high performing venues to assure the fundraising society of its financial viability.
- g. The competitive market features behaviours which are contrary to the intent of the legislation and, in the absence of effective compliance action by the DIA, means even those fundraisers which do not wish to engage in such behaviour are forced to do so to protect the ongoing financial viability of their organisation.
- h. There has been no adjustment to the allowable limits to reflect increases in costs of living since 2004 and despite an agreement at a Joint DIA/HANZ/CGA Working Party in November 2007 that such an increase should be applied.

- i. The current Gazette Notice is seriously flawed and has led directly to significant negative impacts on the class 4 gambling sector.
- j. The CGA approached the previous Minister to seek his intervention by requesting the Gambling Commission (as the expert adjudication body) to undertake a comprehensive inquiry to determine a simple, fair and equitable methodology for reimbursing venue operators for their costs. He declined. We seek the incoming Minister's help to resolve this matter for the future of the sector.
- k. A commission-based system would be simple to administer, fair and transparent. The actual payment would be determined by the output of the electronic monitoring system. The constraints on promotion and advertising of Class 4 venues mean that fears about providing an incentive to venue owners to encourage excessive gambling are far-fetched. Allowing for a commission basis for payment (such as the commissions paid to Lotto shop operators and TAB venues) would require a change to the Gambling Act 2003.

2. Grant distribution

- a. There is evidence that steps are being taken by external parties to inappropriately (and sometimes unlawfully) secure streams of grant funding from the Class 4 gambling sector to the disadvantage of other community groups and local communities.
- b. This includes:
 - i. requirements to distribute funds to nominated recipients as a condition of signing a venue agreement;
 - ii. purchase of venues to secure gaming grant money;
 - iii. end user trusts transferring net proceeds out of district to another part of New Zealand
 - iv. funding of stake money for racing clubs
- c. The CGA has proposed the following but sees no evidence that officials and the previous Government were prepared to incorporate the changes necessary to ensure better distribution:

- i. That a significant majority of available grant money goes back to the community in which its was generated (most CGA members have policies committed to returning 80% or better to the local community);
- ii. That end-user trusts be regulated to limit their activities to the geographical district where they are located; to limit the number of venues they can hold venue licences for and to limit the number of machines they can operate;

3. Problem Gambling Levy

- a. The CGA's members pay the majority proportion of the Problem Gambling Levy of about \$20 million each year. The Levy reimburses the Crown for the costs of the problem gambling strategy and service plan prepared by the MOH.
- b. The CGA endorses the policy decision that the industry should contribute to the cost of research into problem gambling and harm remediation.
- c. The current levy was the result of an extended consultation process involving all stakeholders and the Gambling Commission which failed to address the CGA's concerns about the equity of the allocation of the cost of the levy.
- d. MOH has taken very positive measures since the last time the levy was set by Cabinet to ensure the next levy setting process is much more information by relevant data. The CGA endorses the current process.
- e. The major flaw with the levy setting process is that it seeks to make presentations for treatment a proxy for harm. All parties agree that is an inappropriate approach and that a more refined matrix is required. Work is underway to seek such a matrix and to determine whether it can be implemented within the current legislative and regulatory settings.

4. DIA enforcement

- a. A considerable number of the Class 4 gambling sector's problems arise from the ineffective enforcement by the DIA, historically, of the legislative and regulatory constraints placed on the sector.
- b. Requirements to meet minimum return to authorised purpose, to comply with the venue payments Gazette Notice, to maintain a clear separation between fund raising and grant distribution have not been effectively policed.
- c. Until recent times the DIA has tried to operate a doctrine of self-regulation by the sector. Unfortunately, those CGA members who have sought to adhere to this approach have had their financial viability undermined by other operators who have ignored the responsibilities of self-regulation.
- d. The DIA's licensing activity has recently been more fully integrated with its compliance activity and the CGA hopes this will lead to the development of a level playing field for all Class 4 gambling providers which weeds out the rogues.