



Clubs Australia

**Parliamentary Joint Select Committee on Gambling Reform
Inquiry into the Poker Machine Harm Reduction (\$1 Bets and Other
Measures) Bill 2012**

**Clubs Australia Submission
31 October 2012**

About Clubs Australia

Clubs Australia is the national peak industry body representing the interests of Australia's 4,000 licensed clubs.

Clubs are not-for-profit community based organisations whose central activity is to provide hospitality and infrastructure for members and the community. Clubs contribute to their local communities, through employment and training, direct cash and in-kind social contributions and through the formation of social capital by mobilising volunteers and providing a diverse and affordable range of services, facilities and goods. Club members are people from all walks of life and with many different interests. Clubs, as local community organisations, are highly responsive in addressing the needs of their members, guests and broader community.

Clubs have an established history as a responsible provider of gambling services to the Australian community.

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1. Executive Summary

1. The committee has already recommended the introduction of new poker machines with a \$1 maximum bet, \$500 maximum prize and \$20 maximum cash input limit in its first inquiry report.
2. The Australian Government has already issued a response to the committee's recommendation indicating that it does not support the introduction of such restrictions.
3. The committee previously discharged its inquiry into the *Poker Machine (Reduced Losses – Interim Measures) Bill 2010*, which also sought to introduce new poker machines with \$1 maximum bet and \$20 maximum cash input, on the grounds that committee had already sufficiently dealt with these matters.

Recommendation 1

In order to avoid unnecessary duplication, Clubs Australia recommends that the committee discharge the current inquiry.

4. The policy of imposing government limits on consumer spending on poker machines is value-laden and disingenuous, particularly in the absence of limitations on other gambling products.
5. Australian poker machines have been incorrectly characterised as high intensity gaming machines.
6. Publicly available research proves that:
 - a. The maximum bet on an Australian poker machine is much lower than in the majority of other jurisdictions around the world.
 - b. The speed of play on Australian gaming machines is much slower than in the majority of other jurisdictions around the world.
 - c. The actual average expenditure on Australian poker machines is between \$10 and \$15 per hour.
 - d. The average maximum expenditure on the Australian poker machines is \$180 per hour, not \$1,200 per hour.
7. The vast majority (over 95%) of the poker machine players who currently bet more than \$1 per spin are not problem gamblers.

8. There is no evidence on the effectiveness of poker machines with a \$1 maximum bet, \$500 maximum jackpot and \$20 maximum cash input limit in reducing problem gambling.
9. Independent expert advice commissioned by the Australian Government found that there are currently no existing poker machines in Australia capable of supporting a \$1 maximum bet, \$500 maximum prize and \$20 maximum cash input.

Recommendation 2

Clubs Australia recommends against the introduction of poker machines with a \$1 maximum bet, \$500 maximum jackpot and \$20 maximum cash input limit, because it will help very few problem gamblers and will be a significant imposition on recreational gamblers.

10. The Australian Government received advice that the cost of re-configuring and redesigning Australia's 197,000 existing poker machines would be in excess of \$1.5 billion.
11. However, the Gaming Technologies Association, which represents all major poker machine manufacturers in Australia, estimates the cost of upgrading and replacing Australia's 197,000 poker machines to support a \$1 maximum bet / \$500 maximum prize to be in excess of \$2.5 billion.

Recommendation 3

Clubs Australia recommends that the committee accept that credible estimates for the cost of implementing the proposed policy range between \$1.5 billion and \$2.5 billion.

12. It is highly doubtful that state and territory governments would have the capacity to issue approvals for the reconfiguration of the 25,000 different games currently in operation in Australia within the timeframes of the Bill. Authorities currently approve 2,000 games each year.
13. The alternate costing paper released by The Australia Institute is significantly flawed in a number of key areas including:
 - a. The Australia Institute has no experience in the design or manufacture of poker machines and did not undertake any industry consultation.
 - b. The Australia Institute underestimated the technical complexity, cost and administrative requirements for upgrading all 197,000 Australian poker machines, relying on accounting procedures to underestimate the upfront costs for industry.

- c. The Australia Institute failed to recognise that not-for-profit clubs are mutual organisations that typically do not receive tax benefits from depreciation.
14. There has been no regulatory impact assessment of the current proposal as required by the Australian Government best practice guidelines. A proper assessment would entail a full cost-benefit analysis (CBA) and the consideration of alternate policy options.
 15. The Productivity Commission did not undertake a proper CBA of \$1 maximum bets. A recommendation by Productivity Commission does not negate the need for a CBA. Indeed, a key recommendation of the Productivity Commission was that all major gambling policy decisions be subject to a proper regulatory impact assessment (recommendation 17.4).

Recommendation 4

Clubs Australia recommends that consistent with recommendation 17.4 of the Productivity Commission Report all major gambling regulatory decisions should be subject to proper regulatory impact assessment.

16. The cost of installing the new poker machines coupled with the expected loss of revenue would compromise the financial viability of many local clubs and would jeopardise tens of thousands of Australian jobs.
17. This impact will be even more significant in regional and rural Australia, where the role of community clubs in supporting a broad range of community assets and activities is crucial in maintaining a viable social environment.
18. Clubs Australia's '*Part of the Solution*' policy document outlines a range of evidence-based and cost-effective measures to further reduce problem gambling that provide a better alternative to the current Bill.

Recommendation 5

Clubs Australia recommends that the Australian Government work collaboratively with State Governments and industry to identify and pursue evidence-based and cost-effective policies for minimising harm and fostering a culture of responsible gambling among all stakeholders.

2. Introduction

Gambling on poker machines is an enjoyable recreational pursuit for millions of Australians and provides significant social and economic benefits to the community in terms of entertainment, employment, taxation revenues and funding for social and sporting infrastructure and community organisations.

Clubs are unique in the gambling industry being not-for-profit entities that make significant social and economic contributions to their local communities. The KPMG National Club Census 2011 valued the social and economic contribution of the clubs industry in 2011 at \$2.3 billion and \$7.2 billion respectively.¹

In its 2010 report, the Productivity Commission found that the net social benefits of gambling in Australia, after accounting for the social costs of problem gambling, ranged between \$3.7 billion and \$11.1 billion annually.²

Australian state and territory governments received approximately \$6.3 billion in annual gambling taxation revenues in 2008-09.³ These taxes make up a substantial percentage of state and territory budgets and provide for government expenditure on a range of areas such as health, transport, infrastructure and education.

However, a small minority of people who play poker machines are problem gamblers, and they and their families typically experience adverse impacts on their health, jobs, finances, emotional state and relationships. There are an estimated 75,300 problem gamblers in Australia (0.49 percent of the adult population).⁴ There is widespread agreement among all stakeholders that problem gambling is a serious issue that warrants action in the form of policies that promote harm minimisation and responsible gambling.

Clubs Australia remains committed to working constructively with all levels of government to find effective ways to further reduce the rate of problem gambling. Comprehensive policy collaborations between state and territory governments and industry have resulted in the significant reduction of problem gambling prevalence rates across every Australian jurisdiction.

Clubs Australia supports additional reforms to reduce problem gambling that are evidence-based, cost effective and subject to a regulatory impact statement and trial before implementation. It is essential that governments balance new measures aimed at minimising the harm associated with problem gambling against the significant social and economic benefits to ensure the preservation of the overall positive impact that the gambling industry has on the community.

¹ http://www.ipart.nsw.gov.au/Home/Industries/Other/Reviews/Registered_Clubs

² Ibid p.43

³ <http://www.pc.gov.au/projects/inquiry/gambling-2009/report> p.6.34

⁴ <http://www.ipa.org.au/publications/1948/gambling-away-perspective-a-review-of-the-evidence-justifying-electronic-gaming-regulations> p.2

3. The Poker Machine Harm Reduction (\$1 Bets and Other Measures) Bill 2012

The Poker Machine Harm Reduction (\$1 Bets and Other Measures) Bill 2012 is an attempt to introduce a new type of poker machine into Australia, replacing the existing 197,000 machines, with the following restrictions:

- \$1 maximum bet limit;
- \$500 maximum prize limit;
- \$20 maximum cash input limit; and
- slower reel spin speeds.

Clubs Australia notes that the committee has already dealt with issues raised in the current Bill in its first inquiry into the design and implementation of a mandatory pre-commitment system for electronic gaming machines. Specifically, the committee made a series of recommendations on the introduction of so-called 'low intensity' poker machines identical to those proposed in the current Bill.⁵ The Government has responded to the committee's recommendation outlining the reasons why it does not support the introduction of these so-called 'low intensity' machines (see box 1).

Box 1: Australian Government Response to Low Intensity Machines

*The Government has also received independent advice regarding implementation of low intensity machines or \$1 maximum bet limits on games. This advice is that all games would need to be re-configured or re-designed as currently, there are no games in Australia that would enable a maximum \$1 bet. **This would cost in excess of \$1.5 billion.** [emphasis added]*

Source: Senate Hansard, 10 May 2012

Clubs Australia questions the need for a further inquiry into these matters given the lack of any new research findings or other substantive information likely to alter the view of the Government.

Clubs Australia also notes the committee's previous decision to discharge its inquiry into the similar Poker Machine (Reduced Losses –Interim Measures) Bill 2010 on the basis that the work undertaken for the committee's first inquiry sufficiently addressed the issues related to low intensity poker machines.

In order to avoid unnecessary duplication of work already undertaken by the committee and in the interest of the taxpayer, Clubs Australia recommends that the committee discharges the current inquiry. In the event that committee elects to continue its inquiry into the current Bill, Clubs Australia would like to outline the reasons why we believe the current proposal is poor policy.

⁵ *First Report: The design and implementation of a mandatory pre-commitment system for electronic gaming machines, Parliamentary Joint Select Committee on Gambling Reform, Commonwealth of Australia, pxix, recommendation 36*

4. Targeting consumer spending on poker machines

According to the draft explanatory memorandum, the purpose of the Poker Machine Harm Reduction (\$1 Bets and Other Measures) Bill 2012 is to limit the amount of money per hour consumers are permitted to spend on poker machines. There is a tendency among the anti-gambling lobby towards the view that all poker machine players are vulnerable, and the government must impose a solution for all individuals that restricts spending to 'appropriate' levels. This patronising and elitist approach is an insult to the millions of Australians who enjoy playing poker machines as a legitimate leisure activity.

The language used to frame the debate is pejorative and highly emotional: poker machine expenditure is labelled as 'losses', rather than 'spending'; the players are constantly referred to as vulnerable, their actions 'manipulated' by 'unscrupulous' industry ("poker machine barons"), and state and territory governments are 'addicted' to tax revenue. Players are described as highly suggestible and unable to exercise free will to make rational choices. The argument follows that 'dangerous losses' must be prohibited in these circumstances. Senator Xenophon has recommended an appropriate spend limit of \$20 per hour.⁶

It is unclear why limiting the spend on poker machines, as opposed to other forms of gambling, will effectively reduce problem gambling levels, particularly when spending on online slot machines is on credit, unregulated and often without any maximum bet limit. Targeting poker machines is highly value-laden, reinforcing a presupposition that all poker machine players are socio-economically disadvantaged and therefore must be protected from their own poor spending choices. By contrast, punters in higher socio-economic brackets bet on more acceptable forms of gambling, such as horse-racing or casino table games, and thus are not targeted for restrictions. No limits per bet are contemplated for other gambling products.

Clubs Australia recognises that a small minority of people, less than 2 per cent of poker machine players, have problems controlling their expenditure on gambling. We do not believe a never-ending set of government-imposed restrictions that try to protect these people from themselves is the right solution. Rather, Clubs Australia supports measures designed to empower the consumer to make informed choices about their gambling, such as education programs, cost of play displays, player activity statements, and for those concerned about their gambling behaviour, voluntary pre-commitment and self-exclusion programs.

Government restrictions on poker machine spending are likely to cause problem gamblers to simply transfer their spending to other forms of gambling such as online gambling where no such restrictions apply, and to disincentivise recreational gamblers from playing at all.

⁶http://www.aph.gov.au/Parliamentary_Business/Committees/Senate_Committees?url=gamblingreform_ctte/precommitment_scheme/report/d02.htm

5. Australian Poker Machines are not ‘High Intensity’

One of the most misleading arguments put forward is that Australian poker machines are ‘high intensity’ machines, where players can spend an average of \$1,200 per hour. Clubs Australia strongly disputes this claim.

According to the Gaming Technologies Association, whose members are global suppliers of gaming machines, Australian poker machine are among the least ‘intense’ in the world. Their rate of play and maximum bet limits are lower than almost all of the other seven million gaming machines in operation across the globe. In most jurisdictions outside Australia, bet limits are either unregulated or significantly higher than in Australia (see table 1 for North American limits).

Table 1: Maximum Bet Limits in North America

Jurisdiction	Maximum Bet	Jurisdiction	Maximum Bet
Arkansas Racing	No Regulated Limit	Minnesota	No Regulated Limit
Alberta	No Regulated Limit	Missouri Riverboat	No Regulated Limit
Arizona	\$25	Mississippi Tribal	No Regulated Limit
California Barons Std	No Regulated Limit	Mississippi State	\$3,000
California GLI-11 Std	No Regulated Limit	North Carolina	\$25
Colorado	\$100	North Carolina Tribal	No Regulated Limit
Connecticut	No Regulated Limit	North Dakota	\$25
California Viejas Std	No Regulated Limit	New Jersey	No Regulated Limit
Michigan State	No Regulated Limit	New Mexico Tribal	No Regulated Limit
Florida - State	No Regulated Limit	New Mexico State	\$3,000
Florida- Seminole	No Regulated Limit	Nevada State	No Regulated Limit
Iowa Tribal	No Regulated Limit	Nova Scotia	No Regulated Limit
Iowa Racing & Gaming	No Regulated Limit	New Brunswick	No Regulated Limit
Idaho	No Regulated Limit	New York Lottery	\$1,000
Illinois	No Regulated Limit	New York Oneida	No Regulated Limit
Illinois - VGT	\$2	New York Seneca	No Regulated Limit
Indiana	No Regulated Limit	Ohio – Casino	No Regulated Limit
Kansas (New)	No Regulated Limit	Oklahoma	No Regulated Limit
Kansas R & G (State)	No Regulated Limit	Ontario	No Regulated Limit
Louisiana Land Based	No Regulated Limit	Oregon	No Regulated Limit
Louisiana Riverboat	No Regulated Limit	Pennsylvania Lottery	No Regulated Limit
Louisiana Chitimacha	No Regulated Limit	Rhode Island Lottery	\$500
Louisiana Tnca-Bloxi	No Regulated Limit	Saskatchewan	No Regulated Limit
Maine	\$100	South Dakota	\$100
Maine Lottery	No Regulated Limit	U. S. Virgin Islands	No Regulated Limit
Maryland Lottery	\$500	Wisconsin – FC	No Regulated Limit
Michigan Tribal	No Regulated Limit	Wisconsin	No Regulated Limit

Source: Gaming Technologies Association

In addition, the majority of gaming machines outside Australia have a feature that allows the player to 'fast forward' or interrupt reel spins, meaning bets can be placed every tenth of a second or less.⁷

The Productivity Commission hypothesised that playing a poker machine at a \$10 maximum and with Return To Player of 90 per cent every 3 seconds for an hour (or 1,200 spins per hour) would result in an average expenditure of \$1,200 (ie: $\$10 \times 1,200 \times 10\% = \$1,200$). The \$1,200 figure is quoted in the current Bill's explanatory memorandum as the primary rationale for the need to replace Australia's existing poker machines with a new type of machine that limits consumer expenditure to a maximum of \$120 per hour.

However, as the Gaming Technologies Association has pointed out in previous submissions to the committee, the Productivity Commission's hypothesis is based on a number of invalid assumptions about the operation of poker machines which result in a grossly inflated estimate of the average expenditure.

First, it is impossible to play a game every three seconds for an hour uninterrupted. There are forced breaks in play such as free spins, second screen features and game notifications. Players typically need time to comprehend game results and limits on human dexterity prevent players from pressing the button immediately after the previous spin is complete, without delay. Research that has observed the actual speed of play for poker machine players in real gaming venues found that both recreational gamblers and problem gamblers played at an average speed of 7.5 seconds per spin (extrapolated to 480 spins per hour, when played non-stop).⁸

Secondly, the majority of poker machines in Australia do not support a maximum bet of \$10. In Queensland, Victoria and the Northern Territory the maximum bet on a poker machine is \$5. Even in NSW, where a \$10 maximum bet is permitted, a study by the Centre for International Economics found that over 90 per cent of poker machines in clubs have a maximum bet of \$5 or less.⁹ It is simply not possible to bet more than \$5 per spin on the vast majority of Australian poker machines.

Finally, the Productivity Commission arbitrarily adopted 90 per cent as the average rate of return for poker machines in Australia. However, Clubs Australia notes that based on the most recent data from the NSW Office of Liquor Gaming and Racing, the average rate of return for a poker machines in a club in New South Wales is 92.5 per cent. Based on this information, playing a poker machine at a maximum bet continuously for an hour would result in an average maximum expenditure of \$180 (i.e. $\$5 \times 480 \times 7.5\%$).

Poker machines in Australia provide a range of betting options and players can bet from as little as \$0.01 per game, which equates to expenditure of less than \$0.40 per hour. In fact, the Victorian Commission for Gambling and Liquor Regulation reported that the average hourly expenditure on the state's poker machines is \$13.56.¹⁰

⁷ Inquiry into the prevention and treatment of problem gambling, sub 23 p.2

⁸ *The Assessment of the Impact of the Reconfiguration on Electronic Gaming Machines as Harm Minimisation Strategies for Problem Gambling*, University of Sydney Gambling Research Unit, 2001 p. 59, Table 5.

⁹ *The impact of three proposed modifications to gaming machines in NSW*, Centre for International Economics, 2001

¹⁰ *Annual Report 2010-11*, Victorian Commission for Gambling Regulation, Appendix 18

6. Gambling Intensity and Problem Gambling

The intensity at which a person plays a poker machine typically has little bearing on whether or not they are a problem gambler, as expressed in the Productivity Commission report:

the major behavioural difference between problem gamblers and recreational gamblers is the duration (and number) of playing sessions, rather than intensity of play.¹¹

Research by Sydney University found that problem gamblers often bet at the same intensity as recreational gamblers, but tend to play for longer periods and more frequently.

Moreover, KPMG Econtech found that limiting the maximum bet on a poker machines would likely result in problem gamblers prolonging periods of play or transferring to other forms of gambling, such as online poker machines or sports betting, where no such restrictions apply.¹²

Clubs Australia notes that 95 per cent of the poker machine players who bet more than \$1 per spin are not problem gamblers (see box 2). The introduction of a \$1 maximum bet limit will primarily affect recreational gamblers and the revenues that they contribute to clubs. As a result, it would deny clubs from the legitimate revenues they generate from higher spending recreational gamblers and have a minimal impact on problem gambling (see section 7).

Box 2: Which Poker Machine Players bet more than \$1 per spin?

The Productivity Commission analysed the 2006-07 Queensland prevalence study and found that among poker machine players, 50 per cent of problem gamblers and 12 per cent of recreational gamblers bet more than \$1 per spin.

An estimated 5,000,000 adults play poker machines in Australia each year (25 to 30 percent of the adult population)

- 12 per cent of recreational gamblers bet more than \$1 per spin;
- equivalent to around 600,000 individuals

An estimated 60,000 problem gamblers play poker machines in Australia.

- 50 per cent of problem gamblers bet more than \$1 per spin
- equivalent to around 30,000 individuals

Therefore, **problem gamblers make up only 5 per cent** of poker machine players who bet more than \$1 per spin (approximately 30,000 of 600,000 players).

Sources: Productivity Commission 2010, *Gambling*, Report no. 50, Canberra Table 11.3; *Gambling Away Perspective*, Institute of Public Affairs 2011; Clubs Australia analysis

¹¹ Productivity Commission 2010, *Gambling*, Report no. 50, Canberra p.11.11

¹² *Economic Analysis of the Productivity Commission Draft Report on Gambling*, KPMG Econtech 2009

7. Unproven Harm Minimisation Measures

7.1. \$1 maximum bet limit

There is limited research into the effectiveness of a \$1 maximum bet as a harm minimisation strategy. Clubs Australia is aware of only one academic research study into the efficacy of a \$1 maximum bet limit in reducing problem gambling.¹³ A 2001 study conducted by Sydney University and funded by the gaming industry, found that only 7.5 per cent of the problem gamblers bet more than \$1 per spin, and therefore, 92.5 per cent of problem gamblers in the study were unaffected by a \$1 maximum bet limit.¹⁴ The study concluded that reducing the maximum bet would be likely to reduce harm only for a small portion of problem gamblers. The authors recommended further research to determine if there are any unintended consequences of a \$1 maximum bet, such as transference to other forms of gambling.

“problems caused by gambling losses result not so much from excessive bet size over shorter periods, but relatively standard bet sizes for longer periods of time in play”

- Sydney University Gambling Research Unit

“What we need to work out basically is what, if we reduce the maximum bets to \$1, the impact is going to be on internet gambling and the shift for people to go to other forms of gambling.”

- Professor Blaszczyński

Sources: *The Assessment of the Impact of the Reconfiguration on Electronic Gaming Machines as Harm Minimisation Strategies for Problem Gambling* 2001; Transcript of Public Hearing, *Inquiry into the Prevention and Treatment of Problem Gambling*, 2 May 2012

7.2. \$20 maximum cash input limit

The 2001 Sydney University study that examined the effect of \$1 maximum bets also assessed the harm minimisation potential of restricting note acceptors to a maximum \$20 denomination. The findings were as follows:

The present study found no evidence supporting the contention that this modification would effectively reduce gambling behaviour amongst problem gamblers. Therefore, it is considered that this modification would be of limited effectiveness in minimising harm associated with electronic gaming machines but would lead to an overall reduction in revenue to the gaming venues.¹⁵

¹³ *The Assessment of the Impact of the Reconfiguration on Electronic Gaming Machines as Harm Minimisation Strategies for Problem Gambling*, University of Sydney Gambling Research Unit, 2001

¹⁴ This contradicted the findings of the Queensland Prevalence study (mentioned in box 2); such discrepancies may have resulted from unreliable self-reported data in the Queensland survey. The inconsistency reflects the lack of clear data on the topic.

¹⁵ *The Assessment of the Impact of the Reconfiguration on Electronic Gaming Machines as Harm Minimisation Strategies for Problem Gambling*, University of Sydney Gambling Research Unit, 2001

The study found that despite being ineffective as a harm minimisation measure the modification led to 42 per cent reduction in gaming machine revenue. A similar reduction in revenue occurred in Queensland when the Government introduced a maximum \$20 cash input limit on gaming machines, a policy which was reversed within a matter of only four days.¹⁶ Clubs Australia believes that the consequences of a maximum \$20 cash input limit would be to frustrate recreational players and make playing a poker machine more laborious and less appealing.

7.3. \$500 maximum prize limit

The Productivity Commission found that there has been no reliable research into the relationship between jackpots (or large prizes) and problem gambling. Further, it found that jackpots are an attractive feature to many gamblers including recreational gamblers.

Clubs Australia notes that the choice of a \$500 prize limit is completely arbitrary; there is no explanation for choosing such a value. The possibility of winning a substantial jackpot is one of the main attractions of all forms of gambling. Reducing the maximum amount of money that a person could win playing a poker machine to \$500 would significantly reduce the appeal of poker machines for recreational gamblers, particularly in comparison to the available prize draw of other forms of gambling, including online.

In the absence of research, the impact of a \$500 maximum prize on both problem and recreational gambling is unknown; however, Clubs Australia believes that this restriction would completely change the attractiveness of the product and is likely to have severe implications for recreational play.

7.4. Combined limits

Clubs Australia is not aware of any specific research into the impacts on either problem or recreational gamblers of replacing existing poker machines with new machines that have combined \$1 maximum bet, \$500 maximum prize and \$20 maximum cash input limit. This is a view supported by Australia's leading gambling researcher Professor Alex Blaszczynski:

*To date, there are no peer-reviewed publications or reports we are aware of that have systematically compared the maximum bet sizes and the prevalence and incidence of problem gambling or gambling related harms... that has controlled for the diversity of competing forms of gambling. The same applies for a systematic study of the effects of varying prize levels on the attraction of, and motivation to participate in, various forms of gambling.*¹⁷

¹⁶ Productivity Commission 2010, *Gambling*, Report no. 50, Canberra p.11.36

¹⁷ *Inquiry into the Poker Machine Harm Reduction (\$1 Bets and Other Measures) Bill 2012*, sub.1

The UK, with its 'fruit' machines, provides some anecdotal evidence as to the possible impact of a machine with low maximum bet and prize limits for problem gambling. The rate of problem gambling in the UK is significantly higher than in most Australian jurisdictions. Moreover, compared to Australian poker machines, UK fruit machines are not as popular but have higher rates of problem gambling among the small group of people that do play them (see attachment 1).

Clubs Australia is also concerned that the proposed restrictions on poker machines in clubs may result in problem gamblers shifting to unrestricted forms of gambling, particularly online gambling. Australian consumers have access thousands of online gambling websites, the majority of which are unlicensed.¹⁸ Sporting broadcasts on local television and radio stations are saturated with advertisements promoting online gambling that offer all manner of inducements to open an online betting account. A simple Google search for "online pokies" provides a plethora of opportunities to gamble on virtual poker machines with maximum bets is in excess of \$100 per spin¹⁹ and multi-million dollar jackpots.²⁰ Australians already spend in the vicinity of \$1 billion per annum with unlicensed online casinos²¹ in what is a rapidly increasing trend. In this context, Clubs Australia believes it would be remiss to assume that gamblers, when faced with the proposed restrictions on poker machines in clubs, won't simply migrate online. Therefore, we question the efficacy of a policy that is likely to move consumers away from the safe and regulated gambling environment of clubs into the unscrupulous and unregulated domain of online casinos.

¹⁸ *A digital revolution: Comparison of demographic profiles, attitudes and gambling behavior of Internet and non-Internet gamblers*, Gainsbury et al, *Computers in Human Behavior* (2012)

¹⁹ <http://www.888games.com/>

²⁰ <http://www.jackpotgraphs.com/highest-jackpots.html>

²¹ Interim Report, Review of the *Interactive Gambling Act 2001*, Department of Broadband, Communications and the Digital Economy, 2012 p.7

8. Implementation Issues

There are serious obstacles to the implementation of \$1 maximum bet and \$500 maximum prize limits on Australian poker machines. The Productivity Commission noted the following problems:

- many machines would need to be replaced and others retrofitted with new software/hardware;
- there is a limited capacity for re-designing existing games; and
- regulatory approval for new games takes considerable time.²²

Clubs Australia believes that these obstacles are insurmountable within the time frames of the Bill, without causing significant damage to the clubs industry and the local communities they serve.

8.1. Upgrade and Replacement Costs

Clubs Australia understands that there are currently no poker machines in existence in Australia capable of supporting either a \$1 maximum bet or a \$500 maximum prize. According to estimates by technical experts, reconfiguring or replacing Australia's 197,000 poker machines would cost in excess of \$2.5 billion (see Box 6).

Box 6: Estimating the cost of implementation

Government Estimates

The Australian Government commissioned its own independent technical advice on costs associated with introducing \$1 maximum bet limits and found:

- there are no existing Australian poker machines capable of support a \$1 maximum bet limit or a \$500 payout limit without redevelopment or replacement; and
- the cost of re-configuring or replacing the existing 197,000 poker machines in Australia would be **in excess of \$1.5 billion.**

Industry Estimates

The Gaming Technologies Association estimates arrived at a much higher figure:

- Poker machines less than three years old require the replacement of existing game software with new, approved game software at a cost of at least \$5,000 per unit.
- Poker machines between 3 and 5 years require a hardware and operating system upgrade in addition to the new game software at a cost of between \$8,000 and \$10,000 per unit.
- Poker machines older than 5 years require complete replacement, as the infrastructure required to develop new games on these outdated platforms no longer exists. The current cost of machine replacement is around \$25,000.

Based on the age profile of Australian poker machines, GTA estimates the total cost of reconfiguration to be **in excess of \$2.5 billion.**

Sources: Senate Hansard, 10 May 2012, Inquiry into the prevention and treatment of problem gambling, sub 23 p.2

²² Productivity Commission 2010, *Gambling*, Report no. 50, Canberra p.11.29

8.2. Development and Approval Constraints

The Gaming Technologies Association has stated that it takes at least 12 months (and often longer) to develop, test and obtain regulatory approval for a new poker machine game. There are currently over 25,000 different games operating on poker machines in venues across Australia. Each would require redevelopment and re-certification to meet the new requirements proposed.

The capacity to develop and approve new poker machines games is limited. The number of new games a poker machine manufacturer can produce is subject to resource constraints such as the number of experienced game designers and programmers. Training new staff would be time consuming and costly, especially given the temporary nature of the increased demand.

There are only a handful of licensed testing facilities with testing and certification capabilities. Establishing a new testing facility and obtaining a licence is a time consuming and costly process. It is unlikely new businesses would enter the market given the lack of opportunities in the longer term.

State and territory regulatory authorities also have limited capacity to issue approvals. The combined number of regulatory approvals issued in Australia is currently fewer than 2,000 new games per year.

Clubs Australia finds it difficult to believe that the current commercial and regulatory infrastructure could cope with the increased demands placed upon it by a 2017 deadline for implementing poker machines with a \$1 maximum bet and a \$500 maximum prize, and the redesign and recertification of 25,000 games.

8.3. Impacts on Revenue and Jobs

In 2001, the industry commissioned the Centre for International Economics (CIE) to undertake modelling into the potential impact of the introduction of a \$1 maximum bet limit in New South Wales (without additional restrictions). The CIE study found that the introduction of a \$1 maximum bet limit would reduce club revenue by 17 per cent and hotel revenue by 39 per cent.

Research conducted by Sydney University found that the introduction of a \$20 cash input limit on poker machines in New South Wales caused a 42 per cent reduction in revenue. In December 2001, when a \$20 cash input limit was introduced in Queensland clubs, hotels and the Queensland Treasury Casino, there was an immediate drop in revenue state-wide of approximately 30 per cent. The policy was quickly reversed.

There has been no research conducted into the effects of limiting the maximum prize on poker machines. Therefore, Clubs Australia is unable to estimate the impact this measure would have on gaming machine revenue.

Based on the above information, a conservative presumption is that the proposal would result in a decline in revenue of around 30 per cent. KPMG assess the impact to New South Wales registered clubs of a 30 per cent fall in revenue, extrapolated nationally, it is estimated that there would be a loss in the short term of around 23,000 jobs and a reduction in Gross National Product in the short term of around \$1.6 billion.

8.4. Debunking ‘The Australia Institute’/ Greens Paper

The Australia Institute undertook work commissioned by Get Up and Stop the Loss, on the cost of introducing \$1 maximum bets for Australian poker machines. In its report, the Australia Institute claimed that the cost of introducing \$1 maximum bets was far lower than claimed by the industry, because the industry failed to acknowledge the accounting principle of depreciation in its calculations.

Depreciation is a method of allocating the costs of tangible assets over their ‘useful’ life. Businesses use depreciation to match their expenses with the income they earn in each taxable year of the asset’s life. So if a business buys a new asset for \$5 million, which has a useful life of 5 years, it can expense the cost at \$1 million a year for five years, for tax purposes. This accounting practice does not mean that the business only has to hand over \$1 million when it purchases the asset; it just allows a more even spread of expenses in calculating its taxable income. So no matter what accounting procedure a venue may choose to use, it still has to come up with the money to pay for new poker machines to begin with.

This paper also fails to understand the business model for the licensed club industry. The Australia Institute has used the Australian Taxation Office’s judgment for the economic life of a poker machine (seven years) to base its calculations. As most clubs are not-for-profit, member-owned organisations designed to promote sport, they are not taxed the same way as for-profit businesses. The vast majority of clubs do not benefit by depreciating assets because they are mutual organisations and the primary tax they pay is gaming machine tax, charged against poker machine revenue, not income. Many clubs do not pay income (company) tax. As gaming tax calculations are based on revenue, clubs cannot reduce their tax liability through depreciation, and therefore the practice has little value to clubs. Given that clubs account for 120,000 of the nation’s 200,000 machines, the majority of the industry operates under a business model not applicable to the Australia Institute’s hypothesis.

Using the ATO’s economic life cycle, the Australia Institute then estimates that by the time the industry would need to replace old machines with those which meet the conditions of the proposal, only 2/7^{ths} of the 200,000 machines would need ‘upgrading’ at \$3,000 to \$4,000 per machine. The rest of the machines would already be compliant through their natural replacement cycle.

This assumes that all older machines can be upgraded through simple software retrofits, which is untrue. The Gaming Technologies Association advises that at present, 50 per cent of the machines in Australia cannot be retrofitted to comply with \$1 maximum bet limits, and would need replacing entirely. That is 100,000 machines at \$25,000 per machine, or a \$2.5 billion cost to the industry by 2017, no matter which accounting principle you use. While the ATO may have selected seven years as the economic life of poker machines for tax purposes, the reality is that the vast majority of gaming clubs are small to medium sized enterprises with older machines. Their average lifespan is actually 14 years. The largest clubs would replace their machines more frequently, of course, but this is not the bulk of the industry. The economic costs of the proposal would hit the smallest clubs, often run by volunteer workers and with fewer machines, the hardest.

The Australia Institute also claimed that the industry was ignoring the economic benefits of the proposal. The paper made the assertion that a \$5 billion expenditure on poker machine upgrades

would generate more than 29,000 new jobs in software and manufacturing. Even if the industry could afford to pay for the upgrades, and even if there were employees willing to undertake the necessary education and training to perform the work, which would take time, there is little incentive for employees to move to an industry where the expenditure would be a one-off, and the new jobs cease to exist after the reforms were implemented. The Australia Institute also fails to understand that many of the poker machines which operate in Australia are manufactured overseas, so the bulk of any so-called employment creation would be off-shore.

What the Australia Institute failed to do in its research, however, was to show the effectiveness of introducing a \$1 maximum bet, \$20 maximum cash input and \$500 maximum prize in reducing problem gambling in Australia. Whether the cost is \$100,000 or \$10 billion, there is no point in implementing reform when there is no evidence to show that the reform would work.

9. Best Practice Regulation

The Australian Government has an established process in the design of good regulatory practice. A clear principle is that should regulatory action be necessary, a range of feasible policy options needs to be identified, and their benefits and costs, including compliance costs, assessed within an appropriate framework. As a general principle, the level of detail within the analysis should be commensurate with the impact of the proposed regulatory measures and should adequately identify and where appropriate, quantify the major costs and benefits of the proposal. Additionally, only the option that generates the best community benefit should be adopted.²³

The Government has enunciated the features of good regulation in the COAG process. Legislation should entail the minimum necessary regulation to achieve the objectives. When designing measures or standards, regulators should ensure that the potential regulatory burden of alternative measures on the community is identified. Regulatory standards should be developed in a way that minimises the financial impact on governments and the sectors of the community that will be affected by them.

The Productivity Commission did not undertake a regulatory impact statement for the implementation of \$1 maximum bets. There was no preliminary examination of estimated costs for the implementation of \$1 maximum bet limits, no quantification of the expected reduction in problem gambling, nor any detailed assessment on the likely impact on revenue for industry or government. The Commission did not rely on evidence or a trial in deciding the effectiveness of \$1 maximum bets; it was simply a recommendation put forward for consideration.

There has been no cost benefit analysis, nor any comparison of the cost-effectiveness of a \$1 maximum bet compared with other measures outlined by the Commission. The Productivity Commission report alone cannot substitute for this process. In fact, it was a key recommendation of the Productivity Commission that governments undertake further regulatory impact assessments of all major policy proposals.

RECOMMENDATION 17.4

Given the potential for adverse social impacts and costs to business, governments should routinely undertake regulatory impact assessments for all major regulatory proposals for gambling, and make them publicly available at the time policy decisions are announced.

Source: Productivity Commission 2010, *Gambling*, Report no. 50, Canberra

²³ Australian Government 2010, *Best Practice Regulation Handbook*, Canberra

10. A Better Approach

When considering new policies to further improve the culture of responsible gambling among all stakeholders, all parties should work together constructively and transparently, and follow best practice guidelines for effective and efficient policy-making. Best practice regulation processes are well understood, but sometimes are overlooked for reasons of political expediency. All stakeholders must resist the temptation to adopt emotionally-driven, reactive silver bullet solutions and pursue a rigorous regulatory impact assessment before adopting and implementing new proposals.

A multifaceted, holistic approach which promotes a culture of responsible gambling and increases the help-seeking rate among problem gamblers is the best way of reducing the social costs of problem gambling. This requires a suite of prevention, intervention and treatment measures tailored to respond flexibly to the circumstances of the individual problem gambler. Importantly, greater community engagement to de-stigmatise gambling addiction and treatment will strengthen the safety net and improve the readiness of family and friends to identify and make an early intervention for those most in need. Education campaigns are utilised for a range of issues where a government is seeking a change in behaviour amongst consumers; they can play a major role in reducing destructive gambling behaviour by empowering consumers to make informed choices about their gambling.

Clubs Australia has released its 'Part of the Solution' policy document that represents the club industry's recommendations for policy reform in further addressing the issue of problem gambling in Australia. The plan draws on a wide range of academic, industry and government sources and recommends a multi-faceted approach to tackle the complexities of problem gambling. We believe that the plans outlined in 'Part of the Solution' are a more viable and cost-effective means for tackling problem gambling than the current proposal.

11. Conclusion

This Bill is seeking to impose a solution for a problem that is already being addressed effectively in collaboration with state regulators. The authors of the Bill have failed to undertake transparent and meaningful consultation with affected parties to understand the technological challenges of the proposed solution, have failed to consider adequately more cost effective alternatives, and have failed to make a detailed cost benefit analysis of the proposed solution.

The proposal represents an extremely expensive, technologically complex and time-intensive policy approach, the effectiveness of which is, at best, highly questionable and untested. In Clubs Australia's opinion, it would have a negligible effect on problem gambling and cause devastating consequences for the clubs and the local communities they serve.

In contrast, Clubs Australia has outlined in our 'Part of the Solution' policy document what we see as an important roadmap to help further reducing problem gambling in Australia. We hope that Government and political parties of all persuasions will recognise that collaboration between stakeholders is the best means of minimising harm and fostering a culture of responsible gambling.