



**Communities**  
Office of the Director-General

Ms Lyn Beverley  
Secretary  
Joint Select Committee on Gambling Reform  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

Dear Ms Beverley

I refer to your letter on behalf of the Joint Select Committee on Gambling Reform requesting information in relation to gaming machines in NSW.

Please find enclosed the information sought by the Committee.

I understand that you also wrote to the Acting Chief Executive, Casino, Liquor and Gaming Control Authority, Mr David Greenhouse. As the Authority is a Division of Communities NSW, the information that would have been provided by the Authority has been included in the enclosed response from Communities NSW.

I trust that this information will assist the Committee with its inquiry.

Yours sincerely

**Carol Mills**  
Director-General

7/3/11

## Communities NSW

### Information for the Commonwealth Joint Select Committee on Gambling Reform regarding gaming machines in NSW

#### Gaming machine regulatory and monitoring regimes

##### Hotels and Clubs

###### Regulation

As at 11 February 2011, there were 1,241 clubs operating 71,064 gaming machines and 1,639 hotels operating 23,630 gaming machines in NSW.

The operation of gaming machines in hotels and clubs in NSW is regulated under the *Gaming Machines Act 2001* and the *Gaming Machines Regulation 2010*. The Gaming Machines Act and Regulation are enforced by the NSW Office of Liquor, Gaming and Racing (OLGR) (a Division of Communities NSW). There is also a significant role for the Casino, Liquor and Gaming Control Authority (the Authority) (also a Division of Communities NSW) under this legislation. For example, the Authority issues approvals in relation to gaming machines, gaming machine threshold applications, gaming-related licences, and player information and signage.

The harm minimisation and responsible gambling initiatives in the Gaming Machine Act and Regulation include:

- Gaming machine caps and the poker machine entitlement transfer scheme (which requires the forfeiture of one entitlement per block of two or three entitlements transferred);
- A cap on multi-terminal gaming machines (MTGMs) in clubs (and a ban in hotels) – MTGMs offer electronic versions of casino table games – with one MTGM terminal counted as one gaming machine;
- A Local Impact Assessment and gaming machine threshold (the maximum number of machines that can be operated) approval process for venues;
- A ban on 24-hour trading — 6-hour general shut-down period;
- Restrictions on advertising and the location of gaming machines;
- Restrictions on promotions and inducements;
- Prize restrictions;
- ATM restrictions – location and access to cash from credit accounts;
- A prize limit above which cheques must be issued, or an electronic transfer of funds must occur;
- Restrictions on cashing of cheques;
- Restrictions on gaming machines in shopping centres;
- Counselling services;
- Self exclusion schemes;
- Responsible conduct of gambling training;

- Player activity statements and voluntary pre-commitment with member reward schemes; and
- Player information and signage, and gambling assistance contact cards.

The Gaming Machines Act and Regulation also address the following matters:

- Gaming machine rooms in hotels;
- Preventing minors accessing gaming machine areas;
- Authorisations to keep gaming machines;
- Approval of gaming machines against the technical standards;
- Modification of, and defective, gaming machines;
- Gaming-related licences (sellers, dealers, technicians etc);
- Member reward schemes and player accounts;
- The Centralised Monitoring System (CMS) and the connection of all gaming machines to the CMS; and
- Intra and inter-venue linked jackpot systems.

### Monitoring

#### *The Centralised Monitoring System (CMS)*

The purpose of the Centralised Monitoring System (CMS) is to electronically monitor the operation and performance of gaming machines; to facilitate the calculation and collection of duty; and to undertake a number of related functions. It also releases clubs and hotels from many of the manual returns and administrative requirements of the previous systems.

In December 2001 it became a statutory requirement for all club gaming machines in NSW to be connected to the CMS. The requirement was applied to hotels in January 2002. Gaming machines at the Star City casino are not connected to the CMS, as gaming duty payable by the casino operator is subject to separate arrangements.

Maxgaming NSW Pty Ltd, a Tattersall's Company, currently holds the licence to operate the CMS on behalf of the Government for a period of 15 years, expiring in November 2016.

The CMS:

- enhances the integrity of gaming machine operations;
- assesses tax and assists in the tax collection function by the NSW Office of State Revenue;
- provides better information to many clubs, hotels on gaming machine performance; and
- maintains a real time database of gaming machines operating throughout New South Wales and enables authorisation of changes to gaming machines holdings.

To enable all gaming machines, including Linked Progressive Jackpot Controllers, to be electronically connected to the CMS each gaming machine has a Gaming Machine Interface Card (GMIC) installed, which, in turn, is connected to a Local Area Network (LAN) that is connected to a CMS site controller.

The GMIC records and stores meter readings as the gaming machine emits them. The reading may also include unusual events as they occur. These are known as 'integrity events' and include such events as a Random Access Memory (RAM) reset. At 15 minute intervals, these readings and events are forwarded to the CMS site controller.

Each day there is an automatic transfer of data (the meter readings and integrity events) from each CMS site controller to the CMS host system.

The CMS identifies machines by their unique GMID (Gaming Machine Identification) number, not the serial number displayed on the compliance plate. The GMID is used because compliance plate numbers are issued arbitrarily while the GMID is issued for the specific purpose of supporting the computer functions of the CMS.

#### *Compliance and enforcement regime*

The OLGR employs inspectors, within its Enforcement Branch, to monitor and enforce compliance with the gaming machine legislation. Inspectors monitor gaming machine operations through the investigation of complaints and pro-active inspection programs.

Player and community complaints include various matters, such as:

- payout disputes;
- machine malfunction;
- gaming machine advertising;
- gaming machine music being audible outside venues – many venues have built outdoor gaming machine rooms to cater for smokers;
- machines and jackpot link displays visible from the street;
- player loyalty schemes;
- inducements of free credits or liquor to gamble;
- no self-exclusion scheme;
- no gambling counselling;
- credit card option on venue ATMs;
- non-financial institutions cashing gaming machine prize cheques.

Inspectors are also referred matters for investigation by the OLGR's Centralised Monitoring System (CMS) Business Unit. These include:

- non-payment of duty;
- play during the shutdown period;
- machines not connected to CMS.

Inspectors also check the CMS for gaming machine play outside authorised hours before conducting site inspections.

The OLGR's Gaming Technology Branch checks the CMS for unapproved software combinations and then refers any anomalies to the Enforcement Branch to investigate.



Pro-active programs include:

- the audit of high-volume gaming machine venues gaming machine prize payouts limits (\$2,000 maximum cash limit, balance cheque/electronic funds transfer);
- a registered clubs audit program that includes a review of gaming machine operations of clubs;
- audits of link progressive systems to ensure system integrity. A few years ago the OLGR identified a spike in complaints about Linked Progressive Jackpot Systems so it commenced a dedicated inspection program. Inspections have detected machines in a bank of linked machines not connected to a link, machines connected to another link (venues can have more than one link), incorrect house numbers, unpaid link prizes, and unclaimed prizes not disbursed or not dispersed in accordance with Authority approval; and
- anti-money laundering activities.

Inspectors also routinely check for faulty buttons, disconnected 'collect' buttons, and incorrect prize displays when on-site.

## Casino

### Regulation

NSW has only one casino, Star City casino in Sydney. The casino operates a maximum of 1,500 gaming machines.

The operation of the casino is regulated under the *Casino Control Act 1992* and the *Casino Control Regulation 2009*. The Casino Control Act and Regulation are enforced by the Authority.

The Casino Control Act and Regulations cover:

- The limit of one casino in NSW;
- Processes for applying for applying for a casino licence and the approval of that licensee;
- Directions to the casino operator by the Minister and the Authority;
- General investigations and regular investigations of the casino operator's suitability;
- Controlled contracts;
- Licensing casino special employees;
- Approval of games and the rules of games;
- Approval of gaming equipment (including electronic gaming machines);
- Conduct of gaming;
- Restrictions on gaming machine advertising;
- Gambling counselling services;
- Exclusions (including recognition of exclusions issued by interstate Police in relation to interstate casinos) and self-exclusions from the casino;
- A prohibition on the provision of credit;
- The operation of junkets<sup>1</sup>;

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<sup>1</sup> A junket is:

- Restrictions on inducements;
- Cheating;
- A prohibition on minors entering the casino;
- A Responsible Gambling Fund (RGF) levy – 2% on gambling revenue;
- Casino duty; and
- Casino accounting and internal controls.

With respect to the approval of gaming machines for operation in the casino, the casino operator may submit to the Authority to have new gaming machines approved for use in the casino (this also includes software upgrades). In such circumstances, the submission should contain appropriate details of the gaming machine, such as its function, manufacturer details, and the areas of the casino where the gaming machine will be used.

Star City must also provide a report from an Accredited Testing Facility (ATF) certifying the functionality of the gaming machine and that the game will perform in accordance with the manufacturer's specifications and meets the Australian/New Zealand Gaming Machine Standard. If the submission relates to software upgrades, the ATF report must provide sufficient confirmation that the proposed software upgrade will perform in accordance with the manufacturer's specifications, and should note the differences between the operation of the proposed new software and the software currently in operation.

If the submission is satisfactory, and no objections are raised, an approval checklist is completed, detailing the Star City submission number, the relevant date of the Director, Casino & Authority Operation's delegation to approve, brief details of the submission content, and an appropriate recommendation.

A letter of approval is formulated for the Director, Casino and Authority Operation's signature (which contains a reference to the submission number and the relevant section(s) of the Act under which approval has been granted).

It should be noted that Multi Terminal Gaming Machines in the casino have been reclassified as Multi Terminal Table Games by Ministerial Direction under section 8(2) of the Casino Control Act 1992.

### Monitoring

#### *Section 31 statutory reviews*

Under section 31 of the Casino Control Act the Authority must not later than 3 years after the grant of a casino licence, and thereafter at intervals not exceeding 5 years, investigate and form an opinion as to whether or not:

- the casino operator is to continue to give effect to the casino licence and the Act, and
- it is in the public interest that the casino licence should continue in force.

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- an arrangement involving a person (or a group of people) who is introduced to a casino operator by a promoter who receives a commission based on the turnover of play in the casino attributable to the person or persons introduced by the promoter (or otherwise calculated by reference to such play), or
  - an arrangement for the promotion of gaming in a casino by groups of people (usually involving arrangements for the provision of transportation, accommodation, food, drink and entertainment for participants in the arrangements, some or all of which are paid for by the casino operator or are otherwise provided on a complimentary basis).
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The next section 31 statutory review is to be completed by mid-December 2011.

A full statutory investigation under section 31 examines, inter alia, corporate structures, associates, financial resources, conducts extensive checks with various law enforcement agencies and external regulatory bodies, not only in NSW but interstate and internationally.

The 2003 and 2006 section 31 statutory reviews, effectively spanning the period from 2000, acknowledged that Star City casino has been operated in a responsible manner. The casino has been shown to be operating in a manner consistent with the objectives of the Act.

#### □ *On going review of casino operations*

The Authority supports the statutory review process with a regime of ongoing assessment of the casino's operations. While this ongoing review process cannot – due to the resource requirements – be of the same scope, depth and rigor of an investigation under section 31, it does: assess the implementation of statutory review recommendations; review internal controls, processes and staff training to examine any deterioration in standards or any systemic failure; and review compliance with contractual obligations.

Officers carrying out these ongoing assessments report to the Authority's Casino Licence Oversight Committee. This committee was formed on 25 March 2004 and is comprised of at least two part-time members of the Authority and the Chief Executive.

The Casino Licence Oversight Committee assesses, during any calendar year when a section 31 review is not conducted, the ongoing status of matters relevant to the ongoing suitability of the casino licence and advises the Authority on any matter the committee considers requires investigation by the Authority. The committee also conducts ongoing reviews of prior section 31 recommendations to ensure they are being implemented.

Currently inspectors also maintain an on-site presence at the casino on a 24/7 basis to matters connected with the casino.

## **Data collection and publication**

### **Hotels and clubs**

Information from each authorised gaming machine is collected daily by the CMS to:

- facilitate gaming machine tax assessments under the *Gaming Machines Tax Act 2001*; and
- ensure the integrity of gaming machines in NSW.

Information not required for these purposes is filtered out by the CMS.

Summary information on the total number of gaming machines and total gaming machine profit and tax is published in the Communities NSW annual report.

The OLGR also sells data products through its website. Hotel licensees (or valuers or other industry advisors if authorised) can obtain their own hotel rankings by profit and profit per gaming machine. Also available is State-wide gaming machine information and statistics about the NSW gaming machine industry.

## Casino

The Authority gets a variety of reports in respect of gaming machines/operations which assist in the verification of revenue and audits to ensure the integrity of operations. Other than yearly gaming revenue figures, none of this information is published. Reports include:

- Star City Monthly Financial Results;
- Schedule of Transactions Reported to Austrac by Star City. This schedule includes Threshold Transactions, Suspicious Matters and Winning Cheques;
- Gaming Machine Daily Operating Revenue Reports and Analysis
- Daily Incident Reports
- Monthly Cash Flow Statement
- Casino Duty by Mix Type Report
- Slot Summary Report
- Cash Drop Variance Report
- Progressive Jackpot Report
- Daily Meters Report (Summary)
- Drop Sheet Report
- Vouchers Redemption Summary
- Excluded persons

## Technology / communications protocols

### Hotels and clubs

NSW utilises the 'X Series' gaming machine communication protocol, which was developed in NSW in the 1980's. 'X Series' is essentially a one-way communication protocol where each gaming machine in NSW hotels and clubs continually outputs a series of meter-data packets to a venue's site controller. This site controller then collates the venue's gaming machine meter data and sends it back to the CMS host for revenue verification and tax calculation.

The communication between the CMS and the venue's site controller is a proprietary protocol owned by the CMS operator Maxgaming. 'X Series' does facilitate a limited "data input" facility to a gaming machine called a centralised cash control equipment (CCCE) transfer. This facility enables the electronic transfer of 'credits' into a gaming machine – typically sent by a jackpot controller, or an in-venue card based cashless system. There are expanded CCCE command classes that have been added by the OLGR to incorporate other data inputs into a gaming machine to include the display of a jackpot progressive prize on a gaming machine's main screen.

A limitation of the 'X Series' protocol is that the success rate of communication packets being received by either a machine or a controller is not guaranteed (i.e. it is the equivalent of sending a text message (SMS) – it is not possible to verify that the message was received).

### Casino

Under the Casino Control Act the Authority has the power to direct the casino operator to provide any information required.



Also, the Authority approves Internal Control Procedures in respect of casino operations which are supported by Standard Operating Procedures that are reviewed by the Authority.

Gaming machines in the casino are categorised into two broad types - Modified X Standard devices and Non X Standard devices.

### **Pre-commitment systems in NSW**

The Gaming Machines Regulation establishes a voluntary pre-commitment system for gaming machine players who use hotels or clubs with a loyalty rewards scheme.

Hotels and clubs are not required to provide a loyalty rewards scheme. Participating in a player reward/loyalty scheme run by a hotel or club is optional.

If a person chooses to participate in a reward scheme, they may also request, in writing, that the venue set a weekly limit on their gaming machine expenditure. The setting of a weekly expenditure limit may (but does not have to) involve arrangements for the deactivation of the participant's account card if the limit is exceeded — this is up to the participant. The participant can also request, in writing, a change to the weekly limit. The regulation is silent on how long a card must remain deactivated. However, a player can only have one account card at the venue.

All of these arrangements are voluntary, the limit (if set) is not set at the machine and there is only the capacity to deactivate the reward scheme account card, which does not prevent the participant from continuing to play gaming machines at the venue.

Member reward schemes are not approved by the OLGR. Therefore, there is no register of approved schemes or which venues operate member reward schemes. There is no data available on how many reward card holders utilise the pre-commitment option.

A proprietary system feature of some machines manufactured by IGT (a primary gaming machine manufacturer) called an 'Xtra Credits' system contains a voluntary pre-commitment function. This function is part of the terms of the Authority's approval of the IGT machines with the 'Xtra Credits' function. The IGT 'Xtra Credits' system and the pre-commitment system operate off the club's loyalty card. Loyalty points accumulated via point-of-sale (POS) (i.e. purchase of food etc) cannot be used for gaming purposes.

Players can nominate to set a pre-commitment limit, which can cover a 24-hour or weekly time period, and extend to any of the following:

- Losses
- Time played (e.g. 4 hours cumulative play over 24hrs or a week)
- Turnover

There is no default limit, but once a limit is set it cannot be increased within 24 hours – it can be lowered at anytime. Limits cannot be set or changed on the machine. They can only be set or changed via an application form. Once a player has reached the pre-commitment limit they can continue to play but they cannot accumulate additional loyalty points until the commencement of the next pre-commitment period.

The 'Xtra Credits' system is operating in a limited number of venues in NSW.