

Chapter 9

Industry issues

9.1 This chapter details concerns expressed by the industry which centre on the view that pre-commitment should not be mandatory and more practical concerns regarding timelines, cost and the inconvenience for recreational gamblers. The industry sector covers registered clubs, pubs and casinos as well as manufacturers and providers of EGM technology.

An overview of the industry

9.2 Below is a brief overview of the industry including statistics from clubs, hotels and casinos which sets the scene regarding size of, revenue from and employment in the industry. Further information on the industry is provided throughout the chapter.

Clubs¹

9.3 There are around 4,000 registered and licensed clubs which are not-for-profit organisations focussed on providing services and infrastructure for their members and the community. In 2005, the total value of the club industry was conservatively estimated to be over \$4 billion or 0.5 per cent of national Gross Domestic Product. Total income for the industry that year was \$7.3 billion. The main source of this income was from gambling (\$4.3 billion or 58 per cent of total income). Other major income items were sales of liquor and other beverages, which accounted for 21.7 per cent (\$1.6 billion) of total income, and takings from sales of meals and food, which accounted for 9.9 per cent (\$726 million). Clubs provide employment to approximately 80,000 full-time, part-time, casual and apprentice/trainee employees. In addition to paid employees, there are more than 65,000 volunteers in clubs, who are estimated to work around seven million hours per year as club directors, assisting in trading activities, and organising sport and community events.

Hotels²

9.4 There are around 5,500 hotels and around 3,400 of these operate gaming machines. The Australian Bureau of Statistics has reported that in hotels operating gambling facilities, around 70 per cent of income was generated by food and beverage sales, sales unrelated to gambling. A report by PriceWaterhouseCoopers in 2009 included a comprehensive review of the hotel industry and found that hotels employ 188,000 staff and spend about \$72 million training them. Total spending in hotels was estimated to be \$12 to \$13 billion per annum. It was pointed out to the committee that,

1 Information drawn from Clubs Australia, *Submission 47*, pp 3–4.

2 Information drawn from Mr Des Crowe, *Proof Committee Hansard*, 15 February 2011, p. 2.

in the absence of the hotel sector, Australian household consumption would contract by an estimated \$3.5 billion.

*Casinos*³

9.5 There are 13 casinos nationally and all but Casino Canberra provide EGMs. The casino industry has only six per cent of the total number of EGMs in Australia and 6.9 per cent of all gambling expenditure. The sector employs around 20,000 people, is a major training provider and contributes \$1.2 billion or 30 per cent of its revenue in taxes at all levels of government. Casinos are 'destination venues' as they offer a range of accommodation, dining and entertainment options, as well as conference and convention facilities. The vast majority of casino customers tend not to gamble in community venues such as clubs and hotels as many are interstate and international visitors. The industry invests heavily in tourism infrastructure.

Calls for a voluntary system

9.6 The overwhelming position of the industry was that if pre-commitment is to be implemented it should be voluntary. The reasons for this include the view that there is a lack of evidence that a mandatory scheme will assist those with a gambling problem and that it will cause inconvenience to the vast majority of recreational gamblers who do not have a gambling problem. These concerns and others are outlined below.

The industry consensus

9.7 Clubs Australia supported the introduction of voluntary, venue-based pre-commitment in all gaming venues as:

Mandatory pre-commitment is an expensive, technologically complex and time-intensive solution, the effectiveness of which is, at best, described as highly questionable by Australia's leading research[er], Professor Alex Blaszczynski. Clubs Australia and its members will continue to actively oppose its introduction.⁴

9.8 Mr Anthony Ball, Executive Director, Clubs Australia, provided further detail on the system Clubs Australia would support:

We support a system that is worked properly through, is subject to full consultation, does not cost the earth and is effective. It has to be one where the player has the opportunity to use or not use the functionality. We think that will be a useful strategy, along with a whole lot of other things that can be done to help problem gamblers. Do not think that mandatory precommitment is the silver bullet solution to problem gambling—it is not...⁵

3 Information drawn from Australasian Casino Association, *Submission 93*, p. 1.

4 Clubs Australia, *Submission 47*, p. 2.

5 Mr Anthony Ball, *Committee Hansard*, 4 February 2011, p. 66.

9.9 The Australian Hotels Association (AHA) outlined their support for voluntary pre-commitment:

The Australian Hotels Association supports a well designed, effective and evidenced based form of voluntary pre-commitment that protects the privacy of players.⁶

9.10 Mr Chris Downy, Executive Director, Australasian Casino Association (ACA), stated:

The ACA supports a system that is mandatory for operators to provide but optional for customers to use. It should be a system that is simple to use, that protects the player's privacy and that is actively promoted for use within a venue...⁷

Questioning the evidence that it will help problem gamblers

9.11 One of the reasons that the industry advocated a voluntary system was what they described as a lack of evidence to show that it will be effective in assisting problem gamblers. Mr Peter Newell, President, Clubs Australia, told the committee why Clubs Australia believes it will not be effective in reducing problem gambling:

...will the proposals be effective in reducing problem gambling? Our answer to that is also no. Norway introduced mandatory precommitment and the result was that players moved to Internet gambling. Nova Scotia, Canada, trialled precommitment cards. They determined that the solution was of no benefit to problem gamblers and so chose to introduce voluntary precommitment instead. Professor Blaszczynski submitted to this committee that problem gamblers would be the least likely to set affordable limits and most likely to seek ways around the system, if not through card swapping or black market precommitment devices then simply by moving to the TAB or internet gambling. Mandatory precommitment fails to provide what problem gamblers need most, and that is treatment. In doing so, it diverts attention and resources away from treatment so problem gambling continues.⁸

9.12 Clubs Australia emphasised that in their view there is no evidence to show that mandatory pre-commitment will be successful:

Given the costs associated with implementing a nationally-networked, uniform mandatory pre-commitment scheme, it would be reasonable to assume that there would be significant evidence to show that the scheme has successfully worked in reducing the prevalence of problem gambling in research and trials, both in Australia and overseas. No such evidence exists.⁹

6 Australian Hotels Association, *Submission 86*, p. 12.

7 Mr Chris Downy, *Proof Committee Hansard*, 18 February 2011, p. 27.

8 Mr Peter Newell, *Committee Hansard*, 4 February 2011, p. 54.

9 Clubs Australia, *Submission 47*, p. 21.

9.13 Mr Des Crowe, National Chief Executive Officer, AHA, told the committee:

In terms of responsible gambling, the AHA believe the government's focus should be on education, information and prevention rather than on a mechanism that will still allow problem gamblers to play gaming machines. Under the solution signed off by Mr Wilkie and the Prime Minister, a problem gambler will still be able to play a gaming machine with no loss limit. Problem gamblers would also still be able to gamble without restriction at the casino card table or the TAB, for instance, or online, where credit card bets are permitted.¹⁰

9.14 Mr Chris Downy, ACA, also expressed the view that mandatory pre-commitment 'will not necessarily provide the answer that everyone seems to be looking for—a way of assisting problem gamblers.' He added:

It is not a magic bullet; the Productivity Commission made that clear. It requires trialling, review and possible modification, but the current proposal is to introduce a mandatory system sight unseen, the attitude being along the lines of: 'Well, we'll keep our fingers crossed and hope it works.'¹¹

9.15 Other members of the industry provided similar views.¹² For example the North Sydney Leagues Club stated:

In the absence of proven credible trials, the fact is that mandatory pre-commitment is nothing more than a whim. It is, in the absence of credible evidence-based research, nothing more than an exercise in social engineering. Australian citizens deserve better than that.¹³

Committee view

9.16 The committee notes that most of the evidence put forward by the industry has already been addressed in previous chapters. Again, briefly, the committee is aware that the trials to date have involved voluntary systems. It does not mean that the findings have no relevance to a mandatory system. The experts the committee spoke with confirmed this. The trials have demonstrated that pre-commitment features such as limit setting can lead to reductions in gambling expenditure, not only for problem gamblers but also those at risk. The potential for this to assist problem gamblers was confirmed by the former problem gamblers the committee spoke with. In addition, the committee heard evidence that research cannot determine who will develop a gambling problem and that various triggers can set some people on this path. The committee therefore sees a mandatory pre-commitment scheme as a management tool to assist all gamblers to manage their gambling. It would help prevent those at risk from developing a problem and it would limit the losses and the devastating effects on

10 Mr Des Crowe, *Proof Committee Hansard*, 15 February 2011, p. 3.

11 Mr Chris Downy, *Proof Committee Hansard*, 18 February 2011, p. 28.

12 See for example ALH Group, *Submission 15*, p. 2; RSL & Services Clubs Association, *Submission 108*, p. 3, 4; South Australian National Football League, *Submission 31*, p. 2.

13 North Sydney Leagues Club, *Submission 17*, p. 1.

individuals who have a problem, and their families. It would help problem gamblers and those at risk recognise damaging behaviour and provide people with an alternative to hitting 'rock bottom' before they seek help. The committee recognises that mandatory pre-commitment is not a silver bullet but just one of a suite of measures required to address problem gambling.

9.17 The committee wishes to again clarify the evidence cited by the industry. Many referred selectively to the evidence provided by Professor Alex Blaszczynski. Professor Blaszczynski told the committee of his concerns centring on problem gamblers being able to set affordable limits:

...my submission is that precommitment has merit in principle but the whole process really does hinge on the capacity of the problem gambler to set the initial limits. This is I think where the difficulty arises. Problem gamblers almost by definition have difficulty controlling their behaviours, their urges and their decision making. In one sense the precommitment as it stands leaves it up to the problem gambler to set their own limits. My concern essentially is that after initial experiences they are going to set limits which are in excess of what they can really afford and that may lead to some negative consequences where, having set higher limits, they are more likely to gamble to those limits. There may in fact be a negative consequence as a result of that procedure...¹⁴

9.18 However, in his evidence to the committee Professor Blaszczynski did indicate qualified support for pre-commitment:

What we need to do is work out a system which is effective. Precommitment, in my view, can be effective if implemented properly. But it is not going to be the answer. Self-exclusion is not going to overcome the problems. I think it is going to contribute. My concern is that there is going to be a vast amount of money allocated to precommitment and its implementation at the cost of other interventions that may in fact be more effective—providing signage, providing linkages with treatment and so forth.¹⁵

9.19 Mandatory pre-commitment has its origins in recommendations made by the Productivity Commission which were validated by numerous witnesses. The merit and authority of Productivity Commission reports must not be underestimated. The Commission's first report into gambling released in 1999 and its follow-up in 2010 are widely considered to be Australian benchmarks and together represent a considerable and sustained body of work based on considerable research, hundreds of submissions, dozens of hearings, and multiple consultations.

9.20 Industry stakeholders offered their view that the introduction of mandatory pre-commitment would mean that people would migrate to other less regulated forms

14 Professor Alex Blaszczynski, *Committee Hansard*, 4 February 2011, p. 37.

15 Professor Alex Blaszczynski, *Committee Hansard*, 4 February 2011, p. 51.

of gambling.¹⁶ The comprehensive evidence to refute this view is provided in chapter five.¹⁷ In addition the Victorian Interchurch Gambling Taskforce made contact with the Scandinavian research group SINTEF regarding the Norwegian experience and their response is provided in a supplementary submission:

The strong evidence from the national helpline statistics is that the removal of slot machines in mid-2007 and their replacement with machines with mandatory pre-commitment greatly reduced problem gambling related to slot machines without any evidence that those with gambling problems moved to other forms of gambling. This view is also supported in research conducted by Lund, which was mentioned in submissions to the Productivity Commission and which seems to have escaped the attention of the ALH Group and Clubs Australia in the construction of their arguments.

...Lund concluded that “the post-EGM prevalence of gambling problems was significantly lower than the problem prevalence under the EGM regime, a result that in itself suggests that the EGM’s reputation as a high risk game is well deserved.” Lund took the view that increased participation rates found for Internet gambling in general, and Internet lotteries and horse gambling in particular, were a shift from traditional gambling channels, and part of a general tendency in contemporary gambling, rather than as a substitution effect.¹⁸

9.21 The committee was concerned to hear from individuals and others about problems gamblers hitting rock bottom before seeking or accepting help¹⁹ and that a mandatory pre-commitment system could just delay the crisis point at which they then presumably have their moment of clarity and seek help. Dr Sally Gainsbury, Centre for Gambling Education and Research, Southern Cross University, explained that the evidence for this point came from Norway where slot machines were removed and then replaced with machines with built in limits. The finding was around people continuing to gamble in a problematic way for extended periods before seeking help. However, she added that she was not using this point to argue against pre-commitment or that this is a reason not to put it in place.²⁰ This is addressed in chapter two where

16 See for example Mr Peter Newell, *Committee Hansard*, 4 February 2011, p. 54; ALH Group, *Submission 15*, p. 3.

17 Dr Jamie Doughney, *Proof Committee Hansard*, 2 February 2011, p. 52. The study is by Ingeborg Lund, 'Gambling behaviour and the prevalence of gambling problems in adult EGM gamblers when EGMs are banned. A natural experiment', *Journal of Gambling Studies*, vol 25, 2009, pp 215–225; See also Dr Ralph Lattimore, Mr Gary Banks, Productivity Commission, *Proof Committee Hansard*, 15 February 2011, p. 60; Mr Tom Cummings, *Submission 113*, p. 3; Dr Charles Livingstone, *Proof Committee Hansard*, 2 February 2011, pp 30–31; Mr Gary Banks, *Proof Committee Hansard*, 15 February 2011, pp 59–60; Dr Ralph Lattimore, *Proof Committee Hansard*, 15 February 2011, p. 60.

18 Victorian Interchurch Gambling Taskforce, *Supplementary Submission*, p. 4.

19 Mr Ralph Bristow, *Committee Hansard*, 4 February 2011, p. 79. See also Professor Malcolm Battersby, Director of the Statewide Gambling Therapy Service, SA, *Committee Hansard*, 14 February 2011, p. 61.

20 Dr Sally Gainsbury, *Committee Hansard*, 4 February 2011, p. 39.

former problem gamblers indicated that for some there were no alternatives to hitting rock bottom. Mandatory pre-commitment would provide this alternative. It is relevant to again quote the advice from Ms Kate Roberts, Gambling Impact Society of NSW:

I think it is really important that we do not get fixed on the idea that hitting rock bottom is the only way out. With a well-informed community and families that are strengthened and people with an understanding of this issue, we are not going to need people to hit rock bottom before they start reaching out for a variety of kinds of supports to assist them. It is rather an old model that says you have to wait for someone to hit bottom before they will change. In fact there is plenty of evidence that you do not.²¹

Questioning the effectiveness of some features

9.22 Witnesses questioned whether particular features of a mandatory system would limit its effectiveness, particularly with problem gamblers. The main issue was the ability of problem gamblers to set realistic and affordable limits. This view was expressed by Professor Alex Blaszczynski who submitted that it would be difficult for problem gamblers to set affordable limits:

Again, irrespective of whether you have a voluntary or a mandatory system, the real question in my view is for those problem and pathological gamblers who have impaired control: how do you stop them from increasing the limits?²²

9.23 He added:

There is a distinction, and clearly a mandatory system would be better than a voluntary system. But it still comes down to the question that, yes, a proportion of the recreational gamblers and a proportion of people will cease, but for those who do develop problems the system will fail if they are allowed themselves to set their own limits.²³

Committee view

9.24 The committee received overwhelming evidence that when not in the throes of their uncontrollable urge to gamble, individuals are able to make rational decisions. This is covered extensively in chapter six. As noted by Mr Mark Henley, UnitingCare, Wesley Adelaide:

The counselling that we have done across a range of programs to do with addictions and other areas shows that people, when they are not involved with the cause of the addiction, are able to tell counsellors and family members very clearly what they are wanting, so they are able to make rational decisions. However, once the gambling, or whatever the addiction is starts, they lose that capacity to make rational decisions, and the deeper

21 Ms Kate Roberts, *Committee Hansard*, 4 February 2011, p. 80.

22 Professor Alex Blaszczynski, *Committee Hansard*, 4 February 2011, pp 46–47.

23 Professor Alex Blaszczynski, *Committee Hansard*, 4 February 2011, p. 46.

the addiction then the more likely it is that there is going to be relapse as the path to recovery is long, slow and fraught.²⁴

9.25 Problem gamblers advised the committee to let individuals set their own limits. The committee accepts that some problem gamblers may need to go through the process of setting limits more than once as they learn new gambling behaviours.²⁵ This is about leaving control in the hands of the individuals and providing them with a tool to better manage their gambling and reduce the harm that can occur. The committee reiterates that it is not recommending a 'no limit' option. People will be required to set a limit before they play, an action which will promote conscious decision-making. The process of making this decision is likely to encourage a player to think about affordability. As noted by Dr Mark Zirnsak from the Victorian Interchurch Gambling Taskforce:

This is a useful tool for those who say, 'I've got problems with affordability, I've got problems with control and I actually want something that is going to help me stick to a limit that is affordable.'²⁶

Concerns about the cost of implementation

9.26 Estimates by industry of the cost to implement mandatory pre-commitment varied widely depending on who presented it. Clubs Australia quoted billions of dollars.²⁷ The AHA repeated the content of a briefing provided to the Ministerial Expert Advisory Group on Gambling by a member, Mr John Duffy, General Manager of product development and compliance at IGT which is the world's largest EGM manufacturer:

In a December 2010 presentation to the Ministerial Expert Advisory Group, industry expert John Duffy advised to that meet the Prime Minister's commitment to Mr Wilkie, 100,000 older gaming machines (predominantly located in country & regional areas) will need to be replaced at a cost of around \$25,000 per machine – or \$2.5 billion across Australia.

Mr Duffy added that the remaining 100,000 EGMs will require some degree of expensive modification.²⁸

9.27 This briefing was also detailed in the media which reported that half of all EGMs would need to be replaced and the rest would require a re-fit.²⁹ Mr Des Crowe, AHA, based the following calculations on this advice:

24 Mr Mark Henley, *Committee Hansard*, 1 February 2011, p. 49.

25 Mr Robert Chappell, *Committee Hansard*, 1 February 2011, p. 38; Dr Mark Zirnsak, *Proof Committee Hansard*, 2 February 2011, p. 18.

26 Dr Mark Zirnsak, *Proof Committee Hansard*, 2 February 2011, p. 18.

27 Clubs Australia, *Submission 47*, p. 19; Mr Peter Newell, *Committee Hansard*, 4 February 2011, p. 54.

28 Australian Hotels Association, *Submission 86*, p. 4.

...the full precommitment solution signed off in the Wilkie-Gillard agreement will require 25 per cent of Australia's electronic gaming machines to have a software upgrade costing around \$3,000 to \$4,000 per machine, 25 per cent of Australia's electronic gaming machines to have a software and hardware upgrade costing around \$9,000 to \$12,000 per machine and 50 per cent of Australia's electronic gaming machines to be replaced at a cost between \$18,000 to \$25,000 per electronic gaming machine. Therefore the AHA strongly believes it is not appropriate to rush through this new technology without extensive research and trialling, particularly when implementation cost estimates range from \$2.5 billion to \$5 billion.³⁰

9.28 In some cases the cost estimates provided to the committee assumed a particular technology would be introduced, such as biometrics or centralised monitoring. Robert Smith Manager, Twin Towns Services Club, outlined their estimated costs associated with a smart card based pre-commitment solution:

We also assume that there will be increased monitoring costs, compliance costs and the costs of smart cards or USB's. Issuing a smart card to every member alone would cost our club between \$450,000 and \$630,000.³¹

9.29 However, not everyone was persuaded that the costs to industry would be high. Mr Robert Chappell, IGA told the committee about an exchange in 2006 during a public hearing which included a discussion of costs:

In May 2006, the Independent Gambling Authority conducted a public hearing on matters related to gaming machines and there was an exchange between the then presiding member, Mr Moss's predecessor, and two industry providers—people who said they could provide this technology—and, if I might hand up an extract of the transcript of that, Mr Chairman, over these 15 pages there are a series of exchanges in which the presiding member bids the technology vendors down to about \$800 a terminal for what arguably was only a partial precommitment solution. But the question was posed, 'Let's not say you are doing a venue at a time but you are actually getting the contract to do 13,000 terminals at once, would you achieve some significant economies of scale and would you be able to reduce the cost?' Two people, who were at the time advocating the adoption of some sort of smartcard solution in this state, were prepared to say that a number of around \$800 a terminal was a fair number. A thousand dollars is a nice round number. There have been all sorts of changes in the five years that elapsed; technology has got cheaper, wages have got marginally more expensive, and the technology is certainly a lot smarter than it was five

29 Joe Hildebrand, 'Flaw in Gillard's pokies promise', *Courier Mail*, 28 January 2011, p. 13. As the committee has not received this advice the committee can only note the estimates reported in the media. As the detail of the design features have not been agreed this estimate appears to be based largely on an assumption that the majority of machines will need to be replaced which is not what is being advocated by the committee.

30 Mr Des Crowe, *Proof Committee Hansard*, 15 February 2011, p. 3.

31 Twin Towns Services Club, *Submission 41*, p. 9.

years ago, but that is the basis for that number. Frankly, whether it is \$1,000 or \$2,000 a terminal, the costs are small when compared with the cost of buying a gaming machine or, indeed, the money that a slot machine would make in a year.³²

9.30 Dr Charles Livingstone told the committee that the often cited view by industry that the costs would be exorbitant as it would require networking all machines and replacing a substantial amount of stock is not correct.³³

9.31 Mr Gary Banks, Chairman, Productivity Commission, emphasised that cost is related to timelines and he pointed out the significant potential for long term savings to the industry:

As I said earlier, the cost is very much related to the rapidity of change. At the extreme, if you change the whole system overnight or in a very short period of time you would have to replace all of the machines, even some that were six months old et cetera, and the cost would be very high. A staged introduction means that, as Robert said, the normal replacement cycle would greatly reduce the costs of that. The second point I would make, and again it was made earlier but just to emphasise that, is that there will be nevertheless some initial cost to this, particularly for introducing the central monitoring system if not for the machines themselves because they were going to be replaced anyway. So there will be some costs there.³⁴

If you look at it over some sort of investment horizon for the industry and the clubs, it could well see other costs being reduced to the extent that the net present value of all those costs is actually pretty low. In the future when the government decides to change some policy parameter it can do so from a central location, a remote location, and feed it through into all the machines in the jurisdiction at no cost to the establishments concerned. That is a great advantage from an economic point of view if you take a dynamic approach to this and do not just think of it as a static cost imposition on the industry at day one. You really do need to think of this as it has been in the past, an evolutionary process where policy will make changes over time, there will be changes, and you want to do that as cost effectively as possible. So that is the great advantage of the platform not just for precommitment but for the range of other harm minimisation measures that governments may want to introduce or amend in the light of evidence over time.³⁵

9.32 The committee spoke with Mr Peter Cercone, Chief Compliance Officer, Playtech, a leader in gaming software technology market in Europe, who comprehensively rejected cost estimates from the industry of billions of dollars:

32 Mr Robert Chappell, *Committee Hansard*, 1 February 2011, p. 36.

33 Dr Charles Livingstone, *Proof Committee Hansard*, 2 February 2011, p. 31.

34 Mr Gary Banks, *Proof Committee Hansard*, 15 February 2011, p. 58.

35 Mr Gary Banks, *Proof Committee Hansard*, 15 February 2011, pp 58–59.

It does not cost billions of dollars and it can be done in relatively short time frames, depending of course on the ultimate specifications for what you want to do...³⁶

9.33 Mr Tom Cummings questioned the claims by industry that mandatory pre-commitment will cost billions of dollars to be implemented; while at the same time advocating a voluntary system:

The same organisations that make this claim (such as Clubs Australia) have also stated their support for voluntary pre-commitment. Given that the fundamental difference between the two is whether or not an individual chooses to take part, then surely the cost would be roughly the same regardless of whether the scheme was mandatory or optional.³⁷

Committee view

9.34 The committee finds it interesting that despite the industry advocating for a voluntary system, there were no concerns raised about the potential cost of voluntary pre-commitment even though it would be comparable with the cost of mandatory pre-commitment.³⁸ The wide variety of cost estimates are also interesting as the detail of the system has not been released and no technology has been specified. The committee heard a substantial amount of evidence to indicate that, depending on the technology used not all machines would need to be replaced and many of those that may need to be replaced can largely be accommodated in the natural cycle of replacement.

9.35 The committee is, nevertheless, conscious of the implementation costs and is advocating that the technical solution also be a cost-effective one. The committee encourages the industry to take a long term view as the design of the system and the technology used will provide the opportunity to put in place a system which can easily accommodate any additional future requirements, thereby reducing compliance costs over time.

Areas for savings

9.36 As noted in chapter seven the committee recognises the regulatory environment is an area potential savings could be realised. The committee heard evidence that the current regulatory environment with different protocols and systems in each jurisdiction increases costs to industry and is an impediment to innovation. Mr Earle Rowan, Systems Analyst, Global Gaming Industries, emphasised the increased costs of the current regulatory environment:

36 Mr Peter Cercone, *Proof Committee Hansard*, 25 March 2011, p. 51.

37 Mr Tom Cummings, *Submission 113*, p. 3. See also Mr Simon Schrapel, President, Australian Council of Social Service, *Committee Hansard*, 14 February 2011, p. 100.

38 For a voluntary scheme where all machines are configured for pre-commitment, but it is voluntary for players to adopt.

It is a cost issue. We have to have different systems for every state, in fact, different software for every state, in part, to manage it. The management side of that is quite significant, obviously, because we are managing all the different protocols all the time, so it is quite a cost issue. It is a knowledge based issue for people who understand these systems. They are quite complex in operation.³⁹

9.37 The technical environment acting as an impediment to responsiveness and increasing costs for industry was confirmed in the following exchange with Mr Ross Ferrar, Chief Executive Officer, Gaming Technologies Association:

Mr CHAMPION—If you had a simpler regulatory framework, presumably that would allow you to—

Mr Ferrar—I would anticipate two things.

Mr CHAMPION—Competitive pressures would lower the price of the machines.

Mr Ferrar—I would anticipate a reduction in impediments to change, so a faster flow of innovation and change to address whatever the issues might happen to be. Also I would expect the efficiencies that that would generate may result in a reduction of the cost, yes.⁴⁰

9.38 The Productivity Commission, recognised that the jurisdictional differences are costly for the industry:

Despite their name, gaming machine national standards are not really national standards, and the processes for their development and alteration are cumbersome and unnecessarily costly to industry.⁴¹

9.39 The committee notes that this jurisdictional variation in regulation constitutes a restriction on competition. This anti-competitive feature is made possible by a Permanent Exemption of gaming machines under the *Mutual Recognition (Commonwealth) Act 1992, Schedule 1(3)*. After a review in 1998, COAG noted:

There is no question that the variable regulation of the gaming machine industry across the States and Territories has an anti-competitive impact.⁴²

9.40 However, interestingly, COAG could find 'no obvious alternatives to maintaining the exemption'.⁴³

39 Mr Earle Rowan, *Committee Hansard*, 14 February 2011, p. 23.

40 Mr Nick Champion MP and Mr Ross Ferrar, *Committee Hansard*, 14 February 2011, p. 31.

41 Productivity Commission, *Gambling*, vol. 2, Commonwealth of Australia, Canberra, 2010, p. 17.30.

42 Information available from:
http://www.coag.gov.au/mutual_recognition/legislation_rev/potential_restrict_competition.cfm#63 (accessed 10 March 2011).

43 Information available from:
http://www.coag.gov.au/mutual_recognition/legislation_rev/potential_restrict_competition.cfm#63 (accessed 10 March 2011).

Committee view

9.41 Industry highlighted the increased costs and barriers to innovation resulting from the current regulatory framework with competing protocols and systems in each jurisdiction. Addressing this area to achieve benefits and reduced costs for industry and decrease the regulatory burden on jurisdictions should be undertaken in parallel with the development of mandatory pre-commitment.

9.42 The introduction of mandatory pre-commitment provides an opportunity to increase uniformity and thereby reduce costs to the industry as well as increase protection for the consumer. The committee is concerned that such barriers to competition have been accepted by COAG and that internal reviews can find no alternatives. Given the reliance of state governments on revenue from EGMs the committee believes a review should be undertaken as a priority by an independent body.

Recommendation 38

9.43 The committee recommends that the process towards harmonisation of the national technical standards by the national regulatory authority include an independent review of the barriers currently impeding greater uniformity and competition as a matter of urgency. This should include a review of the continued use of the Mutual Recognition (Commonwealth) Act 1992, Schedule 1(3) and an analysis of the costs and benefits of the restriction as this was beyond the scope of the last COAG review.

Costs for smaller clubs

9.44 A number of submissions from small clubs expressed concerns that the cost of introducing full pre-commitment would be so onerous they would face significant financial problems. The Merimbula RSL Club estimated the cost of upgrading each machine for their club would be \$6,000, which they argued would be unaffordable.⁴⁴

9.45 Moruya Golf Club pointed to the financial problems it would face in paying for the cost of upgrading each machine, estimated at \$5,000 per machine:

While specific details of the proposed pre-commitment system are unavailable, the Club does not have the cash reserves to install a system at the cost which has been suggested (\$5000 per machine). Whilst debt free, the club has no notable cash reserves. Given the grave potential impacts on revenue and hence the clubs ability to maintain payments on any such finance the club will not be able to source external funding for the implementation of a pre-commitment system.⁴⁵

44 Merimbula RSL Club, *Submission 7*, p. 1.

45 Moruya Golf Club, *Submission 69*, p. 2.

9.46 General Manager of Crescent Head Club Mr Colan Ryan explained to the committee that last year their club made just \$12,000 in profits.⁴⁶

Committee view

9.47 The committee is cognisant that the costs of implementation would impact more on small venues. For this reason it supports a longer timeframe for implementation for smaller venues and proposes the establishment of a transitional assistance fund. Both of these issues are further discussed below.

Timelines

9.48 Another concern raised by industry was the implementation timeline outlined in the then member elect Mr Andrew Wilkie's agreement with the Prime Minister. The agreement indicates that implementation will commence in 2012 with the full pre-commitment scheme commencing in 2014.⁴⁷ Essentially industry believes the timeframes are unrealistic⁴⁸ and drew the committee's attention to the timeframes suggested by the Productivity Commission.⁴⁹ In addition, Aristocrat put forward what they believe to be a practical, cost-effective and realistic timetable which would give full coverage by 2016.⁵⁰

9.49 However, many were not convinced this timeline would be unachievable.⁵¹ The Social Issues Executive, Anglican Church Diocese of Sydney suggested:

A gaming card system need not require a lengthy phase-in period; the six year implementation period for mandatory pre-commitment as suggested by the Commission is overly generous. The length of the phase-in period should simply be determined according to whatever will best achieve effective universal application of a pre-commitment scheme. Morally speaking, it is more important to relieve the burden on problem gamblers and their families than to protect the balance sheets of clubs and hotels.⁵²

46 Mr Colan Ryan, *Committee Hansard*, 14 February 2011, p. 92.

47 The Agreement between the Hon. Julia Gillard, MP, Prime Minister and Mr Andrew Wilkie, MP, 2 September 2010, p. 7.

48 Mr Peter Newell, *Committee Hansard*, 4 February, 2011, pp 53–54; RSL and Services Clubs Association QLD Inc, *Submission 108*, p. 17; The Australasian Casino Association, *Submission 93*, p. 2.

49 Australasian Casino Association, *Submission 93*, p. 2.

50 Aristocrat, *Submission 38*, p. 6.

51 See also Mr Peter Cercone, *Proof Committee Hansard*, 25 March 2011, p. 48, 52.

52 Social Issues Executive, Anglican Church Diocese of Sydney, *Submission 112*, pp 4–5.

9.50 Mr Peter Cercone, Playtech, advised that the design features of mandatory pre-commitment could be easily met by current technologies in the timeframe required, depending on the specifications.⁵³

9.51 Mr Alan Moss, Independent Gambling Authority, SA, expressed the view that the timeframe is optimistic but provided the example of implementing the smoking legislation to illustrate that the industry is able to adapt and is very resilient:

The smoking legislation was implemented over five years and the industry managed that very well. If it had been implemented over a shorter period of time it would have, of necessity, been more difficult. One of the problems with all of these things is that nobody really knows. The industry will say that the end of the world is at hand and that there will be no pubs left after this happens, which is nonsense. The industry is very resilient and has a long track record of dealing with these things very professionally and very well, but we think that they do need time and there would need to be a significant lead-in period for it to be done without any risk whatsoever.⁵⁴

9.52 Mr Gary Banks, Chairman, Productivity Commission, spoke about the underlying assumptions which their timeframe is based on:

As I indicated earlier, the rate at which we introduce these technologies will obviously affect the cost. In particular, the key element of cost is the replacement of machines prematurely. Also, time is needed to design technical changes, protocols and so on. You will see in a table we have provided in the report that on one page we have set out from 2010 through to 2020 what we saw as the feasible staging points for this. I will get my colleague to talk in more detail about it but the logic of it, as I said, is to allow enough time for these things to come on stream that would not have unintended consequences. It is crucial that, for example, the technological capabilities in machines are brought up to speed progressively over time as machines are being made redundant rather than trying to do that all at once. Some of the large cost numbers you have are predicated on the whole stock essentially being replaced overnight, which is not what we have proposed. So the timeframe we have there, the one you have indicated by 2016—the precommitment becoming operational in all jurisdictions—is predicated on that.⁵⁵

9.53 The Chair engaged the Productivity Commission in discussion about the timelines outlined in their report and the underlying assumptions which emphasised the trade off between cost and time. While acknowledging the political environment the Chair emphasised that the costs and faster timeline would be offset to some degree

53 For example Mr Peter Cercone, Chief Compliance Officer, Playtech, *Proof Committee Hansard*, 25 March 2010, p. 47, 48.

54 Mr Alan Moss, *Committee Hansard*, 1 February 2011, p. 41.

55 Mr Gary Banks, *Proof Committee Hansard*, 15 February 2011, p. 44.

by the social benefits. The Chair emphasised that the cost to industry over a number of years will be less than the amount problem gamblers lose each year.⁵⁶

Committee view

9.54 The concerns about timelines appeared in the main to assume that the majority of EGMs would need to be replaced, which is not what is being advocated. While the committee recognises the imperative to act it is concerned to ensure that the system is cost effective and has integrity. In a regulatory environment subject to frequent change, the industry has shown itself to be highly flexible and adaptable. For example, it successfully responded and adapted to smoking legislation, changes in the hotel industry such as opening-hour restrictions, under-age drinking and off-premises sales, and the committee has confidence that this can occur again. See further discussion of timelines under concerns of the smaller venues below.

Possible consequences

9.55 Industry was concerned that the introduction of a mandatory pre-commitment scheme would ultimately be so costly that it would result in loss of employment, reduced investment in facilities, the reduction of services to the community, the reduction of contributions to the community and may ultimately threaten the viability of some smaller clubs.

9.56 Most of these areas and others were a concern for the Blacktown Workers Club Group which is one of the largest club groups in NSW with over 55,000 members. It reported on the potential effect of a pre-commitment scheme:

If mandatory pre-commitment was introduced, this would have a dramatic downturn on, not only gaming revenue, but also the industry as a whole, which would see a massive reduction to gaming taxes available to the government, it could lead to a reduction in employee numbers across the 34 clubs in the Blacktown Workers Club Group, a major decrease in funds for sporting facilities (sub clubs) and so on. Recreational and occasional gamblers will simply not play gaming machines but look at alternatives such as lotteries or even overseas online gaming sites of which no revenue remains in the country.⁵⁷

9.57 Mr Tom Cummings expressed his view on the claim by some in the industry that venues will go out of business and jobs will be lost:

This line of thinking is most heavily promoted by the Clubs industry, especially in NSW. If mandatory pre-commitment impacts the revenue flow from problem gamblers to such a degree that clubs and pubs are forced to close, then it is proof that these venues only survive today because of problem gamblers. That is an intolerable situation.⁵⁸

56 Mr Andrew Wilkie MP, *Proof Committee Hansard*, 15 February 2011, p. 64.

57 Blacktown Workers Club Group, *Submission 11*, p. 4.

58 Mr Tom Cummings, *Submission 113*, p. 3.

Treasury view

9.58 Information released under Freedom of Information from Treasury indicated that based on the findings of the Productivity Commission (PC), the economic impact of the introduction of a mandatory pre-commitment scheme would not be as great as some in the industry believe:

While the introduction of the proposed reforms is likely to reduce employment in clubs, those who lose their jobs should in general be relatively well placed to find employment elsewhere. The overall economy-wide impact on employment should also be minimal as spending that would have otherwise been on gambling is redirected to other sectors of the economy...

The PC found that it is difficult to determine the extent to which clubs cross-subsidise food and beverages with EGM revenues.

While some clubs do significantly cross-subsidise food sales for their members, data from the Clubs Australia submission to the PC Inquiry indicated that the largest source of cross-subsidisation is in sports facilities, operating costs for accommodation, aged and child care, and a range of other expenses, such as promotion.

It should also be noted that cross-subsidies used to support cheaper food and beverages may be derived from revenue from problem gamblers....

...the PC notes that many of the benefits from these contributions accrue to members rather than to the public at large, and further, the correlation between gambling revenue and contributions to sporting activities and volunteering do not appear to be strong, and may even be negative for volunteering.

The Commission notes that the gross value of social contributions made by clubs is likely to be significantly less than the support the State and Commonwealth governments provide them through tax and other concessions.

The social contributions made by clubs have to be weighed against the costs to the community of problem gambling...⁵⁹

9.59 These views were supported by Dr Jamie Doughney who argued:

It began with a fairly simple proposition. Because most of the losses on poker machines come from a relatively small number of people and are proportionately larger in size, they shift expenditures from other consumer items. I think that is a demonstrable proposition and is the proposition that the Productivity Commission maintains.

Because of that, one could see the possibility of greater benefit for other types of entertainment in local communities on which people would spend

59 Document released by Treasury under Freedom of Information, *Executive Minute: Meeting with Gambling Industry Representatives*, <http://www.treasury.gov.au/contentitem.asp?NavId=087&ContentID=1958> (accessed 10 March 2011).

their discretionary dollar. Given also that non-discretionary dollars go into poker machines, one could see the benefits going into local shops and other forms of economic life. Imagine, for example, that we have 40 per cent reduction in revenue. That 40 per cent will go elsewhere into the economy. The net loss to the economy will be zero and would probably be positive because of the very profitable nature of the poker machine industry as it is currently structured. Other businesses within local communities put more back into the economy; they have follow-on effects. One industry will buy from another industry and another industry and so on. It is a simple proposition and I think it stands up to the economic argument. Certainly, the Productivity Commission also maintains that view.⁶⁰

Concerns of the smaller venues

9.60 Concerns about potential loss of employment, services and community contributions and financial viability were detailed comprehensively by smaller venues, mainly clubs. The smaller venues argued against being treated in the same way as larger ones many of which are more like a business than a community organisation. Mr Grant Duffy, the Manager of the Numurkah Golf and Bowls Club stated:

Every gambling venue and organisation is treated the same (However, they are not the same). As an example, our club's primary focus is not to increase shareholder wealth, and our management receive no financial incentives to drive profits. Our role is to provide a credible sports and recreation facility for our community, which we do. Our Board members receive no remuneration but play their role as active, interested contributors to our community.⁶¹

9.61 While supporting appropriate measures to assist problem gamblers, smaller clubs and hotels told the committee that the introduction of a mandatory pre-commitment scheme would result in a substantial decrease in revenue which would threaten not only employment but in some cases the viability of the establishment. The Merimbula Lakeview Hotel told the committee of the increasing costs it is facing already without mandatory pre-commitment:

Our hotel has already been burdened with a 300% increase in NSW land tax charges together with flow-on increases in council rates and taxes as well as facing a 60%+ increase in NSW electricity charges. These imposts will add close to \$60,000 to our annual expenses without the addition of proposed increases in staff superannuation contributions, workers compensation insurance and NSW payroll tax.⁶²

9.62 Merimbula Lakeview Hotel assumed a drop in gaming revenue of some 40 per cent and warned of the following consequences:

60 Dr Jamie Doughney, *Proof Committee Hansard*, 2 February 2011, p. 48.

61 Mr Grant Duffy, Numurkah Golf and Bowls Club, *Submission 16*, p. 1.

62 Merimbula Lakeview Hotel, *Submission 5*, p. 2.

We can assure you that a loss of around \$96,000 to \$100,000 in our gaming revenue will result in the immediate loss in all casual employment positions and reduction in permanent staff in an attempt to contain financial losses and probably the closure of our establishment in a very short period.⁶³

9.63 Using other assumptions Club Central Menai advised the committee of the following effects:

Based on 2009–2010 financial year results and taking into account statements made by proponents of pre-commitment...the effects of pre-commitment would be a serious risk to the sustainability of the club. Our forecasts predict a drop in overall club revenue of 36.2%. We also predict the business could not provide employment for the current level of staff and cuts would number upwards of 30 employees. State taxation would be reduced by \$1,049,000 per year. There would be a 20% reduction in the cost of goods which would have an adverse affect on supporting business (mostly local). CDSE donations for the local community would also be reduced by \$76,674.⁶⁴

9.64 It added:

The Menai facility has an approx value of \$25 million. Taking into account the figures stated above we would expect an equivalent return of 1% p.a. This is considered unviable in any business circumstance. Any capacity for re-investment and improvements is removed as a result of pre-commitment rendering the facility unable to survive in the medium to long term.⁶⁵

9.65 Crescent Head Country Club, with 3,450 members advised that EGMs and gambling services accounted for 37.25 per cent of its revenue in 2010. However, it advised that it would not survive the reduction in revenue that would result from a pre-commitment scheme.⁶⁶

9.66 The Eden Fishermen's Recreation Club believes given the potential costs, that the introduction of a mandatory pre-commitment scheme would threaten the financial viability of the club.⁶⁷ It also outlined the broader effect on the community:

Eden's local economy will bear the brunt of this legislation. We will not be able to afford a golf course or bowling facilities for locals, visitors or tourists, they will have to close. This will have a detrimental effect on the community. Each year our premises and facilities are utilised by everyone in our community from our school aged children to our most senior community groups including our aged care residents. We just will not be able to sustain our two Clubs for the benefit of our members or visitors including tourists. There will be no sponsorship or donations for our

63 Merimbula Lakeview Hotel, *Submission 5*, p. 2.

64 Illawarra Catholic Club Group, Club Central Menai, *Submission 8*, p. 2.

65 Illawarra Catholic Club Group, Club Central Menai, *Submission 8*, p. 3.

66 Crescent Head Country Club, *Submission 20*, pp 2–6.

67 Eden Fishermen's Recreation Club, *Submission 23*, p. 5.

community. There will be no meeting places, no raffles, no bingo, no member's draws, no restaurants, no Club facilities, no function rooms, no employment, what will this do to our town? The introduction of mandatory pre-commitment scheme will affect every single resident of our community, it will effect the value of our family homes as was the case when the cannery closed.⁶⁸

9.67 The Merimbula Lakeview Hotel highlighted the flow-on effect that a loss of gaming revenue would have for other businesses that it deals with as well as charities:

Also impacted will be the suppliers of goods and services to our business, i.e. almost \$1million in food and beverage purchases and around \$750,000 in supplies of cleaning, advertising, maintenance, laundry and utility services, not to mention the benefactors of our annual charity fund raising events that receive up to \$15,000 per annum.⁶⁹

Small venues should be treated differently

9.68 The committee does not agree with the assumptions made by smaller venues about the predicted drop in gaming revenue because, presumably, all the clubs listed would also claim they have a low rate of problem gambling. The committee does agree, however, with the Productivity Commission that there are differences between the larger more commercial clubs and the smaller clubs found mainly in regional and rural areas. These differences in terms of revenue should be taken into consideration.

9.69 The committee notes the following examples to illustrate the differences. The Hellenic Club in Deakin, Canberra is proposing an \$8.6 million apartment complex on the site of the West Deakin Hellenic Bowling Club.⁷⁰ The committee also notes the size of the Twin Towns Services Club with 44,117 members, three venues, annual turnover of \$70 million and assets of \$184 million.⁷¹ These are just two examples among many.⁷² The committee contrasts the size of these clubs, revenue and activities outlined above with clubs like the Numurkah Golf and Bowls Club described above.

9.70 Dr Charles Livingstone outlined the differences across the sector and advocated that the industry should be considered in segments:

The point there is that, if you think about it, the origins of poker machine gambling in Australia were with relatively small social venues: clubs in New South Wales in the 1950s which used relatively low-impact old-technology machines to help pay for their new bowling green or fund the

68 Eden Fishermen's Recreation Club, *Submission 23*, p. 5.

69 Merimbula Lakeview Hotel, *Submission 5*, p. 3.

70 Nino Bucci, 'Battle looms over plan for \$8.6m Deakin development', *Canberra Times*, 7 March 2011, p. 1.

71 Twin Town Services Club, *Submission 41*, pp 1–2.

72 See for example Brisbane Broncos Leagues Club with total revenue of \$22 million in 2009–10, *Submission 32*, p. 1; Blacktown Workers Club Group, *Submission 11*, pp 1–2.

cricket club's new kit or whatever. That sort of social model—we call it the folk model—of gambling has been used to legitimise these monstrous clubs with \$100 million a year income, which I am sure you are very familiar with and which have very little relationship to the sort of grassroots community model from which this gambling mode has originated. There are still little clubs like that; you can see them throughout country New South Wales and in Victoria—not so much in South Australia. They are small venues with modest income needs that are run for the benefit of their members, not for the accrual of vast profit.

We need to start looking at this industry in segments, because what appears to be driving the current claims by the industry of ruin if these sorts of things are implemented may have an adverse affect on some clubs but they may not have much of an impact at all on smaller community oriented places, where they are not necessarily making vast sums out of it.

We also need to remember that a licence to print money, which a poker machine licence currently is, may not necessarily be in the best interests of the community into which that venue is located. Taking away that licence to print money or reducing the amount of money that can be printed is likely to provide far more social benefit to those communities than it is likely to act to their detriment.⁷³

9.71 Dr Richard Woolley added:

Certainly, if you look at the distribution of poker machine revenues in New South Wales, a small number of venues earn a hugely disproportionate amount and a long tail of small venues do not earn very much. We call that ambient income, which they use for maintenance of whatever. If those kinds of venues had always had that level of access to gaming revenue from low-impact gaming machines, it would have been the same; they would still have made the same amount of money, because often they only have three to five machines, and none of the gaming-room feel of excitement or the minicasino atmosphere ever emerges in those kinds of venues. So it is very much what we used to call the folk model of simple entertainment where club members put \$5 through the machine knowing that it is going to come back to their own infrastructure.⁷⁴

9.72 Dr Ralph Lattimore, Assistant Commissioner, Productivity Commission, described the phased implementation they suggested to assist smaller clubs:

The other observation is that we had in mind a different pattern of implementation for small venues. I think a lot of small venues were concerned that they were particularly exposed in terms of the cost of replacing machines. What we have suggested is a more phased introduction of the changes for those small venues recognising that.⁷⁵

73 Dr Charles Livingstone, *Proof Committee Hansard*, 2 February 2011, p. 38.

74 Dr Richard Woolley, *Proof Committee Hansard*, 2 February 2011, pp 38–39.

75 Dr Ralph Lattimore, *Proof Committee Hansard*, 15 February 2011, p. 59.

9.73 The definition of a small venue was considered by the Productivity Commission which relied on input from the industry⁷⁶ to reach the number of less than 10 EGMs. Their specific recommendation around smaller venues reads:

...apply to all gaming machines in all venues in a jurisdiction, with an exemption until 2018 for venues with less than ten machines that also face significant implementation costs relative to revenue.⁷⁷

9.74 However, the Productivity Commission recognised that in some jurisdictions such as the Northern Territory all hotels have 10 or less machines, reflecting the cap in this jurisdiction, but their high use results in very high revenues per machine. To address circumstances such as these, the Productivity Commission recommended an additional requirement that average revenues for EGMs would have to be low relative to implementation costs.⁷⁸ This point was emphasised to the committee when the Productivity Commission noted that the number of machines as well as the revenue per machine needs to be taken into consideration.⁷⁹

Committee view

9.75 The committee wishes to ensure that the introduction of a mandatory pre-commitment system will not place smaller venues, largely those in regional and rural areas, at a disadvantage and result in important services and facilities being removed from these smaller communities.

9.76 The committee recognises that smaller venues require special consideration and assistance regarding the implementation timeframe and costs and it wishes to target assistance to those venues. The committee's discussion with the Productivity Commission revealed the definition of a small venue is not a straightforward matter. The committee notes the definition used by Productivity Commission of 10 machines or less. However, the committee considers that the profile of numbers of EGMs in venues indicates that a number of 15 machines or less better reflects the segment of the industry that the committee acknowledges needs more time for implementation. The committee has been advised by the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) which understands from jurisdictions that around 40 per cent of the total numbers of venues have 15 or fewer EGMs representing around 11 per cent of the total number of EGMs.⁸⁰ However, it was clear

76 Mr Robert Fitzgerald, *Proof Committee Hansard*, 25 March 2011, p. 31.

77 Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 54.

78 Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, pp 10.39–10.40.

79 Productivity Commission, *Proof Committee Hansard*, 25 March 2011, pp 28–31.

80 Secretariat communication with FaHCSIA, 13 April 2011. A consolidated data set is not readily available but some states publish limited data on their regulatory websites. For example see Queensland: Queensland Office of Liquor and Gaming Regulation, EGM Range Statistics for Hotels and EGM Range Statistics for Clubs, <http://www.olgr.qld.gov.au/resources/index.php/gamingstatistics/> (accessed 13 April 2011)

that the definition of a small venue also needs to take into account the revenue per machine.

Recommendation 39

9.77 The committee recommends that the definition of a small venue be 15 machines or less but that it also take into consideration revenue per machine.

9.78 The committee supports a longer timeframe to implement mandatory pre-commitment as suggested by the Productivity Commission. However, as the timeframe recommended by the Productivity Commission has already slipped the committee believes that this needs to be taken into consideration and recommends that smaller venues are given until 2018 to establish mandatory pre-commitment. Mindful of the specific needs of small venues, they will be allowed four years more than large venues to implement these reforms.

Recommendation 40

9.79 The committee recommends that small venues, particularly those in regional and rural areas, be allowed until 2018 to implement mandatory pre-commitment.

9.80 The increased timeframe for smaller venues will provide assistance to make implementation achievable for them. Around 40 per cent of venues will qualify for the longer implementation timeframe, so some 11 per cent of EGMs will not be immediately affected. This will also reduce the implementation costs for smaller venues and help ensure the national timeline for all venues is achievable.

9.81 The committee believes a transitional assistance fund should be established to which smaller venues could apply for assistance based on certain criteria developed in consultation with industry. For example, they could apply to this fund to assist with diversifying their activities away from gambling revenue or to cover a shortfall in a community service as a result of implementing mandatory pre-commitment, or it could assist them to implement mandatory pre-commitment, purchase low intensity EGMs or modify their existing stock.

9.82 The committee is not prescriptive about how the fund is financed but makes the following suggestions for consideration: financial assistance provided by larger clubs according to revenue; funded by all levels of government possibly through dedicating some of their tax revenue; or funded by targeted tax concessions (eg. GST exemptions) for a period of time. The committee also suggests that the \$20 million which is reportedly to be spent on advertising by clubs and hotels to oppose mandatory pre-commitment would be better directed to the transitional assistance fund⁸¹ to which the industry should be encouraged to donate. The committee also suggests that the donations to the ALP made by Labor clubs around Australia could be

81 Kirsty Needham, 'John Singleton joins clubs in \$20m pokie push', *Sydney Morning Herald*, 10 March 2011, available from: <http://www.smh.com.au/nsw/singleton-joins-clubs-in-20m-pokie-push-20110309-1bo1w.html> (accessed 10 March 2011).

temporarily redirected to the transitional assistance fund as a sign of good faith in these reforms.⁸²

Recommendation 41

9.83 The committee recommends the COAG Select Council on Gambling Reform investigate establishing an industry transition fund to assist small venues to diversify their revenue stream away from gambling, cover a shortfall in a community service or enable low intensity machines. The criteria for access to the fund would be developed in consultation with industry.

Providing a low intensity option for venues

9.84 The committee believes strongly that low intensity machines should be introduced as part of the scheme for both large and small venues. Currently high intensity EGMs dominate the Australian market. These provide a high risk gambling experience with the potential for players to lose large sums of money due to design features which allow high maximum bets, high load ups and high jackpots. Low intensity machines on the other hand feature low bets, low load ups and low jackpots. This reduces the volatility and addictive features of EGMs by offering smaller, more frequent payouts which better reflect the advertised rate of player return. High intensity machines, on the other hand, have more volatility which means that the very high jackpots come up rarely. The committee is convinced that low intensity machines offer a less harmful gambling environment for players focussed on entertainment.

9.85 The committee is mindful of the concerns expressed by the industry. Those venues which do not wish to be included in the mandatory pre-commitment scheme for high intensity EGMs should have the option of choosing to run low intensity machines, as per the appropriate parameters outlined in the previous chapter,⁸³ to ensure they are genuinely low risk. The advantages for venues which choose this option are: machines modified to low intensity play can be drawn from the current fleet; venues have a choice of what machines to run;⁸⁴ and venues operating both high and low intensity machines give players greater choice. The committee also heard that EGMs could be enabled to offer either or both high and low intensity of play modes.⁸⁵

82 Niki Savva, 'Wilkie ready to Play his Ace on Gambling Laws', *The Australian*, 1 March 2011, p. 12.

83 An average loss rate per hour of around \$120.

84 Productivity Commission, *Proof Committee Hansard*, 25 March 2011, p. 40.

85 For example, the Productivity Commission suggested that an 'airbag' machine offering low intensity play could be enabled through the insertion of a player loyalty card; once the card was removed the machine would revert to its 'normal' high intensity mode. Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 11.41.

Recommendation 42

9.86 The committee recommends that venues be given the choice to either run high intensity EGMs with mandatory pre-commitment or low intensity EGMs without pre-commitment enabled, or a combination of both.

*Low-level gambling*⁸⁶

9.87 The industry was also concerned with how a mandatory pre-commitment scheme would affect low-level gamblers, citing the potential to cause them inconvenience. For example, Mr Ian Horne, General Manager, AHA, stated:

Our great fear with mandatory precommitment is it will disproportionately impact on the recreational gambler. That is our concern. When we look around the world, Nova Scotia is not a model that anyone would want, because it is not working, and the motivation in Norway—and I want you to read that document—was considerably more complex than just problem gambling but now it is a total monopoly by government. I would say our concern with the extreme end of precommitment—the universal mandatory boom, boom, boom—is the impact it will have on recreational gamblers.⁸⁷

9.88 These concerns were echoed by Clubs Australia:

The continuing challenge is to identify harm minimisation measures that will target those in need of assistance, without unduly impacting on the legitimate enjoyment of recreational players who experience no problems...⁸⁸

9.89 Mr Peter Newell, President, Clubs Australia, expanded on this view and the possible consequences:

As a recreational gambler myself, I am disturbed, to put it mildly, that there are people who think I need assistance in determining how I spend my money. And it is not just me. For most recreational gamblers, they will just not bother. Registering to use an entertainment product, carrying around a device and preselecting limits will be a disincentive to play for all. If clubs lose their recreational punters, they lose an important source of revenue and will no longer remain viable. This means the closure of clubs—of sport clubs, of ethnic clubs, of RSLs. It means the loss of sporting infrastructure, rural community centres and donations to local schools, junior sport and charities, not to mention the loss of jobs.⁸⁹

86 Commonly referred to as recreational gambling but the committee uses this term to refer to gambling at a low intensity as some gamblers would consider high intensity machines to be recreational.

87 Mr Ian Horne, *Proof Committee Hansard*, 15 February 2011, p. 24.

88 Clubs Australia, *Submission 47*, p. 2.

89 Mr Peter Newell, *Committee Hansard*, 4 February 2011, p. 55.

Committee view

9.90 As detailed in chapter six, the committee is cognisant of ensuring that mandatory pre-commitment does not cause inconvenience for the majority of low-level or occasional gamblers. In response to this, in chapter six the committee recommended that the system be simple and easy to use and quick to sign up. In addition, with the inclusion of low intensity machines, low level gamblers will notice little, if any, difference to their gambling experience.

Casinos

9.91 Along with smaller venues the committee acknowledged the different circumstances facing casinos. Casinos are widely seen to be destination venues which offer a range of entertainment options. They have only six per cent of the total number of EGMs in Australia. In addition, evidence presented to the committee showed that casino customers are a distinct group: the majority of casino customers do not tend to gamble in community venues such as clubs and hotels and many are international visitors.⁹⁰

9.92 The issue of how foreign tourists should be accommodated under a mandatory scheme was raised particularly among casino operators. The peak body for casinos, the Australasian Casino Association (ACA) expressed the view that imposing a mandatory scheme on overseas tourists who visit casinos would be inappropriate:

Moreover the rationale for imposing a compulsory system on these players does not necessarily apply to tourists whose main purpose in visiting a casino and to a certain extent, one of their considerations for visiting Australia or a certain state or city where there is a casino, lie in spending money and maximising their fun and leisure time.⁹¹

9.93 The ACA pointed to surveys which showed that foreign tourists playing in casinos tend to: have higher incomes, spend less time on EGMs, pre-commit expenditure, and view casinos as social rather than gambling venues.⁹²

9.94 Some argued there should be no exemption for these groups, particularly if the design of the scheme is simple and easy to use:

The submission does talk about that balance. We have argued that, if the identity check system and the system for access to precommitment are quick, efficient and easy, then there is potentially no reason why you need something outside the system for tourists and occasional gamblers. If it is quick and easy, it will be a minor thing to do. Having become a member at

90 Information drawn from Australasian Casino Association, *Submission 93*, p. 1.

91 Australasian Casino Association, *Submission 93*, p. 9.

92 Australasian Casino Association, *Submission 93*, pp 8–9.

the Redcliffe RSL in order to use their precommitment system, I found it pretty quick and efficient—it did not take very long to do.⁹³

Options suggested for overseas tourists

9.95 It was suggested that overseas tourists be allowed to purchase special pre-commitment cards with low limits. The attractiveness of a temporary low-value card for use by occasional gamblers was canvassed by Mr Alan Moss, Independent Gambling Authority, SA:

But if you played two or three times a year you might not want to bother to put yourself to the inconvenience of getting the card, storing it and having it, particularly if it had money on it. If the card had \$500 on it you would not want that money just sitting there idle while you played only twice a year. So you would just get a temporary card to allow you to spend \$50 or \$100 on the day. That is how I would see it.⁹⁴

9.96 Associate Professor Paul Delfabbro noted a temporary card was an option raised by the Productivity Commission:

The commission does raise the possibility of having small cash cards, once-only use cards, which can be purchased for \$5 or \$10. So around the world there are those ticket-in type cards that you can buy—New South Wales has them—where you can just buy a \$5 card, use it once and that is it, where you make no undertaking to play more regularly to get bonus loyalty points from playing EGMs. The commission's suggestion of having a temporary card is not a bad one, but it is one of the issues that is proving challenging as part of the discussions which certainly the expert advisory committee is having.⁹⁵

9.97 Mr Robert Fitzgerald, Productivity Commission, explained the Commission's view:

In our recommendations we have been very clear that irregular players—players who play only occasionally—who have a very low spend would be able to go to a venue and receive a cash card or a card which has a limit of, say, \$20, a low-value card. All they have to do for that is produce some identification. There is no recording of any information. When that card is expended, that is the end of it. Most recreational gamblers will not even fall within the precommitment system, unless they so choose or they want to spend a larger sum of money.⁹⁶

9.98 The ACA nevertheless rejected any registration process for overseas tourists, even for a temporary card:

93 Dr Mark Zirnsak, Director Justice and International Mission Unit, Uniting Church in Victoria and Tasmania, *Proof Committee Hansard*, 2 February 2011, p. 26.

94 Mr Alan Moss, *Committee Hansard*, 1 February 2011, p. 31.

95 Associate Professor Paul Delfabbro, *Committee Hansard*, 1 February 2011, p. 69.

96 Mr Robert Fitzgerald, *Proof Committee Hansard*, 15 February 2011, p. 49.

Even the provision of a temporary card will require some registration process that would be unnecessarily bureaucratic and take away from the visitor's overall entertainment experience.⁹⁷

9.99 However, the committee heard evidence that the registration process for pre-commitment would not need to be onerous:

That is the balance we have indicated needs to be struck, and we do not believe it will be any more onerous than all those forms of ID that you have already identified—across other businesses when consumers rent a DVD, hire equipment or borrow a book from the public library. Opening a bank account or obtaining a credit card is probably going to require a higher level of ID. We would expect that less ID would be required by a venue than with most bank transactions.⁹⁸

9.100 Evidence from the trials on voluntary pre-commitment showed that expectations that pre-commitment processes would be onerous and difficult were not sustained:

...when we look at the trials, because the first reaction of all of the people in the trials is often that it is going to be very onerous, very difficult, very time consuming and very costly. When people look at the initial stage, there is a little bit of work and there is a little bit of effort required to recruit and put people on the system, but thereafter, in a very short period, people start to realise it is not so onerous at all; once it is in place, it is quite easy to operate and people generally think it is a little easier than they thought it was going to be.⁹⁹

9.101 A recent survey quoted by Ms Margie Law, Anglicare Tasmania, suggests that any impost pre-commitment would have on consumers could be overstated:

There was a survey in 2009 about the impact of precommitment schemes. The survey included setting an expenditure limit—and I know that there are comments that precommitment would be an impost on the ordinary gambler, the person who does not have a gambling problem—but this 2009 study by the Victorian Department of Justice in 2009 found that the majority of non-problem gamblers felt that there would be little change in their level of enjoyment, money spent, session length or the frequency with which they would gamble if there was an expenditure limit system in place or if they had to wait 24 hours before being able to change the limit. So I think that is one indication that people who do not have a problem with their gambling are not likely to find having a precommitment system too much of an impost.¹⁰⁰

97 Australasian Casino Association, *Submission 93*, p. 9.

98 Dr Mark Zirnsak, *Proof Committee Hansard*, 2 February 2011, p. 25.

99 Ms Sarah Hare, Schottler Consulting, *Proof Committee Hansard*, 3 February 2011, p. 18.

100 Ms Margie Law, *Proof Committee Hansard*, 18 February 2011, p. 3.

Committee view

9.102 The committee accepts there are differing views on how to treat foreign tourists.¹⁰¹ It notes suggestions that tourists be issued with a temporary low-value card, and proposals that low intensity machines be available, while also being cognisant of arguments that tourists not receive special treatment as registration for the mandatory scheme would not be onerous. Despite requesting it, disappointingly, the committee did not receive formal advice from the casino industry on how best to accommodate foreign tourists. In the absence of this input, the committee makes the following suggestions and recommendations.

9.103 The committee recognises that casinos are destination venues which offer a range of entertainment options. However, they remain a venue which is recognised by many as having a gambling focus whereas a club or hotel generally does not. In addition, the casino industry is regulated differently to clubs and hotels.¹⁰² It should also be noted that in its first report into gambling, the Productivity Commission concluded that:

...there is insufficient evidence to argue that casinos are a *particularly* serious source of problem gambling. In fact, with respect to gaming machines, the evidence points the other way: less problems appear to be attributable to casinos than to clubs and hotels. In large part this reflects their small numbers, their location and role as a destination venue for many, and the small proportion of total expenditure on gaming machines that they represent.¹⁰³

9.104 The committee also recognises that community concern over problem gambling appears focussed on the expansion of gambling into community venues after the rapid liberalisation and increased availability of EGMs in the 1990s.¹⁰⁴ The committee notes that providing low intensity machines is an option for larger as well as smaller venues.

9.105 Regarding foreign tourists in casinos, one option could be that upon reliably establishing their identity as a foreign tourist, the casino issue them with a special card which could override the mandatory pre-commitment scheme for 24 hours only. This 24 hour limit on use would assist to ensure that a black market for these cards does not develop.

101 The committee is confining its comments to foreign tourists at casinos for although the committee heard about other venues that have numbers of foreign tourists the committee believes that allowing these mainly large venues to be treated differently would have the perverse effect of encouraging them to be even more like casinos.

102 Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 2.34.

103 Productivity Commission, *Australia's Gambling Industries*, vol. 2, Commonwealth of Australia, Canberra, 1999, pp 14.30–14.31.

104 Productivity Commission, *Australia's Gambling Industries*, vol. 2, Commonwealth of Australia, Canberra, 1999, p. 14.3.

Recommendation 43

9.106 The committee recommends that, upon proof of identity, foreign tourists in casinos be issued with a card that overrides the mandatory pre-commitment scheme for a period of 24 hours. This should be monitored by the national regulatory authority for abuse.

9.107 The committee would like to emphasise that the arrangements for foreign tourists in casinos are the only divergence from the mandatory pre-commitment scheme the committee is recommending. In all other respects casinos will need to conform with the mandatory pre-commitment regime and timeline.

Contributions of the industry to the community

9.108 The committee recognises the benefits provided to the community which clubs have pointed to and include: donations to sporting teams, charities and community organisations; sporting and recreational facilities; promotion of volunteering and more intangible benefits, such as improved quality of life for the elderly, secure environments for community members to socialise, and greater social cohesion.¹⁰⁵ Regarding the quantum of community contribution Clubs Australia noted:

The annual social contribution of clubs, including the provision of activities, community donations and the maintenance of community facilities has been estimated at over \$1 billion. ClubsNSW pledged \$50,000 to launch its 2011 Queensland Flood appeal with more than \$600,000 raised in that state to date, and clubs in ACT have so far raised \$74,000. Clubs have previously displayed their generosity by raising \$3.4 million for the victims of the South East Asia Tsunami in late 2004, \$760,000 for the victims of Cyclone Larry in Far North Queensland in 2006 and \$1.8 million for the Victorian Bushfire Recovery in 2009.

Over 90 per cent of Australian clubs provide sports facilities to members, including 1621 bowling greens, 338 golf courses, 102 gyms and 325 sporting fields in New South Wales alone. In 2007, club expenditure on professional sport in New South Wales was more than \$28 million.¹⁰⁶

9.109 Mr Des Crowe, National Chief Executive, AHA, spoke about the contribution of hotels to the community:

In terms of support, each year Australian hotels give \$75 million to community and sporting organisations. Each year, Australian hotels provide support to 20,000 sporting teams and 32,000 community, health and education organisations. We also host 123,000 local sporting and community meetings in our hotels annually.¹⁰⁷

105 Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 6.5.

106 Clubs Australia, *Submission 47*, p. 5.

107 Mr Des Crowe, *Proof Committee Hansard*, 15 February 2011, p. 2.

9.110 The committee commends and supports the contribution made by the industry to the community. The industry expressed concern that the introduction of mandatory pre-commitment system would result in a reduction of these contributions to the community.¹⁰⁸ The ALH Group outlined the current level of community support and the effect on the future of contributions:

Given that, as I mentioned before, we are 75 per cent owned by Woolworths, we have two tiers to our corporate donations program but we manage that in conjunction with Woolworths. In 2010 Woolworths reported contributing \$36.3 million to community, which was verified by the London Benchmark Group. That equates to the equivalent of 1.15 per cent of pre-tax profits and compares to the LBG Australia and New Zealand corporate average of 0.63. Our individual component of that was a seven-figure amount...

Any variable costs are things that you look at when you experience a revenue downturn, so our level of community support would be significant in terms of reducing it.¹⁰⁹

9.111 The committee notes the contribution made to the community by smaller clubs which generally do not have the resources and income stream of larger clubs. For example Mr Colan Ryan, Secretary-Manager, Crescent Head Country Club outlined their contributions to community and compared it with profit:

Mr Ryan—That was after we supported the community with about \$16½ thousand. We supported the community with more money than what we actually made in profit.

Senator XENOPHON—Which is unusual given some of the big clubs that we have dealt with, who might make \$5 million or \$7 million—

Mr Ryan—We are not about profit making; we are about looking after our own little community.¹¹⁰

9.112 He added:

Obviously we are different to a hotel, in that any profit we make has to go back into the community. So we are very different to a hotel in that respect. No one individual makes a heck of a lot of money.¹¹¹

9.113 Mr Ryan detailed the support provided to the community:

The club supports the local community through development and maintenance of sporting facilities, sporting contributions, donations and sponsorship. For over 50 years Crescent Head Country Club has played an integral role in the sponsorship of many local juniors and sporting teams. Crescent Head's entire community also benefit greatly from the

108 Mr Peter Newell, *Committee Hansard*, 4 February 2011, p. 55.

109 Mr David Curry, *Committee Hansard*, 14 February 2011, p. 84.

110 Mr Colan Ryan, *Committee Hansard*, 14 February 2011, p. 92.

111 Mr Colan Ryan, *Committee Hansard*, 14 February 2011, p. 96.

development and maintenance of the local golf course, tennis courts and bowling greens. Without the club's support these vital assets would not exist. All of those vital assets run at a loss. The reason we are able to run them at a loss is that they are subsidised by the income the club derives through poker machines. The club also has the only library in Crescent Head. There is no government-run library in Crescent Head. The club has the only toilet and disabled toilet in the CBD of Crescent Head. The club operates a seniors kiosk so that seniors can access the internet. The club operates a Heart Moves program, which is a vital health aspect for seniors.¹¹²

9.114 The committee notes a report from the ACT government which found that in 2009–10 the highest earning 20 EGM venues contributed on average only 13 per cent of their net gaming machine revenue while the lowest earning 20 clubs contributed on average 44 per cent of earnings.¹¹³

9.115 While acknowledging the contribution made by clubs to the community, it must be recognised that questions have been raised over the amount and direction of that contribution, given the tax concessions provided to clubs. This was questioned by the Productivity Commission in finding 6.2 where it felt there are strong grounds for governments to significantly reduce gaming tax concessions:

The large tax concessions on gaming revenue enjoyed by clubs in some jurisdictions (notably New South Wales) cannot be justified on the basis of realised community benefits. There are strong grounds for these concessions to be significantly reduced, though this would require phased implementation to facilitate adjustment by clubs.¹¹⁴

9.116 In NSW clubs contribute to the local community through the Community Development and Support Expenditure (CDSE) Scheme.

The Scheme provides a gaming machine tax rebate of up to 1.5 per cent to clubs that make eligible community contributions in accordance with the Scheme's guidelines. In the year to August 2009-10 \$58.7 million was expended on CDSE projects.¹¹⁵

9.117 The South Australian Council of Social Service indicated that in South Australia under the *Gaming Machines Act 1992* part of the revenue raised from gaming taxes is put into several funds.¹¹⁶ The Act sets a fixed sum but the amount is not indexed so the real value of the contribution to these funds is declining every year.

112 Mr Colan Ryan, *Committee Hansard*, 14 February 2011, p. 87.

113 ACT Government, *Community Contributions made by Gaming Machine Licensees 1 July 2009 to 30 June 2010*, ACT Gambling and Racing Commission, 26 October 2010, p. 9.

114 Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 48.

115 NSW Government, *Submission 110*, p. 4.

116 The funds are the sport and recreation fund, charitable and social welfare fund, gamblers rehabilitation fund and the community development fund.

Over the past five years the real value of the contributions to the funds has declined by 22 per cent or \$20 million.¹¹⁷

9.118 The Productivity Commission outlined findings from the Independent Pricing and Regulatory Tribunal (IPART) review of community contributions from clubs, indicating that clubs with lower numbers of gaming machines tend to be more embedded in the community:

The cash contributions to the community tend to be quite low. IPART in New South Wales identified a \$91 million direct cash contribution from New South Wales clubs to the community. So there are some in-kind contributions but the amount of cash that actually flows from clubs to the community, in general, is quite modest. You find it is the clubs which have the lower levels of gaming that are more rooted in the community—in volunteering, community sports and so on.¹¹⁸

9.119 Mr Robert Fitzgerald, Productivity Commission, added:

...the quantum of the contributions I think needs to be looked at very carefully. Ralph Lattimore has indicated, for example, in New South Wales that, in 2002 and 2008, \$91 million was made by direct cash contributions. It is also worth noting that in New South Wales the tax concessions related to gambling were in excess of \$500 million, so the tax concessions of over \$500 million were provided to the clubs.¹¹⁹

9.120 Dr Charles Livingstone also pointed to work questioning whether the benefits outweigh the costs:

...but we refer frequently these days to this book by Betty Con Walker, a former Treasury official from New South Wales, which undertakes a very excellent analysis of the income patterns of New South Wales clubs and talks about the tax implications. The Productivity Commission picked up on this work and spent some time looking at the various tax concessions. For example, registered clubs in New South Wales do not pay income tax because they are mutual organisations; nonetheless, some of them are making \$100 million a year out of poker machine gambling. The benefits that they are provided by the taxpayer far outweigh the benefits they might provide to the community.¹²⁰

9.121 To offer a comparison, Mr Stephen Doyle, Chairman, St Vincent de Paul Society Queensland Social Justice Committee, mentioned the situation in Western Australia where gaming machines are only available at the casino:

117 See Greg Kelton, 'Share pokie profits', *Adelaide Advertiser*, 10 February 2011, p. 3; See also South Australian Council of Social Service, *Gambling Revenue in SA, The Community Funds under the Gaming Machines Act 1992*. Note: the figures are calculated from the March quarter 2010 but the fact sheet has not been updated.

118 Dr Ralph Lattimore, *Proof Committee Hansard*, 15 February 2011, p. 61.

119 Mr Robert Fitzgerald, *Proof Committee Hansard*, 15 February 2011, p. 62.

120 Dr Charles Livingstone, *Proof Committee Hansard*, 2 February 2011, p. 38.

Arguments will be put up by those lobbying for the licensed clubs and gaming machine industries that the gaming machine industry contributes substantially to community organisations, but this is only a very small percentage of the income they derive from gambling. For example, in states like Western Australia it is demonstrated that sporting clubs do not need to have that income in order to provide opportunities for participation, so some of the arguments that will be put up need to be looked at very closely. It is also argued that it will cause a loss of revenue and employment opportunities if these measures are brought in. Our position is that those employment and revenue opportunities will be created somewhere else, probably in more socially desirable areas such as housing and retail...¹²¹

9.122 WA clubs do not provide EGM gaming which has resulted in many being mostly small volunteer-run clubs. While noting that they are limited in the services and facilities they can provide Clubs WA advised that it represents 1,000 licensed clubs which have an average 600 members.¹²² WA clubs earn about 50 per cent of their income from bar and food sales. In contrast the main source of income for NSW is gaming machines at 63 percent.¹²³ Clubs WA argued that:

Clubs form an important part of the social fabric of the community. They provide a wide range of social entertainment, lifestyle and community focused services to their members and to the broader population. Clubs provide affordable facilities and services, and promote friendship, volunteering, self-esteem and a supportive social environment for people of all ages.¹²⁴

Cross subsidisation

9.123 Club Central Menai informed the committee that their brasserie and cafe are budgeted to run at a loss with the food being subsidised by revenue from EGMs. It detailed the range of services provided from EGM revenue:

The club offers a range of free services for local citizens and organisations. Some of these free services include function rooms free of charge, bingo, trivia nights, poker, entertainment and shows, courtesy bus and raffles. All of these services are enjoyed in a clean, safe and air-conditioned environment. Many participants in these activities are elderly, lonely or handicapped locals that have few other options available. These activities are made available directly from poker machine revenue.¹²⁵

9.124 City Diggers Wollongong has over 12,000 members and in the last financial year, gaming machine revenue contributed 75 per cent of total revenue. It advised that this revenue is:

121 Mr Stephen Doyle, *Committee Hansard*, 14 February 2011, p. 3.

122 Clubs WA, *Submission 3*, pp 4–7.

123 Clubs WA, *Submission 3*, p. 8.

124 Clubs WA, *Submission 3*, p. 4.

125 Illawarra Catholic Club Group, Club Central Menai, *Submission 8*, p. 2.

...vital to retain our members facilities and be able to provide product and services at subsidised cost levels, and continue our support for local community and charity organizations. Without gaming revenue, our Club could not have developed to our current situation over the last eighty years.¹²⁶

9.125 Mr Gary Banks, Productivity Commission, spoke about the findings in relation to cross subsidisation noting that with increasing commercialisation, the levels of cross-subsidisation are decreasing:

In relation to the casinos and clubs you would not expect much cross-subsidisation to occur. They are businesses and they want to make each part of their business effectively pay for itself, so I do not think it relates so much to them, although I should say there are a lot of hotels around the country that look a lot better as a result of gaming. They have had the money to actually refurbish the hotel...They can offer \$5 steaks as well, that is true, and you can have it in a more pleasant atmosphere than a tumbledown hotel, which might have been the case before, so there are some benefits there. For the clubs, equally, and probably more so 10 years ago, there was a degree of cross-subsidisation, special pensioner discounts, free Christmas lunches and lower cost food and beverages. My colleague might have some statistics on that. I am not sure that there is the same degree of cross-subsidisation in clubs, as they have become far more commercial than they were in the old days. To some extent, some of the big clubs more closely resemble casinos than the community clubs of the past. That is reflected in the way they have approached the gambling issue in this inquiry, and the one that we had, compared to the inquiry of 1999 when they had a much softer line that reflected their more community focus. We have looked at the actual spending of the clubs and this is where I might ask my colleague to comment. We thought it was very important to look at the nature of the cross-subsidisation and this community spending by the clubs and also to think about whether it is spending best done by the clubs or by the government that represents the people and therefore has some kind of control over priorities et cetera in its spending.¹²⁷

9.126 Dr Ralph Lattimore, Productivity Commission, added:

...I guess sometimes people think that the basic amenities available to a member of a club are significantly subsidised. People do think of the \$5 steaks or the cheaper alcohol but, in fact, alcohol is still a profit source for clubs. Clubs Australia actually provided some very useful evidence on that to us during the inquiry and you might like to look at it in submission 164. What they demonstrated was that there were relatively small cross-subsidies for food, facilities, venue rental and even sports playing. Gaming machines accounted for 68 per cent of their revenue and 32 per cent of their expenses—these are their figures—so it raises the question of where the money goes if it is not spent on things like food, the bar, other gaming,

126 City Diggers Wollongong, *Submission 12*, p. 1.

127 Mr Gary Banks, *Proof Committee Hansard*, 15 February 2011, pp 60–61.

sports and so on. The answer is: on a variety of other investments—for example, long-term rental accommodation, aged and child care facilities, promotional activities and so on—and sports clubs. Most of us will know that the NRL and the AFL are to some extent receiving funding from clubs.¹²⁸

The source of community donations is relevant

9.127 While acknowledging the contribution to the community, witnesses questioned whether this outweighs concerns about the source of the revenue. Mr Robert Fitzgerald, Productivity Commission, pointed out:

One could argue the benefits of community activity, but one has to go to the source of the income. If a significant percentage of a business is derived from people who are exhibiting substantial harm and if there is a substantial portion of their consumers that are at risk of harm, would we believe that that source of revenue, however spent, is appropriate? What has occurred in Australia is that a significant percentage of the expenditure through gambling comes from people at risk of or with problem gambling. That is the starting point. Whether or not those moneys are applied beneficially or otherwise—and in some cases it is clear that they are—is a second issue.¹²⁹

9.128 He added:

It is very clear that, if our measures were successful in reducing problem gambling, those venues that have higher reliance on problem gamblers will be most affected and those that have exhibited and claimed that they have responsible gambling practices and do not rely on problem gamblers for their revenue will be only marginally affected, because our measures are designed not to affect recreational gamblers. So, if a club, a venue or other person said to you that their expenditure would be dramatically reduced, it is more likely than not that they are heavily reliant on consumers who are problem gamblers or are at significant risk. I think we have to look at it in two ways: firstly, where is the revenue coming from and, secondly, how is it distributed?¹³⁰

9.129 Further, Mr Fitzgerald expressed the view:

...this issue about the way in which the money is expended is a different issue. Perhaps what we really need to say is: where is the source of the funds and is it an appropriate business model going forward? So a high percentage of the expenditure is coming from people exhibiting real harms. Of course there are consequential effects and flow-ons.¹³¹

128 Dr Ralph Lattimore, *Proof Committee Hansard*, 15 February 2011, p. 61.

129 Mr Robert Fitzgerald, *Proof Committee Hansard*, 15 February 2011, p. 62.

130 Mr Robert Fitzgerald, *Proof Committee Hansard*, 15 February 2011, p. 62.

131 Mr Robert Fitzgerald, *Proof Committee Hansard*, 15 February 2011, p. 62.

9.130 The Productivity Commission also raised a broader question of who is best placed to decide issues around funding for social infrastructure as there may be priorities outside the jurisdiction of a particular club which deserve the money more.¹³²

9.131 Dr Charles Livingstone supported this view that eliminating the revenue stream from problem and at risk gamblers will result in a sustainable income stream to support community activity:

It is hard to say that a community organisation that gets 80 per cent of its revenue from poker machine gambling is focused on its primary purpose, which is supposed to be some sort of social or sporting activity, and this is typical in New South Wales now. We know that, on average, clubs in New South Wales earn two-thirds of their revenue from poker machine gambling. Our argument would be that, if we can actually eliminate problem gambling from the system and come up with a safe, consumer-focused product which people can play enjoyably and safely, knowing that they are not going to risk losing their home because of it, that is obviously going to reduce the stream of revenue, but it can be reduced back to a reasonable level. It does not have to be an exorbitant or predatory level of profit. A modest stream of revenue which can support community activity at a local club level seems to us to be a reasonable outcome, but having vast clubs that are earning \$100 million a year, 80 per cent of which comes from poker machine gambling, strikes us as being exactly the wrong sort of model.¹³³

9.132 Dr Richard Woolley acknowledged that some clubs are trying to take steps in this direction:

It should also be noted, I think, that some of the clubs associations themselves have it as an article of the future development of their business to reduce their reliance on poker machine income. They have been very unsuccessful in that in most cases, but they acknowledge, if you really push the point, that this is not sustainable.¹³⁴

Conclusion

9.133 The committee considers that a well designed mandatory pre-commitment scheme will reduce revenue from problem and at risk gamblers but should have little effect on the revenue derived from low level or recreational gamblers. Industry claims often that it does not wish to receive a single dollar from problem gamblers. So those who believe they already have effective responsible gambling measures in place or have no problem gamblers at their venue, which were the majority of venues, should not be concerned. Only those with a higher reliance on problem gamblers will be affected.

132 Mr Gary Banks, *Proof Committee Hansard* 15 February 2011, pp 61–62.

133 Dr Charles Livingstone, *Proof Committee Hansard*, 2 February 2011, p. 39.

134 Dr Richard Woolley, *Proof Committee Hansard*, 2 February 2011, p. 39.

9.134 The committee expresses some concern that those arguing against mandatory pre-commitment, particularly those in the gaming industry, may not fully appreciate the devastating harms of EGM addiction. We hope the courageous personal stories provided to the committee and summarised in chapter two will go some way to enlightening these views. The committee would hope that the industry is mindful of not pursuing revenue streams that are shown to be harmful to vulnerable groups. Problem gambling currently inflicts a heavy burden on individuals, families and communities, but ultimately those who suffer most often suffer alone. The committee notes a comment from one of the witnesses in relation to the proportionality of harm:

Currently, this results in market failure because the EGM industry does not suffer any of the costs involved in the harm it causes unless taxes are levied on them, but even these are not in proportion to the cost involved. Therefore, they have no real incentive to deal with problem gambling in a serious way except to the extent that the threat of regulation forces them to do so...Precommitment, therefore, is a significant step to address the imbalance in law between the EGM industry and its customers.¹³⁵

9.135 In the case of the introduction of smoking restrictions on venues, the industry demonstrated it was able to adapt to a policy change that affected its revenues. Likewise it needs to recognise it has the capacity to address the implementation challenges associated with mandatory pre-commitment.

Mr Andrew Wilkie MP

Chair

135 Dr Mark Zirnsak, *Proof Committee Hansard*, 2 February 2011, p. 15.