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Inquiry into the Management of Electronic Gaming Machine Numbers

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Editor's Note

Welcome to the ninth issue of *Economic Issues*, a series published by the South Australian Centre for Economic Studies as part of its Corporate Membership Program. The scope of *Economic Issues* is intended to be broad, limited only to topical, applied economic issues of relevance to South Australia and Australia. Within this scope, the intention is to focus on key economic issues — public policy issues, economic trends, economic events — and present an authoritative, expert analysis which contributes to both public understanding and public debate. Papers will be published on a continuing basis, as topics present themselves and as resources allow.

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April 2004

Inquiry into the Management of Machine Numbers

Overview

In June 2002 the SA Minister for Gambling made a direction requiring the Independent Gambling Authority (IGA) to conduct an enquiry into the management of gaming machine numbers. In December 2003 the IGA provided a report to the Minister for Gambling¹ for the Minister's and the Government's consideration.

Based on extensive public consultation, written and verbal submissions and research (cited by the inquiry and commissioned for the study) the report accepted submissions that the greater majority of problem gambling relates to electronic gaming machines (EGMs). The IGA concluded that "there is a causal relationship between the accessibility of gaming machines and problem gambling and other consequential harm in the community".² The report advised that both the total number of machines and the number of venues where EGMs are available should be reduced overtime.

The report recommended that the existing freeze on the number of gaming machines be replaced by a State-wide cap. Reading from the Executive Summary released in December 2003 the recommendations include:

- 3,000 machines be removed from the present 15,000 to achieve a State-wide cap of 12,000 machines;
- provision for further reductions if the prevalence of problem gambling does not reduce;
- existing venues currently with 28 to 40 machines would reduce by eight while venues licensed for 21 to 27 machines would reduce to 20 machines; and
- a requirement that the venue's gaming licence be renewed every five years.

The IGA noted that "there is a special need to address the disproportionate number of gaming machines and venues which are to be found in our Provincial Cities. The submission of the Provincial Cities Association has persuaded the Authority of the very real need in this case".

The Centre prepared a submission to the Inquiry at the request of the Provincial Cities Association of South Australia which was based on earlier work for the Association.³ In August 2003 the Centre prepared a supplementary submission to the Inquiry to review other written submissions, but principally, to canvass options for the management of EGMs, potential harm minimisation measures and to put forward the case for a reduction in machine numbers in non-metropolitan South Australia to ensure greater equality in the spatial allocation of machines.

This paper summarises the proposal prepared by the Centre for Economic Studies and put forward by the Provincial Cities Association, that was based on the following;

- an equalised per capita formula to distribute (and redistribute) machines;
- a reduction in machine numbers to 10 machines per 1,000 adult persons;
- a process of adjustment to machine numbers to address changed circumstances;
- a period of phased withdrawal;
- the abolition of the “needs test”; and
- the application of a community benefit levy to any situation or geographical basis where the baseline of 10 machines per 1,000 persons is exceeded.

A variation on the Association’s proposal was also considered, where the principles and objectives remained unchanged (i.e., regions would still have an upper limit on machine numbers based on their share of population), but that an “allocation pool” and a “contestable pool” are used together to distribute machine numbers. The contestable pool would be auctioned.

1. Introduction

The Association commends the South Australian Government and the Authority for initiating this Inquiry. The Association recognises this is a very complex issue and that, a serious attempt is being made to introduce greater rigour into the management of machine numbers.

We understand that the industry consistently states that it does not want problem gamblers in venues; that it desires a sustainable industry; we understand that the “concerned sector” is not opposed to controlled, regulated, recreational gambling (all gambling and wagering is regulated); and that government does desire to have a fair, equitable and progressive tax system.

Following presentation to the Independent Gambling Authority (IGA) of the submission forwarded by the Provincial Cities Association of South Australia,⁴ and an invitation by the IGA to submit further material in response to matters raised,⁵ the Association is pleased to provide this supplementary submission.

This submission is set out under the following four headings:

2. Comment and review of submissions;
3. Options for the Management of EGMs including a discussion of the history of management of machine numbers;
4. Harm Minimisation with particular regard to
 - ToR (1.1): “... reasonably practicable options for management of machine numbers ... [and] attention to strategies to minimise gambling related harm”;
5. Options for the Management of Machine Numbers, ToR (1.3)(b); ToR (2.3)(c); and ToR (2.4)
 - ToR (1.3)(b): “measures which would allow for the management of gaming machine turnover on both regional and state-wide bases, through the allocation of gambling machines”;
 - ToR (2.3)(c): “... options for reducing the number of machines or redistributing them (or both); and
 - ToR (2.4): “The Authority must consider what would be an appropriate number of gaming machines for South Australia at particular future points in time, noting (among other things):
 - a) distribution geographically.

2. Comment and Review of Submissions

The Association has reviewed all written submissions, in particular, those that had some relevance to the situation in regional South Australia.⁶

We contend that, contrary to the views expressed in a number of submissions, the IGA was correct to focus on the issue of minimising the harms caused by electronic gaming machines. We believe that several submissions are based on a misreading of the Act. The area in contention is Section 11 (2a) of the Independent Gaming Authority Act, which reads:

- (2a) In performing its functions and exercising its powers under this Act or a prescribed Act, the Authority must have regard to the following *objects*:
- a) the fostering of responsibility in gambling and, in particular, the minimising of harm caused by gambling, recognising the positive and negative impacts of gambling on communities; and
 - b) the maintenance of a sustainable and **responsible** gambling industry in this State [our emphasis].

... responsibility in gaming,
while emphasising harm
minimisation ...

The contention of several submissions was that the second object identified (b) means, that the IGA is required to give equal weight to problem gamblers and the financial viability of the industry. Given that **object (a)** relates exclusively to harm minimisation, and **object (b)** refers to both industry sustainability and harm minimisation, the emphasis of the act is on harm minimisation.

It is important to restate that the Inquiry relates to the industry (its structure, regulation, management of machine numbers) in **South Australia**. A number of submissions to the Inquiry have endeavoured to build arguments based on the experience of other jurisdictions which bear little resemblance to the situation in South Australia. Lessons and insights can certainly be drawn from the experience of other jurisdictions; however, great care needs to be exercised in drawing conclusions and then framing an argument that purports to be relevant to the situation in South Australia.

Two examples should suffice. The AGMMA: Section 5.7 use largely USA Casino data to compare to the Australian and South Australian industry including the rate of change of problem gambling, when clearly the nature of accessibility to gaming machines is very different. A single casino site is quite different to a multi-location, spatially diverse, industry in hotels and clubs as is the case in South Australia. The nature of *accessibility* is very different. Indeed the argument put forward by the AGMMA could be interpreted to support the case, that limiting EGMs to only the casino would have a positive impact on reducing the number of problem gamblers through *limiting accessibility* by locating EGMs in

one site. This in fact was not what the AGMMA sought to argue, but it is the logical conclusion based on the data they presented.

... location of machines and intensity of play ...

Second, the Victorian EGM industry, including the duopoly and relatively flexible locational choice available to the two principal agents, is again very different to the structure of the industry in South Australia, and indeed New South Wales and Queensland⁷. This is a major reason for the lower per capita number of EGMs and the greater intensity of play. The greater intensity of play is most likely due to the ability to locate the maximum number of machines in areas where it is known that the intensity of play will be greatest. It is “known” because of the information available to the duopoly operators. This is a situation (outcome) South Australia should seek to avoid.

The point to be made, is that greater care needs to be taken in simply “transporting experiences” across jurisdictions.

There were also numerous examples of faulty calculations and unsubstantiated assertions. For example, the claim is advanced that “the number of gaming machines in any state bear little if any relationship to the extent of the problem gambling problem ...” (AGMMA, p. 5). We respectfully suggest a comparison with Western Australian data with other State data and a review of the research conducted specifically on this issue (Productivity Commission: 1999) shows a very significant relationship.

Specifically, relating to regional South Australia, the claim is advanced regarding inadequate gaming facilities in regional South Australia. This is not the case in the Provincial Cities (e.g., Port Augusta 30.1 per 1,000 adults), nor in selected “tourism areas” such as Victor Harbor (13.4 per 1,000 adult persons) or the Alexandrina Council, (20.4 per 1,000 adult persons) as our submission highlights.

The Association notes that SA Treasury consider it “more acceptable if it proposed that there be a minimum share of gaming machines in non-metropolitan areas”. The OLG (submission 15) acknowledges the possibility that the lowest performing machines would be those machines most likely to be relocated (traded) to more attractive and profitable localities and venues.

... job creation is not an economic benefit from increased gaming ...

Selective arguments are advanced relating to the economic impact of the hotel industry; this is a spurious argument as most of the gambling expenditure has occurred at the expense of expenditure on other products, switching of expenditure from other forms of gambling, transfers from non-gambling expenditure (i.e., shifts in consumption patterns) a small amount from reduced households savings and from tourism. In fact, it is expenditure by tourists, and at least in the short run, through reduced savings that provides a net positive impact on jobs. The principal economic benefit of gaming machines is increased recreational choices, **not job creation.**

Thus, the net economic impact of the industry (i.e., hotel industry) is not simply the sum of wages paid, jobs generated or revenue generated. In regard to the impact of EGMs a proper social cost/social benefit, economic cost/benefit analysis needs to be conducted.

The hotel industry is an important industry paying wages of some \$450 million while employing some 23,500 employees. Interestingly, and perhaps it is a sobering comparison, the number of employees equates almost exactly to the Productivity Commission and the SERCIS estimates of 22,500-23,000 problem gamblers in South Australia (with severe or moderate gambling problems). Obviously, not all these can be related to EGM use, but the point here is that the costs of gambling need to be deducted (“negatives”) and the benefits (e.g., recreational use) need to be included.

... a freeze on the number of EGMs is not the same as a binding cap ...

Finally, several submissions assert that there is no evidence that the cap has assisted problem gamblers to any significant extent in South Australia. If there is a relationship between a cap and harm minimisation it has not been tested by the freeze on machine numbers, as the “freeze only becomes a binding cap” when all applications forwarded to the OLGIC have been processed. That is to say, when the last application is processed then from that date, there is an effective ceiling or cap. Second, and more notably, by way of omission, the manufacturers representatives refer only to “problem gamblers are more likely to be assisted by quality treatment and counselling⁸ (i.e., after the event). It is in our view, most unfortunate that the AGMMA do not refer to possible gaming machine features that could contribute to a reduction in problem gambling in the first instance. This is a glaring omission, especially as the machine manufacturers basic position is to do away with the freeze and any cap.

It is also unfortunate that the machine manufacturers chose to focus the discussion of harm minimisation to treatment alone, rather than on factors that that will reduce the risk of problem gambling behaviour developing, and of reducing the extent of harms caused whilst gambling. This ignores both the harms caused between when a person’s gambling becomes problematic and when they seek treatment, and the difficulties faced in many cases of bringing gambling under control even when receiving treatment. Unfortunately data on the experience of clients of Break Even Counsellors in South Australia is not available, however data of this type is available for Victoria. Data on those problem gamblers receiving counselling in Victoria in 1999-2000 from Gamblers Help counsellors includes some significant indicators of the extent of economic and social/psychological harms that can occur before gambling is brought under control. In terms of economic harms, those receiving counselling for problem gambling:

... economic and social harms resulting from high levels of expenditure, debt, ...

- had a median expenditure of \$860 per month (for EGM problem gamblers);
- had median gambling related debts of \$2,000, and mean debts of \$11,763 (for EGM problem gamblers);
- 53.7 per cent spent savings on gambling;
- 35.7 per cent borrowed from friends or family; and
- 12.1 per cent committed illegal activities to fund their gambling.

In terms of social/psychological harms, information is also collected on maladaptive behaviours of EGM problem gamblers receiving treatment:

- 78.7 per cent reported unsuccessful attempts to control gambling;
- 81.7 per cent reported that they ‘chased losses’;
- 16.8 per cent reported that they had committed illegal acts related to gambling; and
- 51.4 per cent indicated that they had jeopardised relationships, employment and/or education⁹.

In the recent report on the Evaluation of Self-Exclusion Programs in Victoria, SACES referenced studies wherein it was reported, that for Gamblers Anonymous “total abstinence after two years was found to be about 7 per cent, comparable to the total rates in the alcohol field” (p26). That report also referenced studies providing evidence of gamblers debts. International evidence indicated that 71 per cent of clients signing up for self-exclusion programs reported having gambling debts. (p29)

... no evidence regarding ex-post effectiveness of treatment ...

Thus, there is no evidence to support the view of the industry that “problem gamblers are more likely to be assisted by quality treatment and counselling”, effectively after the damage has been done. This is akin to saying that government should reduce the policing of drink driving and excessive speed on the roads and invest more heavily in casualty wards in public hospitals.

3. Options for the Management of EGMs

In this discussion we briefly consider the three options as outlined by the Authority in the Information Sheet (12 August, 2002). The Authority at that time considered that submissions should focus upon:

... three options under consideration ...

- status quo option: continuation of the freeze;
- default option: present freeze provisions lapse and return to “need” based application system; and
- managed number option: a set of principles for the allocation or transfer of gaming machines is enacted.

The Association's initial submission outlined a number of salient points relevant to the 'status quo option' and the 'default option', including *inter alia*, the following:

... current freeze is ineffective and lacks policy credibility ...

- that the current freeze, including the announcement effect of each freeze, is unsustainable and lacks policy credibility (Section 4.1)¹⁰;
- the argument that the present freeze is ineffective is obvious, due to the actual significant increase in the number of EGMs. The debate concerning the freeze (especially given the manner in which it has been introduced in South Australia) is irrelevant to the argument over a cap of some form;
- the implementation of the current freeze midway through 2000-01 led to a rush of applications which facilitated the largest year on year rise in gaming machine expenditure since 1995-96. In the Provincial Cities both the number of gaming machines and total net gaming expenditure rose by 11.2 per cent respectively in 2000-01;
- the freeze on gaming licences has had little impact on the growth in net gaming expenditure so far; it is too early to determine whether it will ultimately have an impact ... [in part] because of the "announcement effect" which ensures there is never a binding ceiling or cap;
- the default option could potentially give rise, for example, to 740 machines in Port Augusta. Certainly if all hotels currently below the maximum of 40 EGMs increased to the maximum, this would see Port Augusta increase from 317 machines currently, to 455 machines (45 machines per 1,000 adults);
- the default option leaves South Australia with the historical legacy which has determined (at the very least, significantly influenced) the spatial distribution of gaming machines, such that there is no practical mechanism to determine the relative balance between metropolitan and non-metropolitan areas, the optimal number of EGMs, and so some areas have a ratio of 31 machines per 1,000 persons (Port Augusta), Alexandrina 20 per 1,000 and metropolitan Adelaide 12.2 with no real justification for this.

The managed number option, which incorporates a set of principles for the allocation of gaming machines, appears to be the only reasonable policy choice. The question remains as to "the actual number" and managing the process to arrive at that number.

3.1 Views on the Managed Number Option

The Authority was presented with a range of views on managing the number of machines and the number of venues. We note in passing, that some submissions have adopted the view that because a hotel or club holds a liquor licence, that it is then automatically entitled to access electronic gaming machines (up to the maximum of 40) and that a freeze

or a cap is somehow an infringement of this right. This is not a view that the Association accepts, while it shows the danger of reverting to the default option.

Suggestions contained in other submissions included the abolition of the cap (although there is, as yet, no binding cap) while allowing the transferability of machines between sites and open market trading (AHA: SA); abolition of the cap or failing this, increasing the cap by a modest 0.6 per cent, exempting all venues in regional South Australia and introducing an exemption for venues with less than 10 machines (AGMMA).

The AGMMA's second option of converting the freeze to a cap and increasing it by 0.6 per cent per year (including backdated increases from the date the freeze was legislated) is based on the idea that the increase is needed to allow for growth of population since the introduction of the freeze. What their analysis ignores is the significant increase in machine numbers that has occurred under the freeze. In the year to June 2002 with the freeze in place, the number of electronic gaming machines increased from 14,096 to 14,647, an increase of 551 machines installed or 3.9 per cent.¹¹ In the corresponding period South Australia's population grew by 0.7 per cent. Under our proposal the number of machines would have grown by 8 machines compared to the actual increase of 551. Even under the AGMMA's proposal, of allowing a 0.6 per cent increase to reflect growth in population, the number of machines would have increased by approximately 85. This would seem to suggest that if the freeze were converted to a cap, no increase would be required at the state level on the basis of population changes for some time.

Clubs SA maintain that there is a distinction between clubs and hotels and stress the need to adopt a community benefit approach to increase the access of clubs to EGMs and to constrain that of hotels.

*... implementing
metropolitan and non-
metropolitan caps ...*

Treasury consider it would be "more acceptable if it is proposed that there be a minimum share of gaming machines in the non-metropolitan areas as it would prevent the significant drift of machines to the metropolitan area, where bid process would be higher through a transferability system" (p. 4).

The Adelaide Central Mission concludes that EGMs be limited to the Casino and Licensed Clubs (those currently in possession of a licence) so that there would be 81 venues across the State with a cap of 3,301 machines. The Churches Gambling Taskforce's (GTF) preferred position is to restrict EGMs to the Casino; second and third best options involved a reduction in the number of machines and venues; the GTF proposed four venue allocation methods (8.5.1-8.5.4) including measures to increase the returns to players.

While the earlier submission supplied by the Association did not contain any recommendations, it pointed to the higher number of machines per capita in certain regions and non-metropolitan centres relative to the metropolitan area. The thrust of the argument could be understood to infer that there needed to be some re-balancing on a geographical basis; some way of managing or limiting the high concentrations of machines.

3.2 History of the Management of Machine Numbers

The management of machine numbers has a relatively chequered history, where it could be argued that insufficient attention was given to certain aspects of the legislation, the method of introduction, the likely consequences from the manner of introduction and not enough consideration given to the potential negative impacts. To some extent this has given voice to an “us and them” mentality, attempts to rein-in the industry, concern about the regressivity of EGMs; concern that consumer protection is still relatively weak, while insufficient attention is given to early intervention strategies.

A review of the history of the management of machine numbers and the establishment of the industry is particularly instructive. In 1991 a discussion paper¹² on “how” to introduce machines was released, wherein it was noted:

*... significant
underestimation of
expenditure on EGMs ...*

- “the Hotel and Hospitality Industry Association (HHIA) proposed a maximum of 30 machines for any eligible establishment. [It was stated] This may be a somewhat ambitious proposal for hotels” (p. 26);
- an anticipated figure of \$230 per capita [was] derived for expenditure on gaming machines in licensed premises, of which \$62 reflected a transfer from lotteries and the casino and \$168 comes from other sources;
- “it was estimated the equivalent of \$5 per capita or \$5 million would be lost by charities and community groups for which compensation might need to be provided” (p. 39). Recall this estimate is based on \$230 per capita expenditure per annum, whereas by 2000-01 for South Australia the figure was \$472 per capita and \$590 per capita for the Provincial Cities overall;
- “it is assumed that sporting clubs and the like will not need to be compensated because they will be the direct beneficiaries of the introduction of gaming machines”; and
- “Although experience in New South Wales and the Australian Capital Territory suggests that the potential exists for up to \$244 million in revenue to be raised from the introduction of gaming machines in licensed premises, this is very much an upper limit” (p. 45).

Ten years on, from 1991 to 2001/02, based on the estimates above this would equate to \$2.4 billion net gaming revenue (NGR), when in fact the real figure is \$3.8 billion over ten years; \$606 million in 2001/02 and \$670 million in 2002/03.

... easily exceed the estimated \$230 per capita loss figure ...

The “somewhat ambitious proposal” of a maximum of 30 machines per hotel was relatively easily accommodated with 270 venues out of 609 (44 per cent) possessing a licence for more than 30 machines. The \$230 per capita NGR is now \$570 per capita, the estimated dividend to venue owners of \$55 million was \$283 million in 2001/02; the estimated loss to charities would be in the order of \$80-\$120 million over the 10 years.

Did the South Australian Parliament intend to achieve these outcomes in approving the relevant legislation? We think not.

Did it intend to return a dividend to venue owners (after tax) of \$283 million in 2001/02 alone,¹³ while being required to compensate charities, and having to assist sporting clubs and community clubs for the loss of revenue? It certainly did expect to have to assist problem gamblers, because it acknowledged that some individuals will experience gambling problems due to the introduction of EGMs.

The hotel industry lobbied strongly for the introduction of EGMs, in part citing the impact on the viability of hotels of tougher drink driving legislation that was introduced in the early 1990s. A frank and honest appraisal would acknowledge this as a fact; EGMs were a partial offset for tougher drink driver legislation. Other elements of the debate included the need to compete with Victoria following the introduction of EGMs in that State, the potential impact of the Crown Casino, the tourism argument and the desire to minimise the “gambling dollar leaving the State”. With the benefit of hindsight, it might also be reasonable to argue that the relative balance between clubs and hotels was not sufficiently thought through.

... under estimation of the impacts of gambling ...

Notwithstanding, it is reasonably clear that the South Australian Parliament seriously underestimated the:

- taxation revenue flowing to Treasury;
- income streams flowing to licensed premises;
- per capita gaming expenditure;
- loss to charities through established fund raising methods;
- the potential for concentration of ownership within the hotel industry and the unintended consequences for clubs, including future trends; and it follows,
- the number of problem gamblers, the potential family impacts and other consequences were also seriously underestimated.

It is not possible to have a serious, thoughtful and honest debate about the management of machine numbers without acknowledging the fact that public policy was wide of the mark. Put simply, while it “got a lot right”, including the purchase, supply and electronic surveillance of machines, it could be argued to also have got “a lot wrong”.

4. Harm Minimisation with regard to ToR (1.1)

“... reasonably practicable options for management of machine numbers ... [and] attention to strategies to minimise gambling related harm”.

... prevalence of problem gamblers and effect on indigenous communities ...

Several elected members of the Provincial Cities Association have stressed the primacy of the harm minimisation element of ToR (1.1). They consider that the harm outweighs the benefit of the EGM gaming industry and have put forward a strong moral objection to the industry in its current form. Essentially, this view can be summarised that harm to the individual, families and local communities outweighs any benefit from gaming machines. Elected members are concerned about the prevalence of problem gamblers, effects on indigenous communities (both within the Provincial Cities and in localities such as Ceduna), the high concentration of machines in certain localities and the wide range of social impacts witnessed by Council members. Elected members note the South Australian Centre for Economic Studies research that showed unambiguously negative impacts, in the range of -\$0.6 million to -\$43.6 million, across the Provincial Cities.

There is a strong view that electronic gaming machines should be phased out entirely. The manner in which this should be accomplished is to provide a write-down period (say 4 years) with provision to buy back the machines at the end of this period. There is a view that licence holders would not have to be fully compensated, if at all. The view of some elected members is not based on the technical “how to” of removing machines but removing them per se. “Reasonably practicable options” could involve a phased reduction over time in a manner that provides some certainty to venue owners. The end point is total removal.

... high concentration in some localities and greater loss of tax revenue ...

There is another view that concludes there is far too high a concentration of EGMs in certain localities and that this needs to be addressed, principally through the phased withdrawal of machines, down to an acceptable level. This is considered further in Section 5. A number of elected members recognise the recreational and social benefits of EGMs, while stating their concerns regarding problem gambling, the greater loss of tax revenue from the individual cities due to the concentration of machines and the need to improve gambler’s help services. Essentially, this view asserts that, to minimise gambling related harm, the number of machines needs to be substantially reduced.

4.1 Potential Harm Minimisation Measures

Despite the contention of the industry, there is evidence both that expenditure and the numbers of problem gamblers vary from region to region (see for example the SACES report “The Impact of Gaming Machines on Small Regional Economies”¹⁴). For example, based on an analysis of 1998-99 expenditure and demographic data, the Centre estimated that the prevalence rate for problem gambling in Berri-Barmera was 4.68 per cent, compared to a state average of 2.04 per cent. The regional expenditure data makes it highly unlikely that national prevalence rates apply in each council region.

In the case of Berri-Barmera, applying national prevalence rates for problem gambling would imply that either:

- the average problem gambler would have to have spent \$22,000 per annum (more than twice the national average of \$10,650) if non-problem gamblers expenditure was average; or
- the average non-problem gambler, some of whom only gamble once a year, would have spent \$1,240 per annum (when the national average is \$710) if problem gambler’s spending was average.

Again, we believe that neither explanation nor some intermediate point where both problem gambler and non-problem gambler expenditures are well above the national average seems credible given that the average after tax income for the Council area was \$13,720¹⁵, well below the national average of \$21,679.

*... optimal social outcomes
require other harm
minimisation measures ...*

Assuming that access to electronic gaming machines is to be retained, it should also be noted that restrictions on accessibility are only one type of harm minimisation measure. It is likely that optimal social outcomes will require the use of a range of harm minimisation measures. Potential harm minimisation measures for electronic gaming machine gambling that could be used in addition to restrictions on accessibility include:

- bans on allowing intoxicated persons to gamble, as this has been shown to lead to irrational gambling behaviour, even in non-problem gamblers;¹⁶
- maximum betting limits;
- restrictions on machine ‘spin’ speed;
- smoking bans, or other restrictions (such as bans on eating or drinking at machines) which cause patrons to take breaks from their machines, potentially leading to a return of ‘normal’ cognitive processes outside of the stimulating environment of the gaming room;
- restrictions on the number of “rows” that can be played at any one time;
- restrictions on maximum credit values;

- restrictions on the accessibility of cash near venues (e.g. bans or withdrawal limits on machines near gaming rooms); and
- restrictions on how winnings can be paid to gamblers.

5. Options for the Management of Machine Numbers, ToR (1.3)(b); ToR (2.3)(c); and ToR (2.4)

ToR (1.3)(b): “measures which would allow for the management of gaming machine turnover on both regional and state-wide bases, through the allocation of gambling machines”;

ToR (2.3)(c): “... options for reducing the number of machines or redistributing them (or both); and

ToR (2.4): “The Authority must consider what would be an appropriate number of gaming machines for South Australia at particular future points in time, noting (among other things):

a) distribution geographically.

The three Terms of Reference above refer to management of gaming machine turnover (on a regional and statewide basis), options for reducing or redistributing (i.e., potentially increasing the number in some localities) and a method of allocating machine numbers in the future.

Taken together, the Terms of Reference imply some rational, ordered, method or system to distribute or adjust (upwards or downwards) gaming machine numbers. This is to be considered against the current system that has existed since 1991.

The context for the proposal is as follows, specifically that there is:

... current mal-distribution of EGMs ...

- a gross maldistribution of electronic gaming machines across the state, including between metropolitan and non-metropolitan areas;
- legitimate community concern regarding the existing platform to allocate electronic gaming machines, including that “need” does not equate to community need, nor is it conditional on community need;
- a substantial argument (presented in Section 2, in earlier documents and by others) that the existing freeze is unsustainable and lacks policy credibility; and
- a history and we have provided a synopsis of that history (Section 2.2) that provides a clear illustration of the application of public policy which has been shown to have seriously underestimated the impact of electronic gaming machines.

... need to implement a new management framework ...

Overall, the Association concludes that there needs to be a significantly improved management framework in relation to electronic gaming machines, for all parties including government, industry, the 'concerned sector' and the South Australian community.

Our proposal is based on the following:

- **Compromise:** it recognises the serious competing interests of government, the industry, the 'concerned sector' and the wider community;
- **Benchmarking:** it sets a benchmark for the management of machine numbers and a basis for future management and decision making, thereby providing greater transparency and certainty across all sectors;
- **Pragmatism:** there is legitimate concern regarding the very high concentration of electronic gaming machines in several areas and vulnerable communities across the state, while the high concentration of machines is related to the incidence of problem gambling;
- **Current Inequity:** we acknowledge the inequity of the current system, including that it reinforces the privileged position of a few relative to the wider community; and
- **Need For Equity:** that there should be relatively equal provision of recreational facilities and options across the state.

Our proposal establishes:

- a framework for government, an on-going management system and a method to respond to change;
- a system of distribution (and redistribution) at a constant level that acknowledges community concern;
- greater certainty across the industry, with the flexibility to respond to changed circumstances;
- a phased program of reductions including redistribution; and
- the use of a Community Benefit Levy in special circumstances based on a true community benefit test.

*... a new framework,
greater certainty for
industry ...*

The **specific elements of the our proposal** include that:

- there should be set number of electronic gaming machines per 1,000 adult persons across the entire state (a machine to adult person ratio);
- the current geographical distribution of machines should be redistributed and phased down to achieve the set ratio over a two year period;
- any adjustment to changed circumstances would take place one year after the release of the next ABS Population and Housing Census (i.e. 2007);

- the government should seek the voluntary co-operation of the industry in the redistribution and phase-down period (and beyond), but that government should indicate its intention to reduce the aggregate number of machines in South Australia;
- the ‘needs’ test should be abolished, the freeze should be discontinued, but an effective and binding cap based on the number of adult persons would follow from setting the permissible, upper ratio of electronic gaming machines per 1,000 adult persons; and
- in all circumstances where the machine per capita ratio is exceeded the revenue from additional machines to be tied (i.e. conditional) on meeting that need. Examples are provided later in this paper.

5.1 Equalised Per Capita Formula

The Association has provided information to the IGA, that demonstrates the significant variation in gaming machine numbers per 1,000 adults across the Provincial Cities, Victor Harbor, Alexandrina Council and for the State.

... metro 12.6 machines per 1,000 adults, the Cities 19.9

...

Table 5.1 shows the latest data for 2001-02, based on the June 2001 Census population data. The South Australian average is 12.6 machines (per 1,000 adults), the metropolitan average is 10.8, the Provincial Cities 19.9, ranging across the Cities and Riverland Towns from 30.1 in Port Augusta to 12.6 in Murray Bridge.

**Table 5.1
Gaming Venues and Machines, 2001-02**

| | Venues at 30 June 2002 | Machines at 30 June 2002 | Adult Population* | Adults per Venue | Machines per 1,000 adults |
|--------------------------------|---------------------------|-----------------------------|----------------------|---------------------|------------------------------|
| Victor Harbor (DC) | 4 | 122 | 9,136 | 2,284 | 13.4 |
| Alexandrina (DC) | 13 | 287 | 14,045 | 1,080 | 20.4 |
| Provincial Cities | 73 | 2,079 | 104,541 | 1,432 | 19.9 |
| Metropolitan | 303 | 9,311 | 858,629 | 2,834 | 10.8 |
| Non-metropolitan | 289 | 5336 | 300,924 | 1,041 | 17.7 |
| South Australia | 592 | 14,647 | 1,159,553 | 1,959 | 12.6 |
| Non-metro | | | | | |
| Mount Gambier | 13 | 434 | 17,357 | 1,335 | 25.0 |
| Murray Bridge | 6 | 160 | 12,665 | 2,111 | 12.6 |
| Port Augusta | 12 | 305 | 10,117 | 843 | 30.1 |
| Port Pirie | 7 | 247 | 13,132 | 1,876 | 18.8 |
| Whyalla | 7 | 216 | 16,241 | 2,320 | 13.3 |
| Port Lincoln | 7 | 225 | 10,095 | 1,442 | 22.3 |
| Riverland | 21 | 492 | 24,933 | 1,187 | 19.7 |
| Total Provincial Cities | 73 | 2079 | 104,541 | 1,432 | 19.9 |
| Berri Barmera | 7 | 184 | 8,498 | 1,214 | 21.7 |
| Renmark Paringa | 7 | 160 | 7,309 | 1,044 | 21.9 |
| Loxton Waikerie | 7 | 148 | 9,127 | 1,304 | 16.2 |

Note: * Adult population at 30 June 2001.

Source: Office of the Liquor and Gambling Commissioner and ABS, AusStats, Data Cubs, Population Trends and Estimates.

... spatial inequality of the current system ...

Table 5.2 shows the population for the Provincial Cities, non-metropolitan and metropolitan South Australia, the current allocation of gaming machines (in column 2) and the share of total population (in column 3). The last column shows the share of machines relative to the share of population. It is difficult to see how this in any way can be justified on a ‘needs’ basis. Table 5.2 illustrates the spatial inequality of the current system and indicates the magnitude of the adjustment that needs to be made, if an equalised per capita number of machines were to be allocated across the State. These initial calculations are based on no reduction in the total number of existing machines.

Table 5.2
Population by Region, Machine Numbers and Shares

| | Population | Machine Numbers | Share of Population | Share of Machines |
|-------------------|------------|-----------------|---------------------|-------------------|
| Provincial Cities | 104,541 | 2,079 | 9.0 | 14.1 |
| Non-Metropolitan | 300,924 | 5,386 | 26.0 | 36.6 |
| Metropolitan | 858,629 | 9,311 | 74.0 | 63.4 |

Note: * Adult population at 30 June 2001.

For the purposes of the argument, using the situation in Victoria where 20 per cent of the machines are in regional, non-metropolitan Victoria, if South Australia followed a 26/74 per cent per capita formula (based on our current population shares), then non-metropolitan South Australia (with the existing state total of 14,697 machines) should expect to have 3,821 machines (26 per cent of 14,697) and metropolitan areas 10,876 (74 per cent of 14,697). This implies that on current machine and population numbers some 1,565 machines should be removed from non-metropolitan South Australia and allocated to the metropolitan area.

For the Provincial Cities taken as a whole, with 9 per cent of the population, this implies a loss (removal) of 756 machines, down from 2,079 to 1,323.

This result would equalise the ratio of persons to machines (i.e., State : 14,697 machines to 1.1 million adults) across the State to 1 : 79. It would lift the ratio from the current:

- 1 : 50 in the Provincial Cities;
- 1 : 55 in non-metropolitan South Australia, and reduce the ratio of
- 1 : 92 in the metropolitan area.

This is consistent with the harm minimisation objective and supported by research findings provided to the IGA, showing a statistically significant positive relationship between the number of machines per adult in a jurisdiction and the overall problem gambling prevalence rate.

This result is also consistent with the research finding (of the Productivity Commission, SACES, and Delfabbro) of a positive correlation between the density of gaming machines in a jurisdiction and average gaming expenditure per capita. It would also go some way to assist in equalising the “tax take”.

... a population based
formula and automatic
adjustment ...

The effect of this change is to provide to the government and the industry a population based formula which translates into equivalent shares across the State, in order to distribute gaming machines geographically (ToR: 2.4). In addition, it effectively provides for a statewide, regional and metropolitan cap based on relative population shares (ToR: (1.3) (b)).

An additional benefit of this approach is that it provides for an automatic adjustment process to account for population distribution factors every five years, with the release of the ABS Population and Housing Census. The “needs basis criterion” would, under such a proposal, be supported or contested by the actual changes in population and not by other largely subjective arguments.

For simplicity, the Adelaide metropolitan area would be treated as one region and the non-metropolitan area as a second region. It is possible that a more sophisticated approach to “regions/areas” could be used, certainly in non-metropolitan South Australia where council areas could be used.

In support of the Association’s proposal to set a baseline number of machines per capita, we note that the Victorian Casino and Gaming Authority when considering applications for a licence, takes into account the impact of a new application on the number of machines per capita in a region or council area.

Additional indicators taken into account by the VCGA include the EGM density in an area, the number of persons per venue in a council area, average player losses, average player losses per machine and the rating of the council area against the ABS Socio-Economic Index for Areas (SEIFA). Taken in combination, the use of these indicators represent an attempt to provide a measure of equality of access and to minimise the possibility of any area having an over-endowment of machines. Providing protection in this way seeks to ensure that harm minimisation is addressed and that vulnerable communities are not exploited.

The decision of the Victorian Government to impose regional caps in five areas and to reduce the number of machines over three years, in four of these areas is one further example of a policy initiative to ensure greater equality in the spatial allocation of machines, using *inter alia*, adult population and machine numbers as decision making variables.

Consideration of the Appropriate Number and a Reduction in Machine Numbers

This leaves to be considered two important questions, specifically the appropriate number of gaming machines and options for reducing the number of machines (as the redistribution issue has been addressed).

The number of gaming machines has also been shown to be a driver of problem gambling. The second component of the Association’s proposal is that there be a phased reduction in the number of machines (and thus an increase in the ratio of adult population to number of machines).

Any reduction in the number of machines will increase the ratio of adult persons to machine numbers. Table 5.3 summarises our proposal, that a reduction in machine numbers occurs, to a level that would result in 10 machines per 1,000 adult persons, or equivalently, 1 machine per 100 adults (i.e., effectively this would raise the ratio from 1 : 79 discussed earlier to 1 : 100).

... establish a ratio of 10 machines per 1,000 adults ...

**Table 5.3
Reduction of Machines, 10 Machines per 1,000 Adults***

| | Venues at 30 June 2002 | Machines at 30 June 2002 | 10 machines per 1,000 Adults | Actual Reduction |
|--------------------------------|------------------------|--------------------------|------------------------------|------------------|
| Victor Harbour (DC) | 4 | 122 | 91 | 31 |
| Alexandrina (DC) | 13 | 287 | 140 | 147 |
| Provincial Cities | 73 | 2,079 | 1,045 | 1,034 |
| Metropolitan | 303 | 9,311 | 8,586 | 725 |
| Non-metropolitan | 289 | 5336 | 3,009 | 2,327 |
| South Australia | 592 | 14,647 | 11,596 | 3,051 |
| Non-metro | | | | |
| Mount Gambier | 13 | 434 | 174 | 260 |
| Murray Bridge | 6 | 160 | 127 | 33 |
| Port Augusta | 12 | 305 | 101 | 204 |
| Port Pirie | 7 | 247 | 131 | 116 |
| Whyalla | 7 | 216 | 162 | 54 |
| Port Lincoln | 7 | 225 | 101 | 124 |
| Riverland | 21 | 492 | 249 | 243 |
| Total Provincial Cities | 73 | 2,079 | 1,045 | 1,034 |
| Berri Barmera | 7 | 184 | 85 | 99 |
| Renmark Paringa | 7 | 160 | 73 | 87 |
| Loxton Waikerie | 7 | 148 | 91 | 57 |

Note: * Adult population at 30 June 2001.

Source: Office of the Liquor and Gambling Commissioner and ABS, AusStats, Data Cubs, Population Trends & Estimates.

The argument for 10 machines per 1,000 adults is based on international and national comparisons. In Nova Scotia the ratio of machines per 1,000 adults is 5.1 in hotels and clubs with the ratio for casino shown in brackets (6.3), while in Victoria the ratio is 7.5 (8.1), Tasmania 5.2 (8.5), Northern Territory 5.1 (9.7), while South Australia is 12.2 (12.9), Queensland 13.0 (14.2) and NSW 20.2 (20.5). While further statistical tests to assess the level of significance could be conducted on the data

... comparative ratios in other jurisdictions ...

analysed by Delfabbro (2003), he concludes that the critical density of EGMs with areas containing higher problem gambler numbers is 10 EGMs per 1,000 adults.

... proposed reduction of 3,051 machines in SA ...

As shown in Table 5.3 this implies a reduction of 1,034 machines across the Provincial Cities and a total reduction in 3,051 for South Australia. The actual reduction for each city and the Riverland towns is shown in the last column of Table 5.3.

Table 5.4 contrasts the average per venue now and the average per venue to achieve 10 machine per 1,000 adults.

This is not a dramatic reduction, given that as at 30 June 2002, the prevalence of gaming machines for the whole of South Australia was 12.5 machines per 1,000 adults, a density only slightly above the recommended benchmark.

In order to minimise dislocation to the industry it is recommended that a five year phase-in period be allowed. This period has been chosen to enable a fair adjustment period for industry to substantially reduce or pay-off capital borrowings, to write-down existing machines and to provide for the gradual relocation of machines across and within regions (as approved by the OLGC).

Table 5.4
New Average Per Venue (Based on 10 Machines per 1,000 Adults)

| | Venues at 30 June 2002 | Average per venue now | Average per Venue at 10 per 1,000 Adults |
|--------------------------------|---------------------------|--------------------------|---|
| Victor Harbor (DC) | 4 | 31 | 23 |
| Alexandrina (DC) | 13 | 22 | 11 |
| Provincial Cities | 73 | 28 | 14 |
| Metropolitan | 303 | 31 | 28 |
| Non-metropolitan | 289 | 18 | 10 |
| South Australia | 592 | 25 | 20 |
| Non-metro | | | |
| Mount Gambier | 13 | 33 | 13 |
| Murray Bridge | 6 | 27 | 21 |
| Port Augusta | 12 | 25 | 8 |
| Port Pirie | 7 | 35 | 19 |
| Whyalla | 7 | 31 | 23 |
| Port Lincoln | 7 | 32 | 14 |
| Riverland | 21 | 23 | 12 |
| Total Provincial Cities | 73 | 28 | 14 |
| Berri Barmera | 7 | 26 | 12 |
| Renmark Paringa | 7 | 23 | 10 |
| Loxton Waikerie | 7 | 21 | 13 |

Note: * Adult population at 30 June 2001.

Source: Office of the Liquor and Gambling Commissioner and ABS, AusStats, Data Cubs, Population Trends & Estimates.

An additional benefit of this re-allocation process is that it redistributes the profits of machines to a greater number of licence holders, whereas the current freeze or cap reinforces the entrenched position of existing licence holders. The proposal also resolves the issue of transferability rights, which should not be entertained in any case unless the licence holder has previously paid for the licence (and the expected stream of future income), which is not the case in South Australia. Under this proposal, machines can be given up at any time, but not transferred. Machines can be reassigned or reallocated at the time the population/machine number ratio is recalculated.

... benefits of our proposal

...

This proposal, therefore addresses a number of issues:

- it does away with the freeze, imposes a population to machine ratio (which is in effect a cap) and assists to redistribute the profits from gaming machines to a wider group of licence holders;
- the proposal has an in-built, 5 year adjustment mechanism, which can adequately deal with the transfer of machines;
- treats all South Australian's equally, while allowing for adjustment based on non-contentious, population data and trends and thus is able to deal with a population increase or decrease;
- it protects against potentially vulnerable regions maintaining a high density of machines;
- it potentially could allow for a "tourism clause or exemption" whereby a region (i.e., Councils, licence hotels and interested parties together) argued for a slightly higher ratio such as 11 machines per 1,000 adults;
- in such a situation the revenue from the additional machine would not be allocated to the venue, but be distributed between Treasury for general revenue and the local Council for tourism development. The venue would receive a host fee from the Council¹⁷; and
- metropolitan Adelaide would be treated as one region (with only the Casino able to apply for the "tourism clause" if such were to exist).

There is one additional component of the proposal worthy of elaboration and discussion.

Application of A Community Benefit Levy

In setting a base number (10 machines per 1,000 adults) it is likely that debate will ensue about the appropriateness of the base number. The base number has been nominated to provide some certainty for industry and for government. However, we recognise that this is likely to be contested.

However, we recommend that the base number of 10 machines per 1,000 adults become binding. It is the basis of a transparent system.

In a situation where a special case is advanced, perhaps on the basis of tourism, demographic characteristics such as age or the lack of entertainment facilities, and it is considered that the ratio should be increased to say 11 machines per 1,000 adults, then the licensee should only be paid a fee to host the additional machines.

This is because any case, which would need to be established by the Council, the licensee and community representatives, would be based not on “need” (for ostensibly a liquor licence and gambling), but on a true community benefit test. The first element of this is that the three parties must be involved. The second element is, that in consideration of granting what we call ‘exemptions’, the exemption has a local and specific purpose.

... community need or “needs test” is substantially different to the “need” for a liquor licence ...

The additional revenue from the granting of any additional machines would be distributed to Treasury, the relevant local council and thirdly, for problem gambling services (because of the higher density of machines). The licensee would be paid a host fee only.

Examples of a true community benefit test might include:

- it might be argued that in a regional community there are few entertainment options for young people and that is why they attend the local hotels. If this is the case, then even leaving aside community concerns relating to young people and drink driving, the high rate of (especially) young males injured or killed on country roads, and community concern regarding young males and alcohol consumption; then the need is not for more poker machines, but for alternative recreation options. The real need, and the true community benefit test, is for alternative entertainment options;
- it might be argued, that for example, Victor Harbor has a higher aged and retired population who have a higher demand for gambling services. The need is equally for improved services for the aged and specific infrastructure to enhance mobility (from ramped pavements to community bus services). The Census data for 1996 and 2001 provide evidence of these demographic shifts. The City of Victor Harbor would be required to allocate additional revenue to aged services and facilities. The basis of ‘need’ is not for additional gaming machines but because Victor Harbor has a higher aged or retired population. This is the true community need. It is the basis on which any increase in the number of machines would be countenanced;

... a full community benefits test ...

- the case might be argued that a region is a ‘special tourism region’ for interstate and international visitors. Again, it follows if the case of a special tourism region can be substantiated, that tourism facilities and infrastructure to support the industry represent the true community benefit test, both economically and socially. Tourists are not visiting the region to access gaming machines, but rather, the region has some intrinsic value or special characteristics. Hotels are but one part of the tourism industry; and
- in outer metropolitan Adelaide a newly established community or suburb may consist of young families, perhaps with both partners working. The community benefit test is likely to be related to the need for child-care facilities, after school care, recreation facilities and a community bus to access regional shopping facilities. The experience of newly established suburbs such as Seaford Rise or before that, Golden Grove and even Elizabeth, demonstrates the need for such facilities. Additional electronic gaming machines above some per capita formula cannot reasonably be argued to be meeting the need of the community or to represent a true community need.

5.2 Variations on this Proposal

One variation to the proposal outlined above is set out here. The proposal is based around the idea that gaming licenses should be issued for a fixed period of time (perhaps 5 years), and that at the end of the license period there would be an opportunity for redistribution of machines between venues in each region, and for machine numbers to be adjusted for changes in regional population numbers. The essential elements of this proposal are that:

- (1) regions have an upper limit on machine numbers based on population share (as per our previous discussion); and
- (2) there are two ‘pools’ to allocate the available machines.

*... a fixed allocation pool
and contestable auction
pool ...*

The two pools are comprised firstly; of a ‘fixed allocation pool’ and the second; a ‘contestable pool’ where machines are allocated on an auction basis. This is a mechanism to address the current situation where some hotels and clubs are not able to access machines. Through the fixed allocation pool, all hotels and clubs seeking to have electronic gaming machines would be allocated machines based on an application process, subject to their satisfying certain basic (largely existing) requirements. In effect, all suitable venues in the region which apply would be guaranteed to receive the minimum number of machines. A minimum number of machines per venue (eg, ten per venue) would be allocated in this way. This result would address the situation of the smaller hotel, that is not able to access gaming machines (AHA: 2003), plus provide a redistributive component of the revenue from machines.

Any machine licenses available in the region (the number of machines set for the region, based on 10 machines per 1,000 adults) which were still available after the distribution through the 'fixed allocation pool', would then be made available through the 'contestable pool'. The 'contestable pool' would be auctioned to the highest bidder. This would have the effect of transferring any economic rents that related to these machines to the government (rather than the venue owner), which could spend them on community services. The operations of the market would ensure that the auction price meant that venues could still make a 'normal' return on their investment from machine licenses purchased through the 'contestable pool'.

End Notes

- ¹ The report represents the conclusions and recommendations of the IGA put before the Minister. The report is to be considered by the Minister and Cabinet in early 2004.
- ² Executive Summary, Press Release, p. 2, December 2003.
- ³ SA Centre for Economic Studies (2001), "The Impact of Gaming Machines on Small Regional Economies", August 2001.
- ⁴ Hereafter "the Association".
- ⁵ Within the Association's presentation, matters raised by others both in written submission and verbal presentation.
- ⁶ Included here are submissions received from, *inter alia*, Local Government bodies, OLGC, the AHA(SA), the Manufacturers Association (AGMMA) and SA Treasury.
- ⁷ Subject to the constraints of binding regional caps, a statewide binding cap, metropolitan and non-metropolitan shares, and the test of social and economic impacts prior to the establishment of a new venue.
- ⁸ AGMMA, p. 57.
- ⁹ Jackson, A.C., SA Thomas and L. Kearney (2000), "Analysis of Clients Presenting to Problem Gambling Counselling Services, July 1999 to June 2000", Client and Service Analysis Report No. 6, Melbourne: Victorian Department of Human Services.
- ¹⁰ Sections refer to our earlier submission (June 2003).
- ¹¹ On 17 July 2003 we were provided with figures from the OLGC that a potential increase of 5.3 per cent, from 7 December 2000. A further 779 machines could be approved pending applications unaffected by the freeze.
- ¹² The Introduction of Coin Operated Gaming Machines into Licensed Clubs and Hotels in South Australia: An Options Paper, June 1991, author unknown.
- ¹³ Since 1994/95, venue share after state taxes is estimated at \$2.34 billion.
- ¹⁴ See the report for full details of the calculation methodology used, report available on-line at:
www.adelaide.edu.au/saces/publications/other/GamingMachines.pdf
- ¹⁵ Income data calculated on the basis of total income, minus net tax, divided by the number of persons submitting a tax return, or adults recorded as 'non-taxables'; source, Australian Taxation Office, "Taxation Statistics 1998-99".
- ¹⁶ Kyngton, A. and M. Dickerson (1999), "An experimental study of the effect of prior alcohol consumption on a simulated gambling activity", *Addiction*, 94:5, pp. 607-707.
- ¹⁷ In practice, the revenue would be the average of all machines.