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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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Inquiry into the Management of Machine Numbers

Overview

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.

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 [illegible] on the earnings sustaining [illegible]

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 OLGC have been processed. That is to say, when the last application is

- had a median expenditure of $860 per month (for EGM problem

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

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

... three options under consideration ...

... current freeze is

or a cap is somehow an infringement of this right. This is not a view that

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

Ten years on, from 1991 to 2001/02, based on the estimates above this

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

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

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 $13,720[15], 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):*

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

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

Overall, the Association concludes that there needs to be a significantly

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

- 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

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

... 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**

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.

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

- the case might be argued that a region is a 'special tourism region'

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

End Notes

[1] The report represents the conclusions and recommendations of the IGA put before the Minister. The report is to be const e ister. n5 reCat bit