

Poker Machine Harm Reduction Tax (Administration) Bill 2008

Submission

To: Community Affairs Committee of Australian Parliament
From: UnitingCare Wesley Adelaide and Heads of Christian Churches
Gambling Taskforce

Background to Presenting Agencies

UnitingCare Wesley Adelaide

UnitingCare Wesley was formerly the Adelaide Central Mission and is a community service organisation with over 100 years experience in providing services to low income and disadvantaged people in South Australia. It is an independently incorporated agency of the Uniting Church. We currently provide in excess of 50 services, including Lifeline and Goodwill.

UnitingCare Wesley Adelaide has, for many years, provided services to assist people who are struggling financially and has been at the forefront of supporting financial (and other counselling) in South Australia. Through the experiences of some people phoning Lifeline, which is managed by UnitingCare Wesley Adelaide, in the early 1990's, a gambling help service was developed, the first problem gambling counselling service in SA

Our gambling, relationship and financial counselling services are available to anyone, although the services focus mainly upon low income and disadvantaged people.

The Low Income Support Program also assists agencies and community groups to work with local people to understand the impact and consequences of poverty on people and to identify strategies and resources which can help manage or alleviate the effect of poverty on individuals and families.

Heads of Christian Churches Gambling Taskforce

In 1998 the Anglican Diocese of Adelaide Synod passed a motion which expressed concern about the expansion of gambling in South Australia and the growing harm from problem gambling, particularly poker machine gambling. Archbishop Ian George subsequently approached the Heads of Christian Churches with a proposal to establish a gambling taskforce, with broad denominational reach, to focus of the pastoral concern of the Christian Church in South Australia on the adverse impacts of gambling.

The Heads of Christian Churches agreed to the Anglican Church proposal and so the Gambling Taskforce (GTF) became operational in 1999. We note that three current members of the taskforce, Helen Carrig, Belle Cheney and Mark McCarthy were foundation members of the Taskforce.

The Taskforce recognises the diversity of views that exist within the Christian community in South Australia about how best to tackle the gambling harm.

Sensitive to this diversity but recognising the importance of achieving outcomes, the GTF has taken a harm minimisation approach meaning that in all circumstances we seek the approach is most likely to reduce gambling harm.

Poker Machine Harm Reduction Tax (Administration) Bill 2008

The presenting organisations understand the Poker Machine Harm Reduction Tax (Administration) Bill 2008, to be focused on achieving two major outcomes:

1. reduced accessibility of poker machine venues across Australia, which will be achieved through introducing a new national tax on poker machine venues
2. creation of a poker machine harm reduction transition fund which will allocate funds collected through the new national tax.

We support the intent of the legislation, believing that a majority of gambling related harm in Australia occurs for gamblers whose major gaming activity is playing poker machines.

We are also supportive of the idea that where a product that can cause harm is made legal, it is appropriate that governments legislate for high tax rates to both ensure that there is some hypothecation from the cause of harm to approaches to ameliorate harm, as well as ensuring that providers of products that can cause harm are unable to reap super normal profits.

It is our view that the objectives of the legislation are reasonable but we are concerned that the proposed mechanism may not be effective in achieving the objectives, and indeed may have some unintended, harmful consequences.

The following considers:

1. support for the intent of the proposed Bill
2. discussion of the proposed tax as a means of achieving the intent
3. suggestions about other approaches that may be more effective in achieving the intended outcome.

Intent of the Proposed Bill

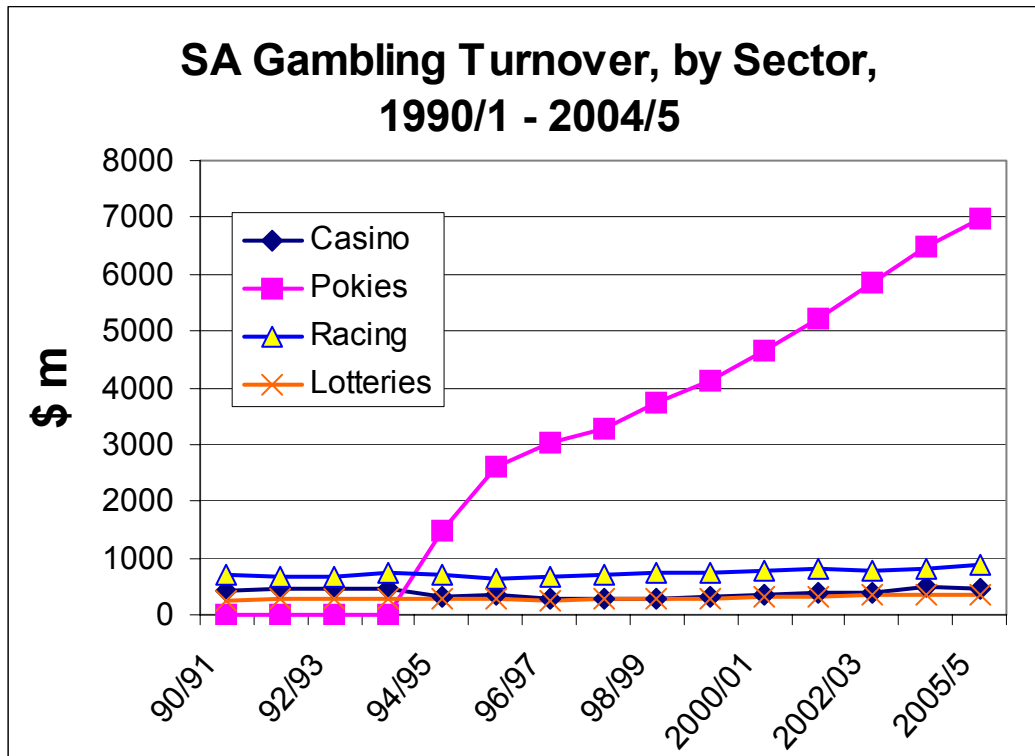
We are only drawing on South Australian experience in making the following comments, however, we believe they are applicable to other jurisdictions as well.

Reducing Gambling Harm from Poker Machines.

Poker machines were introduced into hotels and clubs in South Australia in July 1994. We observe that this introduction had a dramatic impact on the SA community. The following graph, (graph 1) shows gambling turnover for

various elements of the gambling industry in South Australia, for the period before and after the introduction of poker machines.

It is very clear that poker machine turnover grew at a very rapid rate and gambling in other areas stayed about the same or reduced a little.



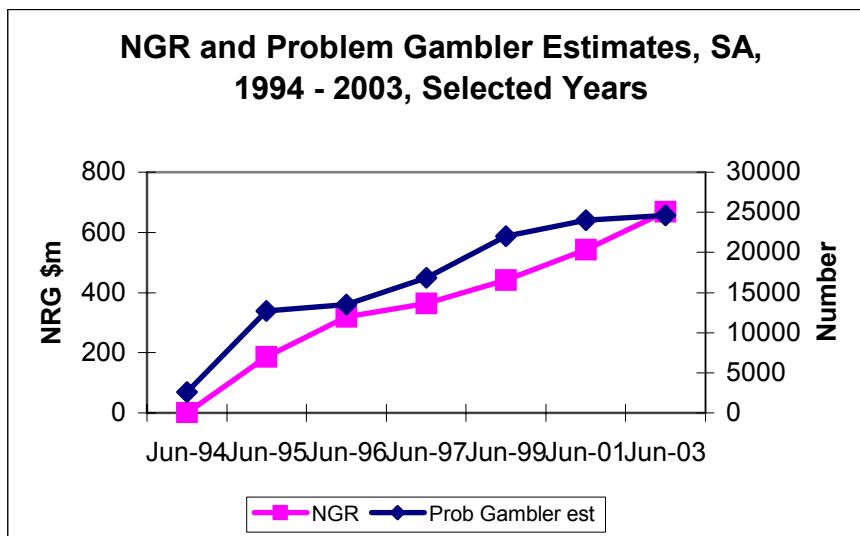
Graph 1, source Tasmanian Gaming Commission, gambling data set

The only significant change in the SA gambling industry between the year 1990 and now has been the introduction of poker machines into hotels and clubs. From 1994, when poker machines were introduced, to 2003 the time period in graph 2, problem gambling levels increased tenfold, through an additional 609 (in 2003) poker machine venues, or put another way, problem gambling levels increased by 1000%.

There can be no doubt whatsoever that poker machines in hotels and clubs have dramatically increased levels of problem gambling in the South Australian community.

The next graph, graph 2, shows a highly correlated relationship between net gambling revenue for poker machines in South Australia and best estimates for the number of people with problem gambling behaviours.

We believe that one of the most significant factors in the increasing problem gambling levels was a dramatic increase in the number of gambling venues. Increasing accessibility of gambling has dramatically increased problem gambling levels.



Graph 2. Sources, SA Office of the Commissioner for Liquor and Gambling and Paul Del Fabbro and Productivity Commission

When the South Australian Parliament considered reducing the number of poker machines, both parties argued for the focus to be on reducing accessibility by reducing the number of venues as an even more important objective than reducing the number of poker machines.

We have attached, as appendix 1, regression analysis undertaken using statistics from before and after the first-round of poker machine reduction in South Australia, at midnight on the 30th of June 2005.

While the approach chosen by the South Australian Parliament to reduce the number of poker machines, and venues, has not been as effective as we would like, at this stage, there is still sound evidence from this experience that reducing the number of venues is more effective in reducing gambling harm than concentrating on reducing the number of machines.

We suggest that the primary objective for public policy based on reducing gambling harm should be to focus on strategies to reduce the number of venues.

Poker Machine Harm Reduction Transition Fund

We are convinced that Funds for community activities and for reducing gambling harm that have been established from gambling revenue have been useful.

In South Australia the Gamblers Rehabilitation Fund receives \$1.6 million per year from the gaming industry and about \$4 million from the State Government.

The Community Benefit Fund SA, was established to provide one off funding for projects of community benefit. The fund was established at the time of

introduction of poker machines in South Australia and was seen, at least in part, to provide capacity for communities to respond to some of the broader social impacts of gambling. There is no direct hypothecation between gambling revenue and community benefit SA

The total amount of funding going into these two programs from all sources is \$9.6 million, while total gambling revenue, NGR, in South Australia for 2006-7 was \$792.61. This means that about 1.2% of net gambling revenue was allocated to community benefit and gambling help services in SA in 2006-7.

We suggest that the total amount of money going into funding programs to assist communities and problem gamblers is a very small proportion of total gambling revenues for South Australia.

There is no legislated requirement for gambling providers to contribute to a fund that assists the community or people with gambling problems, although we do recognise that the current arrangement includes a strong moral requirement for industry contribution, and indeed government contribution to community funding.

However, we argue that the percentage of gambling revenue going to gambler and community help services is very small, and is less than some international jurisdictions where a percentage of gambling revenue is allocated for research and gambling help. In Ontario, Canada, 2% of gross gambling revenue is hypothecated for Treatment, Prevention and Research. In the Australian context this would translate to at least 10% of NGR.

In Alberta, Canada, the arrangements for Licensed Casino Facility Operators are that they receive a 15% commission on net slot machine sales as compensation for the costs of space and customer service. A further 15% commission is paid to charitable organisations that hold licensed events in casinos. The balance (70%) of net slot machine sales at casinos, after deducting the Commission's operating costs, is provided to the Alberta Lottery Fund. So notwithstanding that this is a state run gambling activity, charitable organisations are collecting the equivalent of 15% of NGR, although they would have some costs associated with staging events.

We believe there is a strong case for a Federal requirement for gambling providers to allocate a percentage of the gaming revenue to funds for community benefit and gambler help.

We suggest that an appropriate percentage of gambling revenue allocated to community funds and gambling help should be at least 5% of NGR, which is significantly below Canadian rates.

The Taxation Approach

We suggest that the Poker Machine Harm Reduction Tax proposed by the Bill would be effective in achieving the second objective, generating revenue for the poker machine harm reduction transition fund.

However, we do not believe that the proposed tax would be very effective in reducing the number of poker machines or the number of gambling venues.

The main reasons for this view being:

- elasticity of demand for poker machines
- likely venue responses to the tax.

Elasticity of demand for poker machines.

For the proposed tax to be effective in reducing the number of machines and venues, the behaviour response of gamblers to the increased price of gambling through the increased tax, needs to be for gamblers to gamble less. This then forces down the profitability of poker machines and poker machine venues.

The critical assumption is that the gamblers will reduce their consumption of gambling as the price goes up.

We do not believe that there is sound evidence to support this assumption, particularly for people with gambling problems.

We understand problem gambling could be an addiction, and evidence from other addictive products, nicotine, alcohol and illicit drugs, is that addictive products are highly price inelastic, meaning that the level of consumption remains the same despite the price. So people with addictive behaviours are simply paying more for the product of their addiction, as price rises.

This point is made by Professor John Quiggin in his Submission to Productivity Commission Inquiry into Gambling, 1999. He wrote *“the arguments for and against heavy taxes on goods for which demand is inelastic are discussed by Quiggin (1998). Any putative efficiency advantages of a tax policy of this kind are more than offset by the equity costs associated with the fact that low price elasticity of demand is normally associated with low income elasticity of demand. Hence, taxes on inelastically demanded goods and services are usually regressive.”*

This then leads to a concern about unintended consequences of imposing an additional tax, particularly a high tax on poker machines. Specifically our concern is that people with gambling problems would end up spending even more than they do now on poker machines, further exacerbating the gambling problems.

To support our concern about the effectiveness of additional taxes, we note that the South Australian Parliament introduced the following tax regime for poker machine venues, effective from the seventh of November 2002.

| Annual NGR per venue ('000) | Tax rate |
|-----------------------------|----------|
| Less Than \$75 | 0% |
| \$75 - \$400 | 27.5% |
| \$400 - \$945 | 37.9% |

| | |
|----------------------|-------|
| \$945 – \$1,500 | 40.9% |
| \$1,500 - \$2,500 | 47.5% |
| \$2,500 - \$3,500 | 57% |
| Greater than \$3,500 | 65% |

SA Gaming Machines Act, Section 72

Tax rates presented other tax rates for the gaming revenue in the band. The highest tax rate of 65% only applies to revenue over \$3.5 million.

The high tax rates, including 65% tax rate for revenue over \$3.5 million, have been in place since 2002, yet gambling revenue continued to rise throughout that period, until the introduction of smoking bans in gaming rooms in 2007 caused some drop in NGR.

Venue response to Higher taxes

We are concerned that the introduction of a new federal tax on diminishing venues is likely to result in venues being more aggressive in marketing poker machine gambling, and without strong compliance enforcement they are more likely to seek approaches to avoid or reduce the costs associated with other gambling harm compliance measures.

So again, there is the potential for additional tax to be an incentive for being more aggressive in promoting and encouraging gambling, which in turn would result in greater levels of gambling loss. We understand from the Productivity Commission report of 1999 that about 40% of poker machine revenue comes from problem gamblers. Increasing gambling in order to maintain or increase profit levels will almost certainly result in additional losses and, therefore, greater harm for people with gambling problems.

Questions or responses should be directed to;

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Appendix 1

This report provides:

- Some conclusions on the structure of possible models of gaming behaviour,
- Some statistical testing of those models using available data, and
- Some application of the models to forecast the effects of possible future amendments.

The particular questions on which we have constructed and tested models are:

1. What is the effect of change in the number of gaming machines and the number of gaming venues on net gaming revenue after accounting for the effects of other possible factors?
2. What is the effect of socio-economic status on net gaming revenue after accounting for the effects of other possible factors?
3. How do changes in the number of gaming machines affect the balance between the benefits and costs of gaming to the community?
4. Is there an optimal number of gaming machines or gaming venues?
5. Given these results, what forecasts can be produced about the effects of further amendments?

This report presents the most successful models and the implications of those models for behaviour and policy. The models and regression analyses are contained in separate MS Excel files.

Variables Considered

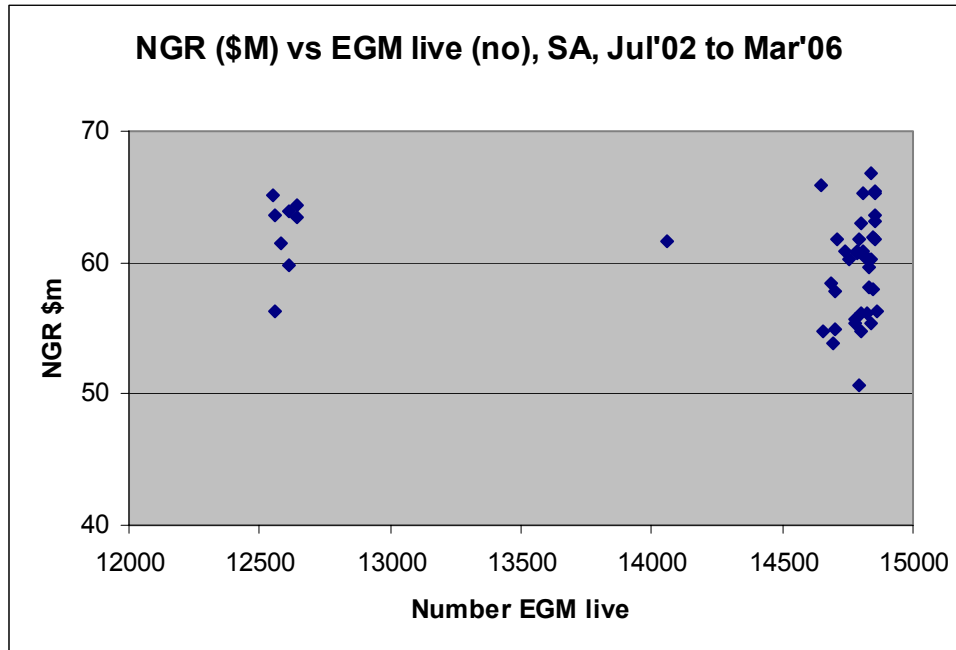
Data were available on:

- Net Gaming Revenue, \$million, monthly, July 2002 to June 2006.
- Venues, number, July 2002 to June 2006.
- Electronic Gaming Machines live, number, July 2002 to June 2006.
- Estimated Resident Population, South Australia, persons, quarterly, Sept 1989 to March 2006, ABS Series ID A2060846R
- Civilian Population, Persons 15 years and over, monthly, Feb 1978 to Sept 2006, ABS Series ID A163367T
- Participation rate, Persons, per cent, monthly, Feb 1978 to Sep 2006, ABS Series ID A184023C
- Unemployed – total Persons, South Australia, monthly, Feb 1978 to Sep 2006, ABS Series ID A184017J
- Average Weekly Total Earnings, Persons, South Australia, Quarterly, Nov 1983 to May 2006, ABS Series ID A597228R

Correlation with Net Gaming Revenue

In the first instance we have considered simple correlations, and then proceeded to multiple regression analysis.

Number of Electronic Gaming Machines Live



Observation and analysis both indicate that changes in the number of Electronic Gaming Machines have little effect on Net Gaming Revenue. Correlation coefficients (r^2) never exceeded 0.17. The relationship between these variables changed after May 2005, indicating clearly that other variables determine the size of Gaming Revenues. However, when the effects of other variables are accounted for in the analysis, the number of Gaming Machines does have a significant effect on the remaining unexplained change in Net Gaming Revenue.

This complies with common sense. Gamblers are unlikely to notice additional gaming machines in a population of 14,000 machines. On average the number of machines in a venue will rise but there is not likely to be a significant change in congestion around machines. There is no tangible difference in the travel distance to a machine. Some gamblers are habitual.

The effect of added gaming machines on Net Gaming Revenues should reflect the improved ease with which a gambler can find a gaming machine. The improvement in access would decline as the existing number of gaming machines rises. The second machine may double accessibility, the one thousandth machine will add only slightly to accessibility. This suggests a curvilinear relationship between Net Gaming Revenues and the number of Gaming Machines. The correlation between Net Gaming Revenues and the natural logarithm of the number of Electronic Gaming Machines is weak ($r^2=0.08$).

Number of Gaming Venues

Quarterly Net Gaming Revenue is weakly correlated ($r^2=0.2$) with the number of Gaming Venues. This relationship is weaker than that between Net gaming Revenue and the Number of Gaming Machines.

Time

Net Gaming Revenue has a strong positive trend over time. Net Gaming Revenue in any month is closely related to Net Gaming Revenue in the previous month. This is consistent with habitual behaviour.

Over the whole period to March 2006, Net Gaming Revenues grew by \$276,000 per month after accounting for the effects of changes in the number of Gaming Machines and quarterly variation. Over the period to May 2005, Net Gaming Revenues grew by \$260,000 per month. The t statistics for both these coefficients are 7.6 and 5.9 well in excess of the level required to be statistically significant (about 2). These strong relationships do not persist after September 2005, possibly due to the limited number of observations available. Not surprisingly, this reinforces the conclusion that there are other variables which are not time dependent, or dependent on the number of Gaming Machines, influencing Net Gaming Revenues.

Season

Net Gaming Revenues also change with the seasons. In the January to March quarter, monthly Net Gaming Revenues are down by \$2.27 million. In the July to September quarter, monthly Net Gaming Revenues are up by \$2.64 million. These results are statistically significant and are repeated across most analyses. They may reflect mood, the availability of other recreation opportunities, family holidays or a range of other distractions in summer. Further research and analysis on the effects on Net Gaming Revenue of various festivals and events such as the Royal Adelaide Show, motor races and the Festival of the Arts, may reveal ways to design winter festivals to moderate the winter increase in gaming.

Population

Net Gaming Revenue is correlated ($r^2=0.4$) to quarterly Estimated Resident Population. Taken on its own, population is a very strong factor in gaming expenditure. Over the whole period, Quarterly Net Gaming Revenue increases by \$700 for each additional person in the population ($r^2 = 0.4$). Similarly, Monthly Net Gaming Revenue increases by \$202 per person added to the Civilian Population over 15 years of age ($r^2 = 0.4$). However, this strong relationship may simply be a result of the fact that both population and Net Gaming Revenue are correlated with time. There is also a strong correlation ($r^2=0.32$) between the labour force and Net Gaming Revenue.

Population Not Working

Further analysis suggests that monthly Net Gaming Revenue is not correlated ($r^2 = 0.03$) with the size of the adult population who are not working, that is those who are not in the labour force or in the labour force but not employed.

Average Weekly Earnings

The correlation between Total Average Weekly Earnings for persons and Net Gaming Revenue is weak ($r^2=0.08$). It can be speculated that as incomes rise, the form of gambling changes from gaming machines towards horseracing and perhaps casinos. This variable does not give a good indication of family income because it omits transfer payments from Government, which is probably significant.

The Models, The Results and The Implications

The models tested omit factors for which there is no data available. Where data was available on a factor expected to influence gaming, we have suggested the way in which the factor might influence gaming, and developed models to test the expected relationship.

We constructed models to test whether linear or log-linear relationships best predict Net Gaming Revenue. Models were selected according to the regression correlation coefficient and whether the sign on the slope coefficients match reasonable expectations about the effect of the variables used.

Linear Model

The best linear model takes the form:

$$\text{NGR}_t = 29.86 + 0.28 \times t + 2.65 \times \text{Q1} + 1.52 \times \text{Q2} - 2.31 \times \text{Q3} + 0.0016 \times \text{EGM}_t$$

(8.89) (0.04) (1.03) (1.04) (1.02) (0.0006)

$R^2 = 0.69$ Figures in brackets are standard errors of coefficients.
The correlation coefficient did not improve when the EGM_t variable was lagged by one month.

Where:

NGR_t = Monthly Net Gaming Revenue in \$ million in month t
 t = month number with July 2002 = 1
 Q1 = 1 when the month is July, August or September. Otherwise $\text{Q1} = 0$
 Q2 = 1 when the month is October, November or December. Otherwise $\text{Q2} = 0$
 Q3 = 1 when the month is January, February or March. Otherwise $\text{Q3} = 0$
 EGM_t = Number of live Gaming Machines in month t.

The residuals from this regression have a coefficient of autocorrelation of -0.29, indicating that in 95% of such cases there is no autocorrelation. The model tracks the behaviour of monthly Net Gaming Revenue from July 2002 to March 2006 with maximum deviations being 7.6% or \$4.27 million high in February 2005 and 5.6% or \$3.57 million low in October 2003.

Using this model we calculated the following values for Net Gaming Revenues in June 2008, corresponding to the number of live Electronic Gaming Machines shown.

| Number of live Electronic Gaming Machines in June 2008 | Monthly Net Gaming Revenue in June 2008 (\$ million) |
|--|--|
| 12,000 | 69.26 |
| 10,000 | 66.01 |
| 8,000 | 62.75 |

These estimates suggest that Net Gaming Revenue is not very responsive to change in the number of gaming machines. A 10% reduction in gaming machine numbers reduces gaming revenues by about 2.5%.

Log Linear Model

The preferred log-linear model takes the following form:

$$\text{NGR}_t = -594.53 + 0.23 \times t + 1.38 \times Q1 - 3.31 \times Q3 + 0.16 \times \text{NILE}_t + 88.52 \times \ln(\text{Ven}_t)$$

(155.02)
(0.03)
(0.76)
(0.75)
(0.07)
(23.52)

R2 = 0.72 Figures in brackets are standard errors of coefficients.

Where:

NGR_t = Quarterly Net Gaming Revenue in \$ million in quarter t

t = month number with July 2002 = 1

Q1 = 1 when the month is July, August or September. Otherwise Q1 = 0

Q3 = 1 when the month is January, February or March. Otherwise Q3 = 0

NILE_t = Number of people neither in the labour force nor employed in month t in thousands.

Ln(Ven_t) = Natural logarithm of the number of gaming venues in month t.

This model has a coefficient of autocorrelation of -0.46, meaning that the residuals are autocorrelated. Autocorrelation has little effect on the forecast accuracy, but it can distort the coefficient values. The autocorrelation is a likely result of using variables which are correlated with each as independent variables: time and the numbers in the unemployed adult population are correlated ($r^2 = 0.33$).

This model tracks Net Gaming Revenue from July 2002 to June 2006 with deviations vaying between 8.1% or \$4.57 million high in February 2006 to 6.0% or \$3.79 million low in May 2003.

This model provides the following forecasts of Net Gaming Revenue in June 2008, assuming that the number of people neither in the labour force nor employed are 520,000.

| Number of Venues in June 2008 | Ln (VENUES) in June 2008 | Net Gaming Revenues in June 2008 (\$ million) |
|----------------------------------|-----------------------------|--|
| 595 | 6.388561 | 70.33 |
| 495 | 6.204558 | 54.04 |
| 400 | 5.991465 | 35.18 |

Net Gaming Revenue is highly responsive to changes in the number of venues. A ten percent reduction in venue numbers would reduce Net Gaming Revenue by 13.8% and this elasticity increases as the number of gaming venues falls.