ANGLICARE
TASMANIA

# Pokies Plunder:

## Problem gambling and public subsidies in a losing state

*Submission to the Independent Social and Economic Impact Study into Gambling in Tasmania*

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# 1. Introduction

Anglicare Tasmania welcomes the opportunity to provide a submission to this social and economic impact study into gambling in Tasmania. We, along with many in the community, have been calling for this study for some eight years. We welcome the assurance given by the Treasurer, Mr. Aird, that the inquiry will be a 'warts and all' study into gambling in the state (Duncan 2006).

Anglicare Tasmania is the largest state-wide community organisation in Tasmania, with offices in Hobart, Glenorchy, St Helens, Devonport and Burnie, and a range of outreach programs in rural areas. We provide services throughout Tasmania, including emergency relief, accommodation, counselling, employment, mental health, acquired injury and disability support and alcohol and other drug services and parenting support programs. A critical element of our work is advocacy on behalf of our clients in order to achieve structural change and bring about a more just society.

Anglicare's Social Action and Research Centre has conducted extensive research and policy work on gambling in Tasmania, with the most recent report, *House of Cards* (Law 2005), exploring the experiences of low income earners affected by problem gambling. We have also been involved in research and policy development on consumer protection and regulatory issues.

As a service provider, Anglicare sees on a daily basis the impact of gambling in our community. We are one of the three organisations around the state providing Break Even support services. These services provide counselling to people with a gambling problem and to those affected by someone else's gambling problem. Anglicare's financial counselling program is also funded through Break Even to provide support to people with a gambling problem.

Our workers frequently report their frustration in trying to provide support to people in a regulatory environment that fails to provide adequate protection to their clients. To take a single example, there are issues around the enforcement of self-exclusion deeds, ranging from situations were deeds are not enforced and clients are still able to access venues and play machines, to situations were clients who are self-excluded are publicly humiliated by venue operators, which does not encourage them to continue with the self-exclusion process.

Anglicare's recommendation to this inquiry is to establish a turnover target, based on the level of expenditure at which the social and economic benefits are cancelled out by the social and economic costs. We believe that research shows that the number of problem gamblers and others affected by problem gambling is increasing, and, as we outline in this submission, we believe that a reduction in turnover is the only way to achieve genuine outcomes for these Tasmanians. We also believe that another important consideration is the current lack of independence in gambling regulation and policy-making. This lack of independence has led to bad policy and poor process in the most disadvantaged state in the country, a state that can least afford its gambling losses.

# 2. Executive summary

## Poker machines: the real issue

This long-sought Social and Economic Impact Study into Gambling in Tasmania must focus on poker machines. To give serious consideration to questions around lottery tickets and minor gambling would not represent balance but bias, given that the Productivity Commission's inquiry into gambling in Australia has quantified how few people have any problems with this form of gambling expenditure (Productivity Commission 1999). Table gaming and horse betting, older forms of gambling in Tasmania, have both been in relative decline in recent years, as evidenced by figures in both the Tasmanian Gaming Commission annual report (TGC 2006) and the Australian Gambling Statistics (OESR 2006). Community concern relates overwhelmingly to poker machines and with good reason. They are more addictive than any other form of gambling and, as will be demonstrated by this submission, are associated with far more social pain and much less employment or economic gain.

During the last decade gambling expenditure in Tasmania has more than doubled and almost all the new expenditure has been on poker machines (TGC 1997-2006). No other state has experienced a comparable increase in gambling losses since 1997, and no other state could less afford it.

According to the Tasmanian Gaming Commission's latest annual report, over $2 billion – around 80% of total gambling turnover – is now put through poker machines each year in a state with less than 315,000 people of gambling age and the lowest household incomes in the nation (TGC 2006). In 2003, Tasmania had a poker machine for every 92 adults, one of the highest concentrations in Australia or indeed the world (Anglicare Tasmania, n.d.). Losses per capita on 'gaming' (casinos, poker machines, keno and lotteries) are now around $270 out of total gambling losses of around $300 per capita and represent about 2.44% of household disposable income, very similar to losses in other states except Western Australia, which restricts poker machines to the casino, and New South Wales, where poker machines have been established for around forty years longer (OESR 2006).

Nearly half of Tasmania's poker machine turnover occurs in the state's two casinos, which are now, to a far greater extent than in any other state, predominantly poker machine venues, with table gaming contributing to just 5% of casino gambling turnover (TGC 2006). Once table gambling losses, a large proportion of which are borne by wealthy 'high rollers', many of them tourists, are discounted from national casino turnover figures, it is likely that the total per capita poker machine losses of Tasmanians as a percentage of household disposable income, are the second highest, perhaps even the highest, in Australia – unfortunately, the actual amount of money lost to all poker machines in Tasmania is not publicly available information.

What proportion of these losses are borne by problem gamblers? The Productivity Commission in its comprehensive 1999 report on gambling in Australia (Productivity Commission 1999) estimated that approximately one in ten regular poker machine players experience problems with their gambling – the comparable figure for lotteries is less than three in a thousand. The Commission estimated that these players account for about 42% cent of poker machine losses.

These figures are corroborated by industry data from Victoria that reveals about 15-20% of poker machine users provide the industry with about 60-80% of its revenue. James Doughney has argued that, "if we use [this] solid industry data… we can work backwards and calculate that about 6% of Victorians lose about $1.5 billion per year" (Doughney 2007).

What is the situation in Tasmania? Industry data on regular users continues to be unavailable, even though the monopoly market in Tasmania means that it can hardly be regarded as commercial in confidence. Victorian figures translated to Tasmania would mean that about 6% of Tasmanians lose about $200 million each year. For everyone but perhaps themselves – because of the nature of their addiction – most of these people would be called 'problem gamblers'.

The data contained in the problem gambling prevalence studies undertaken by Roy Morgan in 2000 and 2005 confirms the high levels of problem gambling in Tasmania (Roy Morgan Research 2001, 2006). The detailed data described within the body of these reports should be sending warning bells to all involved in gambling policy in Tasmania. According to Anglicare's analysis of this data, the number of problem and at risk gamblers increased by over 50% in the five years from 2000 to 2005 alone, or from 3,100 to 5,200 people (Roy Morgan Research 2006: 135). The prevalence study was conducted by telephone study and relied on self-disclosure by gamblers, which means these figures are likely to be underestimates.

For each person with a gambling problem, the Productivity Commission found that another five to ten people were likely to be seriously affected (Productivity Commission 1999). Thus in the five years corresponding with the most rapid growth in poker machine availability and turnover and the relaxation of previous regulations, it is likely that somewhere between another 10,000 and 20,000 Tasmanians were directly affected by the increase in problem gambling.

It is not surprising therefore that the 2005 survey also found that

- 42% of respondents answered 'yes' to the question, 'Do you personally know of someone who has experienced serious problems with their gambling?'; and
- 7.2% of respondents said that they or a family member had experienced problems with excessive gambling in the past year alone, an increase of 25% from 2000 and a more than 300% increase on the 1996 figure of 2.3%. If the time qualification was removed the figure was over 12%[1] (Roy Morgan Research 2006: pp.135-7).

The number of Tasmanians who either admit to having a current problem with excessive gambling themselves or who have a family member in this situation therefore rose more than 300% during an eight year period. This period corresponded with the proliferation of poker machines and the ending of restrictions on which models of machines could be employed.

The research also showed the level of community concern about poker machines – 82% of respondents believed that the Tasmanian community had not benefited from poker machines; only one third throughout the state had benefited financially and only 17% socially (Roy Morgan Research 2006: p. iv). These figures are backed by the real-life experiences of problem gamblers

[1] As detailed in section 5.1, there are discrepancies in the figures given in the Roy Morgan report. The figures given here are the corrected figures.

and their families, as documented in Anglicare's *House of Cards* report (Law 2005) and as heard by Anglicare's Break Even counsellors on a day to day basis.

It is not only the social cost of poker machines which is high in Tasmania. Tasmania's lower household incomes mean that the opportunity cost of poker machine expenditure is exaggerated in Tasmania. The fact that Tasmanians' mean weekly income is 17% below the national average (Senate Community Affairs References Committee 2004) means that a higher proportion of Tasmanian poker machine losses would otherwise be spent in other Tasmanian businesses with much greater associated multiplier effects, especially in struggling regional areas, than is the case nationally.

There is also very strong evidence that the taxation return in Tasmania is set well below market levels. In a state where there are enormous pressures on government finances due to high levels of social disadvantage and a small, rapidly aging population and decentralised population, the question of taxation return is a critical one. The need for an extra source of taxation revenue to address the debt crisis was not only the principal but the only justification used by the Government for the introduction of poker machines into clubs and hotels. Even now that the government is debt free, with problem gamblers having made a disproportionally large share of the sacrifice needed to achieve this goal, the contribution that poker machines make to public finances continues to be the main social and economic benefit claimed for them.

Anglicare accepts that the question of how to maintain sufficient state revenue to finance growing health and social expenditure in Tasmanian is a vital one. Earlier this year we held a public forum to canvas the options available to Government in funding essential social infrastructure. However, Anglicare believes that a number of the aspects of poker machine taxation are routinely ignored by the Department of Treasury and Finance which has responsibility for both public finances and gambling policy advice in Tasmania, including through the 'executive support' it provides to the Tasmanian Gaming Commission. The first of these aspects is the direct cost of problem gambling to the health, education, criminal justice and community services system. The second is the indirect reduction in taxation revenue through reduced expenditure, employment and economic activity which is associated with a 2.44% reduction in disposable household income. The third is the potential for less regressive and socially harmful and possibly more beneficial taxation measures to be used. Tasmania is now, according to Treasury, the second lowest taxing State or Territory in the Commonwealth (Lennon 2006). Modelling is thus long overdue on comparing the net social, economic and budgetary impact of increasing other forms of state taxation to compensate for a decrease in poker machine revenue.

Finally, there is the important issue of the public subsidy currently flowing to Mulawa Holdings. As the Secretary of Treasury admitted to the Public Accounts Committee, the company pays considerably less than the market value for its licence (Challen 2003). The Secretary admitted to that Committee that no modelling was done on the value of this public licence before it was signed away in 2003 and this remains the case today. Analysts at ABN Amro and Citigroup have variously put the level of public monies foregone at between $130 million and $150 million (Clark 2004). Furthermore, the National Competition Council has argued that Tasmania is unable to demonstrate that the current contractual arrangements provide any public benefit for the reduced return (NCC 2004).

There are many unanswered questions relating to the social and economic impact of poker machines in Tasmania because gambling research has not been undertaken seriously prior to this inquiry. The inquiry itself was only agreed to as part of the negotiations to get the Betfair legislation through Tasmania's Legislation Council. In 2005, Anglicare published a comprehensive research report, *House of Cards: problem gambling and low income earners in Tasmania* (Law 2005). This research documented many personal stories of Tasmanians with a gambling problem and explored why they gambled, the impact of gambling on their lives and what they believed could be done to help them and others. Neither the Tasmanian Gaming Commission nor the Government responded to the recommendations of this study. Implementing regulations around technology, opening hours and bet limits could considerably reduce expenditure without affecting genuine recreational users or harming public finances to the level claimed. Responsible public policy means establishing the level of turnover where the net social and economic benefits (including recreational value) of poker machines corresponds with the net social and economic harm, and then taking concrete action to reach that target.

# 3. Poverty in Tasmania

Tasmanians are considerably poorer than other Australians and this has important implications for gambling policy. The mean weekly income in Tasmania is about 17% below the national average due to both the high number of people dependent on social security and lower average wages. The mean gross weekly income of all Tasmanian income units in 1999-2000 was $606 compared to $726 for all Australian income units, and the mean gross weekly income of Tasmanian employees was $864 compared to $966 for all Australian employees (ABS 2007a).

While there has been a growth in employment in recent years, this has mainly been in the casual labour market, with Tasmanian wages falling in real terms and the gap with the national average widening. For men, wages increased by 1.5% between May 2005 and May 2006, and for women, by 1.9%, compared to around 4% for Australia as a whole (ABS 2007a). Recent growth has not narrowed the significant difference between household incomes in Tasmania and those in the rest of the country. Moreover the large increase in property prices and rents in recent years (see Anglicare Tasmania 2007) means that the after housing incomes of most low income Tasmanians have actually fallen and disposable incomes have been further reduced.

There are also proportionally far more Tasmanians dependent on social security payments than in any other state, with 39.8% of Tasmanian income units relying on Government pensions and allowances as their main source of income, compared with 44.6% depending on wages and salaries. The comparison with Australia as a whole – 56.7% of all income units receiving wages and salaries and only 28.0% relying on pensions and allowances – is startling (ABS 2007a). The proportion of Tasmanians dependent on social security for their main income is close to 50% higher than the national average. Furthermore, with the highest rates of unemployment in the nation, including of long term unemployment, 25% of Centrelink recipients receive either Newstart or Youth Allowance, which provide the lowest levels of cash incomes, as their main source of income (TasCOSS 2005). This is 13% of the total Tasmanian population. Given these figures, it is not surprising that other research has found that 12.7 % of Tasmanians, including

14.1% of Tasmanian children, were living in poverty (defined as half the average disposable income) in 2001, more than in any other state or territory, and much higher than the national average of 9.3% (Kryger 2005).

It is not only individuals who are poorer in Tasmania, but families. Tasmania had 12,900 families in the bottom income quintile in 2004-05 out of a total of 54,100 families (McNamara et al 2004). Even other low income states, such as South Australia, where the comparable figure is 38,300 families out of a total of 171,500) have proportionally far fewer poor families. The combination of low wages and welfare dependency means that over 160,000 Tasmanians, including many in the workforce, have Commonwealth concession cards, the highest proportion of any state (TasCOSS 2005). That is, around half the Tasmanian population can be considered to be on a low income.

The social impact of low incomes in Tasmania is further exacerbated by the state having the highest costs for household essentials in the nation. The recent decrease in housing affordability removed the last buffer protecting Tasmania's low income earners from the fact that non-housing essentials like petrol, groceries and electricity bills have long been the highest in Australia, even exceeding costs in Darwin (Madden 2002). In 2003-4, low income households spent almost $50 per week more on average for goods and services than they earned through regular income, which indicates that a very large proportion of Tasmanian households not only have no spare money but are slipping further into debt (ABS 2007b). In 2003-4, the Australian Bureau of Statistics found that 52% of all low income households could not raise $2,000 to meet a crisis, 37.8% could not pay electricity, gas or phone bills on time, 13.5% could not pay car registration or insurance on time, 11.7% pawned or sold something, 11.8% went without meals, 8.9% were unable to heat their home, 14.7% sought assistance from welfare/community organizations and 26.4% sought financial assistance from friends or family. Almost all these figures are the highest of any state in the nation (ABS 2007b).

These figures broadly correlate with Anglicare's own research from a much larger sample group. Anglicare surveyed 3,800 Tasmanians in the autumn of 2005, with 2,106 responses. Post-stratification weighting of the survey was conducted to allow statements to be made about the whole Tasmanian community. The research found that among Tasmanians with a Health Care Card,

- 25 % could not pay phone or electricity bills on time;
- 20% could not pay their car registration or insurance;
- 12% pawned or sold something;
- 11% went without meals;
- 10% were unable to heat their home;
- 12% sought assistance from a community organisation;
- 22% sought financial help from family or friends;
- 9% had phone disconnected; and
- 20% did not seek health care when they needed it because of the cost (Madden and Law 2005).

The Tasmanian Government's own Healthy Communities Survey (DHHS 1999), the largest of its kind ever conducted in Tasmania, found that nearly a third of respondents had difficulty with their finances, especially with the payment of utility bills, and 40% indicated that they could not raise $2,000 in an emergency. The gap between income and expenditure for low income Tasmanians was so entrenched that thousands of people worried every day about whether they would have enough money to feed their family. The Healthy Communities Survey found that, in answer to the question, 'How often is the following statement true? "I worry about whether the food I can afford to buy for my household will be enough"', 40% of Health Care Card holders reported it to be occasionally, mostly or always true. For single parents with children the figure was 60%. Even the figure for all Tasmanians was 24%. It is worth noting that 11% of respondents also reported to having being affected by a family member or friend's gambling.

The evidence from the available social and economic research data on Tasmania is clear: Tasmanians have the lowest incomes, the highest costs, and the least discretionary income in the nation. As Saul Eslake, Chief Economist at the ANZ Bank, has argued, "the incidence of poverty – in the sense defined by the Nobel Prize winning economist Amartya Sen as 'the deprivation of basic capabilities rather than merely as lowness of incomes' – is greater in Tasmania than in any other jurisdiction in Australia with the exception of the Northern Territory" (Eslake 2005). Tasmania is the state that can least afford its gambling losses. Yet this social data has never been considered by policy makers, regulators or government in the context of the explosion in poker machine losses during the past decade. Current policy is justified by focusing exclusively on higher interstate losses in raw dollar terms without putting such figures in the context of what money people actually have to spend. Because the majority of Tasmanians do not have the money available to support regular gambling losses, a far higher proportion of poker machine losses come directly out of essential household expenditure, such as money for food and electricity.

Saul Eslake also recently argued that the biggest single difference between Tasmanians and the rest of the nation is the "lower level of educational attainment of Tasmanians compared with other Australians", with some 44.1% of 15-64 year olds in Tasmania not having completed year 12, compared with a national average of 32.3% (Eslake 2005). This lack of education should be considered in the context of the sophisticated, unregulated and unmonitored advertising for poker machines and their deliberately addictive design. As Eslake points out, "there is an inverse association between educational attainment and some of the social conditions which are in turn highly correlated with poverty, such as teenage motherhood and susceptibility to alcohol abuse, problem gambling and the like."

# 4. The background to poker machines in Tasmania

## 4.1. A short history

One of the many myths concerning poker machines in Tasmania is that the explosion in turnover is only due to their introduction into hotels and clubs on 1 January 1997. In fact this is only half (just over a billion dollars) of the story. Of almost equal importance (or just under a billion dollars) is the transformation of the state's casinos during the same time period and as a result of the same legislation, into giant poker machine barns. Table gaming and tourists have now almost disappeared from the state's two casinos, with around 95% of casino gambling profits coming only from poker machines (TGC 2006, OESR 2006).

This dramatic shift in gambling expenditure occurred because the same legislation which licensed the spread of poker machines also abolished existing restrictions on the type of poker machines allowed in the casinos. Before 1997, Tasmania applied restrictions on the type of poker machines allowed in casinos, similar to restrictions still applied at Burswood Casino in Western Australia. The restrictions had greatly curtailed the speed at which money could be lost because the law required that machines simulate casino games – that is, they had to be 'played' rather than just have a single button pressed before they could lose money. The first of these machines, 50 black jack machines, were authorised by Parliament to be installed in 1986; even though the number of casino based machines had increased to 460 by 1993, the restrictions meant that table gaming continued to comprise the majority of casino gambling expenditure (*Hansard* 1993b).

In 1993 the Government introduced legislation to abolish these limits and to introduce poker machines into hotels and clubs, largely on the basis that it was the only option open to significantly increase state taxation revenue and address the state's budget crisis. The issue was considered by a Legislative Council Select Committee which recommended that the legislation be passed, subject to a number of conditions including an open tender for the licence to maximise government revenue, continued limits on the technology to be employed, and strict bet limits (Legislative Council Select Committee 1993).

In late 1993, after three days of secret negotiations, the Government announced that it had signed a Deed which granted monopoly ownership of all poker machines in Tasmania to Mulawa Holdings in return for taxation revenue and investment guarantees. Part of the agreement was that existing constraints on the type of poker machines allowed in Tasmania were to be abolished. However, the final passage of the Gaming Control Act through the Legislative Council, which was controlled by independents, was only secured with three legislative safeguards and three parliamentary guarantees. The safeguards achieved by the Legislative Council were:

- The creation of an independent Tasmanian Gaming Commission (TGC) which would regulate gambling and "investigate and make recommendations to the Minister on matters relating to gaming policy." This advice was be informed by regular research. So extensive were the powers for the TGC envisaged by Parliament under the Gaming Control Act that one M.L.C., Mr. Bailey, noted that "almost everything in relation to this bill is totally at the discretion of the Gaming Commission" (*Hansard* 1993b).
- Expenditure on the new Community Support Levy was to be hypothecated and administered by the independent TGC to prevent political interference in its expenditure.
- One of the areas of hypothecated expenditure of the Community Support Levy was to be research. Thus the TGC would have both the control of the funds and the legal mandate to fund the research needed to inform its policy advice to the Minister.

The guarantees made by the Government to Parliament were:

- While bet limits were only specified for a two year period under the Deed, after this time they would be set by the TGC.
- While the then Gaming Commissioner, the Secretary of the Department of Treasury and Finance, would hold the Chair of the new TGC, this would only be an interim arrangement for a maximum of one year.
- A gambling prevalence study would be completed to provide baseline data for future research. (These were conducted in 1994 and 1996).

As part of the preparations for the introduction of the new laws, Anglicare Tasmania was commissioned to conduct research and make recommendations regarding 'patron care' (Anglicare Tasmania 1997). Anglicare developed its recommendations in close consultation with industry, and proposed a self-regulatory model with one strict condition – that this model be implemented on a trial basis and that the code of self regulation be evaluated between June and December 1998.

Poker machines began to be rolled out into Tasmanian clubs and hotels on the 1 January 1997. It is Anglicare's view that almost all the safeguards and agreements achieved by Parliament and the community sector were then ignored.

Most critically, the TGC was never established as truly independent of Government. Three members were formally appointed, but they only met monthly and have never been able to operate as anything more than what amounts to a company board with a broad oversight mandate. The Commission had and has no management staff, offices, telephone number or website. All its resources are provided by the Department of Treasury and Finance, and in all meaningful senses the TGC operates as a division of this Department. The Executive has effectively overridden Parliament and defined for the TGC a residual 'non political' regulatory role which can be safely performed by public servants, managers and employees.

Moreover, right through the period of the first Deed and until the signing of the second contract period, the Chair of the TGC was the Secretary of the Department of the Treasury and Finance, the same Department that also carried responsibility for gambling policy. Not only was this contrary to a specific promise made to Parliament, but it meant that gambling policy advice and 'independent' policy advice were delivered to the Minister by the same person. Even now they continue to be delivered by the same Department, and it is not surprising that there has never been a single documented example of them having differed. The Government defends the arrangement on the basis of efficiency and synergies. The failings of the TGC and the importance of reforming it to accord with the original agreement with the Legislative Council and recommendations relating to regulatory structures made by the Productivity Commission was documented in detail by an Anglicare discussion paper in 2004 (Law 2003).

Not surprisingly, under its current structure, the three TGC board members also had no capacity to administer the Community Support Levy (CSL) as Parliament had intended, and this became the responsibility of various government departments. Most critically, responsibility for research was transferred to the Department of Health and Human Services (DHHS). For three years no research at all was done, but after a campaign by community organisations, the Government finally agreed to do a follow up to the 1996 baseline study. Calls for a full social and economic study of the impact on poker machines were repeatedly and publicly vetoed by both the Premier and the Minister for Gaming, without reference to the TGC and without eliciting any comment from them. Following criticism from the Auditor-Genera in 2004l that millions of dollars of the CSL had remained unspent (Anglicare Tasmania 2005), DHHS formalised the existing administration arrangements through the establishment of the Gambling Support Bureau. Part of the under-spending issue was addressed by funding all of the new public service positions out of the CSL (an arrangement that continues today) and diverting many of the remaining funds to other areas of the stretched DHHS budget.

According to the Gambling Support Bureau website, "[t]he Gambling Support Bureau develops manages (*sic*) research policy and funds, through the Community Support Levy, gambling research in Tasmania."[2] The website explains that, "[t]he Minister for Health and Human Services has responsibility for the management of that 50% of the CSL allocated to gambling support services, research, community education and 'other health services' as well as that 25% of the CSL allocated to charitable organizations", while the Minister for Racing, Sport and Recreation has responsibility for managing the other 25% of the levy for the benefit of sport and recreation clubs.[3]

Responsibility for regulatory change since 1997 has also been devolved by the TGC, this time to a consultative body, the Gambling Industry Group. Gambling regulation reform in Tasmania is thus pursued in Tasmania according to a consensus model with industry, and not surprisingly, there is not a single example of any regulatory change being implemented since 1 January 1997 that has impacted on turnover, other than a ban on smoking in all Tasmanian hotels, which was developed through a separate policy process.

But the TGC continues to insist that Tasmania is a model for other states and is leading the nation in regulatory reform (TGC 1997-2006), despite the fact that the critical recommendation from Anglicare's 1997 report, that the code of industry self-regulation be evaluated between June and December 1998, has been ignored, despite almost a decade of continual lobbying on the issue. The industry refuses to consider a review, and the TGC not only accepts the veto, but continues to express full confidence in the effectiveness of what is a totally unmonitored, unevaluated code. Recent correspondence has confirmed that a commitment made in 2004 to review the code of practice has not been followed up (Eastaugh 2004; Atkinson-MacEwan 2007). The argument is that this is the responsibility of Gambling Industry Group, and that the TGC would regulate if it was required. But how can the TGC know if it further regulation is required without any research, monitoring or evaluation of the existing system? Meanwhile, feedback from problem gamblers bears out the finding of the Productivity Commission in 1999 – that real regulation, not voluntary codes of conduct, are what is required if governments are serious about controlling poker machine turnover.

The guarantee made to Parliament in relation to bet limits was also quickly forgotten. On 1 January 1999 the bet limits on Tasmanian poker machines specified under the Deed expired. In the three months leading up to that date the Minister for Racing and Gaming, Mr. Lennon, publicly vetoed the possibility of new bet limits, wrongly claiming that this was impossible under the Deed. The TGC, which Parliament had been assured would set the new bet limits, made no public comment on the Minister's policy position.

The considerable publicity associated with the 1999 Productivity Commission inquiry into gambling produced a brief flurry of activity, including the commissioning of a research report from Anglicare, *Tasmania Responds*, which was never publicly released by the Government. Its recommendations, like the Productivity Commission findings, were ignored. The TGC's position in response to both reports was that no change was necessary. The industry, after nearly a year of consensus-style negotiations, eventually accepted one recommendation, and clocks were thereafter placed in all gambling venues.

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[2] <www.dhhs.tas.gov.au/agency/pro/gambling/research/php>, accessed 25 September 2007.

[3] <www.dhhs.tas.gov.au/agency/pro/gambling/structure.php>, accessed 25 September 2007.

Perhaps the focus provided by the research did facilitate the 1999 action taken by the TGC to ban the provision of cash in non-casino gambling venues. This is the only example of action ever taken by the TGC which would directly reduce turnover and thus provide a real benefit to problem gamblers. The change lasted three days. Before it was implemented, industry pressure ensured that the decision was reversed on the basis that “remote communities” were dependent on gambling venues for banking facilities. These communities were never identified until the Secretary of the Department of Treasury and Finance (at the time also the Chair of the TGC) testified to a 2002 Legislative Council Select Committee that examples included Cygnet and Sheffield – the former in fact has a bank and the latter has a number of competing businesses offering EFTPOS and community banking facilities (Challen 2002). No other communities have ever been publicly identified and Anglicare argues that even if any are belatedly found, solutions need to be found on a case-by-case basis, as clearly there are other difficulties, including for problem drinkers, associated with a reliance on a hotel for banking.

Not surprisingly, given the regulatory environment, turnover on poker machines grew much faster in Tasmania than the modelling provided to Parliament in 1993 had predicted. This modelling had estimated that total annual expenditure on gambling would increase by between $42 million and $76 million (*Hansard* 1993b). In reality, the Tasmanian State Budget papers from 1997 to 2004 indicate that the increase consistently exceeded Treasury’s forward estimates. In response, community concern about the increasing roll out of poker machines also grew. The Government’s position was that nothing could be done until the current Deed had expired in 2008 because of sovereign risk issues. Clear undertakings were given that the community could have its say prior to this date, and that the social and economic impacts of poker machines would then be fully considered.

During the 2002 state election campaign both the Government and Mulawa Holdings made a number of public statements that the Tasmanian market had now reached “maturity” and that that there would be little or no further increase in the number of poker machines. This claim seemed to be borne out by the fact that in both of the previous two financial years there had in fact been a slight decrease in the number of poker machine venues (TGC 2002, 2003). In its 2002-03 Annual Report, the TGC stated that community consultations would be held in the first half of 2003, due to a clause in the Deed which required negotiations between the TGC and industry during that period to set the future maximum number of poker machines allowed in each venue (TGC 2003). Given the fact that the Government had always so vigorously defended the need to fully implement the Deed, community organisations became concerned when the consultations did not eventuate, but no explanations were given for this.

Much later it emerged, through a Freedom of Information request, that from late January 2003, soon after the re-election of the Government, that the Government had begun secret negotiations with the Managing Director of Mulawa Holdings, Greg Farrell, to extend the existing Deed (Clark 2004). On the Government’s side the negotiations were conducted by the Secretary of the Department of Treasury and Finance, who was still the Chair of the TGC, Don Challen. The TGC had nothing to say to the community sector about the change of policy or the new agreement, which was announced as a fait accompli in May 2003. The new Deed extended the monopoly licence until 2023, imposed a ‘cap’ on poker machine numbers that actually significantly increased the existing number of machines, and only marginally increased taxation revenue, by about $2 million per annum, although it virtually abolished taxation on table gaming. Mulawa Holdings was also required to invest in a resort development at Coles Bay which had been announced the previous year. Essentially the Deed locked in the status quo until 2023.

Anglicare opposed the extension of the Deed. We did so for a number of reasons. No research had been conducted into problem gambling in Tasmania other than one telephone survey, which was now three years out of date and which had highlighted very disturbing trends. No social or economic impact study had been done to determine the socially or economically sustainable number of machines. The most valuable public licence in Tasmania was being given away *ex gratis* without any modelling on its market value. The agreement did not impose a 'cap' but further increased the number of machines in what the industry had already admitted was a fully 'mature' market. There had been no opportunity for community consultation, despite earlier commitments, and public input into this question was now to be put off for another 15 years, extending the total time in which 'sovereign risk' had prevented the Tasmanian people from having their views heard to three decades. There was concern, therefore, both with the outcome and the process used. The specific failure of the TGC to take any independent action, or inform community groups of the real reason for the delay in the promised consultation, was final confirmation to most in the community sector that the TGC operated as a part of the public service.

The National Competition Council, the only outside body to examine the veracity of the threat made to Tasmania's Legislative Council that unless they passed the legislation unamended, poker machine numbers would increase by 1,500, pointed out in its 2004 report

> that in 2001-02 and 2002-03, more gaming machine licences were surrendered than new licences issued. This suggests that the gaming machine market had reached saturation point, at least under current licensing requirements. In the event that it did not gain an extension of exclusivity, Federal Hotels foreshadowed changes to its business model (presumably a relaxation of the conditions imposed on new licensed venues) in order to expand gaming machine numbers. However, if Federal Hotels faced the prospect of losing exclusivity in 2008, expansion of machine numbers would be a strategy of doubtful merit, as it would result in the company owning a large number of near new gaming machines without certainty about the right to operate them in future (NCC 2004).

The only Parliamentary scrutiny the Deed received was a very brief inquiry by Parliament's Public Accounts Committee which was "unable to determine from the submissions whether or not the increased financial return to the state flowing from the renegotiated Deed meets the test of quality" (Standing Committee of Public Accounts 2003). The reason that the Committee was unable to come to an opinion on the financial quality of the contract was that the Secretary of the Department of Treasury and Finance openly admitted that the Government had not done any modelling on the value of the licence or even completed an interstate taxation comparison (Challen 2003).

Since the passing of the Deed, there has been apathy concerning poker machine policy in Tasmania, despite the grim information about the increase in problem gambling contained in the 2005 prevalence study. The TGC has not issued a single media release since January 2006, and it is now over five years since it sought community input on any issue which came before it.

This inquiry was funded as part of the political negotiations around the Betfair license. The TGC did not accept that there are any outstanding concerns needing to be researched. Given this, it is not surprising that the call for public submission to this inquiry was not advertised on the TGC's page on the Treasury website, or on the Gambling Support Bureau or Government public notices web site. It was only after Anglicare drew this fact to the Government's attention that, with less than two weeks to go before submissions closed, information was belatedly posted on the TGC page and on the Treasury home page, and an extension of time was granted.

## 2.2. Poker Machines today: exposing the spin

In the latest annual report of the Tasmanian Gaming Commission the Chair of the TGC writes,

> Tasmanian per capita gambling expenditure in 2004-05 was $814.45, making it the second lowest of any state or territory… Ignoring Western Australia, Tasmania has the lowest per capita expenditure on gaming machines in hotels and clubs…Within Tasmania there has been a slow-down in growth of expenditure on gaming machines for 2004-5 of 1.66 per cent compared with 10.6 per cent growth in 2003-4 and 13.1 per cent in 2002-3. These figures demonstrate that the regulation of gaming in Tasmania is being maintained on a sound basis (TGC 2006).

What is not said in this summary of the TGC's position reveals as much as what is said. Per capita gaming expenditure in Tasmania has grown faster than anywhere else in Australia during the last decade. It is still marginally lower than other states, but once it is remembered that per capita household disposable income in Tasmania is close to 20% below the national average, this statistic becomes a matter of concern, not of reassurance.

The slow down in growth during 2004-05 in expenditure on poker machines was almost all attributable to a quite separate public policy: the introduction of a smoking ban in hotels, not to "sound" gambling regulation. Experience from Victoria suggests that the effects of smoking legislation are short term: gambling expenditure in Victoria initially declined after smoking bans were introduced, but at an estimated $2.5 billion in 2007, is now at its second highest level since poker machines were introduced in 1992 (Houston 2007). Indeed, in Tasmania, unlike in Victoria, there has been no short term decrease in expenditure: growth has continued, although at a slower rate. Moreover, to associate sound gaming regulation with the moderate percentage increase of 2004-05 raises obvious questions about the quality of regulation during the phenomenal growth of the preceding decade.

Although Tasmania does have "the lowest per capita expenditure on gaming machines in hotels and clubs", what this statistic disguises is that the state has one of the highest rates of expenditure per capita on poker machines overall. These figures are not presented in the TGC annual report, but by combining them with the Australian Gambling Statistics (OESR 2006), it can be seen that of the $961 million gambling turnover in Tasmania's two casinos during 2005-06, poker machines accounted for $915 million or 95.2% of the total (TGC 2006, OESR 2006). A residual table gaming presence has only been ensured by the virtual elimination of taxes on this form of gambling under the new Deed; only $73,000 in tax was paid on table gaming in 2005-06. Therefore, despite the fact that the state now attracts very few of the tourist gamblers or 'high rollers' who inflate interstate casino gambling figures, per capita gaming expenditure in casinos in Tasmania is much higher than in any other state.

In 2004-05, the latest figures available through Australian Gambling Statistics, the per capita turnover at casinos was $2,779 in Tasmania compared with $370 in South Australia, $1,935.41 in Queensland and $977.83 in Western Australia. And as far as gaming is concerned, Tasmania's two casinos have become super-sized poker machine barns that very effectively target the local market for almost all their gambling revenue. They account for nearly half (about 48%) of total poker machine expenditure in the state (OESR 2006). In this context, a reduction in poker machine expenditure in clubs and hotels in Tasmania is a far from reassuring statistic. The reality is that when the TGC's casino statistics are included in their poker machine turnover figure (after deducting 5% for table gaming), per capita poker machine expenditure in Tasmania was around $600, roughly comparable with Queensland, Victoria and South Australia, and probably the highest in Australia outside New South Wales as a proportion of household disposable income (OESR 2006).

Even though about half the poker machine turnover in Tasmania is in the two casinos, as of 30 June 2006, they housed just over a third of Tasmania's machines – 1,280 machines out of a total of 3,680 (TGC 2006). Part of the explanation for the very high turnover in the two casinos is that they are subject to considerably less regulation. For example there are no bet limits and less control on the types of machines permitted, unrestricted cash access is available, and there is a generous loyalty scheme to reward heavy users. The average bet per spin on casino poker machines in 2004 was $7 (Eastaugh, 2005). Given the well-documented preference of genuine recreational gamblers for low denomination games (Productivity Commission 1999), the average spin per heavy user is likely to be higher.

Player information data compiled and collected by Mulawa Holdings for their 'gold card' loyalty scheme is not released by the company. According to a recent study on poker machines commissioned by the former Victorian Gambling Research Panel (Australian Institute of Primary Care 2006), such information, collected by the industry to maximise its profits, should also be used by the Government to regulate the industry to achieve harm minimisation. Given that there is no competition for Mulawa Holdings in the provision of poker machines in Tasmania, the usual 'commercial risk' argument for not releasing this information does not apply. The detailed information on gold card users could be made available without breaching customer confidentiality, along with data collated by Mulawa Holdings' Network Gaming subsidiary on poker machine users in hotels and clubs. This information would provide valuable information about the expenditure and player behaviour of heavy users.

The issue of poker machines in casinos also requires specific attention not only because the social costs are high, but because the economic benefits are even more limited. These machines are taxed at a lower rate, because the Community Support Levy does not apply, unit costs are lower due to the large concentration of machines, employment opportunities are lower and none of the gross profits are distributed to hotels or clubs.

# 5. Problem gambling and poker machines in Tasmania

## 5.1. How many problem gamblers are there in Tasmania?

There is no serious debate that telephone-conducted prevalence studies underestimate the level of problem gambling because of the difficulty in getting truthful and accurate answers about 'bad' behaviour: expecting people to be up-front about a current addiction is almost a contradiction in terms. This was borne out the Productivity Commission which found that spending on gambling reported in the Household Expenditure Survey amounted to only one fifth of the industry's revenue in that year (Productivity Commission 1999). And as the Chair of the Productivity Commission, Gary Banks, recently pointed out, a national survey of problem gamblers in treatment found that only 30% said they would have answered questions about their gambling truthfully prior to seeking treatment (Banks 2007). Professor Linda Hancock of Deakin University has argued that the definition of problem gamblers used in the studies like the one in Tasmania excludes thousands of binge gamblers, many of whom were paid fortnightly or monthly, by restricting the definition of a problem gambler to those playing more than once a week (Houston 2007).

Under-reporting in telephone surveys is likely to be even higher in Tasmania because so many low income earners have no fixed telephone. A recent survey of emergency relief clients in Tasmania (Madden 2004) found that 45% had no home phone and that increasingly low income earners used pre-paid mobiles. Anglicare's 2005 Tasmanian Community Survey people found that 5% of Tasmanians had only a mobile phone and that for 18-24 year olds the figure was 22% (Madden and Law 2005). This younger group comprises over a third of the people who use poker machines weekly or more (Roy Morgan 2006). For Health Care Card holders the proportion who exclusively rely on mobiles was 11%, and 9% of all Health Care Card holders had had their phone disconnected in the past year (Madden and Law 2005).

For all these reasons, and others that are well documented in the literature (Productivity Commission 1999), the findings of problem gambling surveys are usually used with caution and related questions asked of family and friends are used to test data which relies on self-disclosure. As the Productivity Commission (1999) has warned, measures need to be "interpreted carefully and augmented by other information on the harmful impacts of gambling".

The Victoria University economist, James Doughney, pointed out in a recent research paper that "whenever anyone uses prevalence estimates for 'problem gambling', such estimates *must* be used transparently and with the caveat that they are likely to underestimate the true level of the problem massively" (Doughney 2007 – emphasis from original). To date, such widely accepted qualifications have never been acknowledged by the Tasmanian government or the TGC.

Even when the Department of Health and Human Services conducted the largest ever postal survey of Tasmanians involving 15,112 people (DHHS 1999) about two years after the January 1997 gambling reforms, and found that 10.5% of respondents thought that a family member or friend's gambling had affected them and 4.9% thought their own gambling had been a problem, there was no response from the TGC.

Anglicare is particularly concerned that, on our reading of the Tasmanian reports (Roy Morgan Research 2001, 2006), the analysis contained in the two prevalence studies conducted in 2000 and 2005 is flawed. The data shows that problem gambling prevalence in Tasmania is neither low, in absolute or comparative terms, nor stable. In reality, the number of people experiencing gambling problems is increasing rapidly, and may now rank among the highest of any state or territory in the nation.

It is useful to compare the Tasmanian study conducted in 2005 (Roy Morgan Research 2006) with an almost exactly contemporaneous South Australian study (South Australian Department for Families and Communities 2006). The South Australian survey contacted 17,000 adults and 605 16-17 year olds using a very similar telephone based methodology. But there the similarities end. The survey did use the South Oak Gambling Screen (SOGS) – a measure of problem gambling designed to measure problem gambling in clinical populations – but the report's methodology, findings and analysis acknowledged the well-studied limitations of SOGS[4]. The Tasmanian analysis however made no acknowledgement of there being any concerns with SOGS, just describing it as "an internationally accepted questionnaire" (p.v[5]).

Neither did the 2006 Tasmanian report explain why the survey now also incorporated the alternative Canadian Problem Gambling Index (CPGI), except for the confusing comment that the latter was "a set of questions designed to identify problem, moderate risk and low risk gamblers while reflecting a more holistic view of gambling and placing it in a more social context than SOGS, used as an alternative to SOGS" (p.v). However, in the body of report, it was stated that "CPGI questions were administered to regular gamblers only", while SOGS questions were asked of respondents classified as "regular or non regular gamblers" so that "the CPGI-based estimates effectively assumed that problem and moderate risk gamblers are found only among regular gamblers" (p.128). The agreed definition of problem gambling now endorsed by all states and territories through the Ministerial Council on Gambling is, "problem gambling is characterised by difficulties in limiting money and/or time spent on gambling which leads to adverse consequences for the gambler, others, or for the community" (South Australian Department for Families and Communities 2006). In other words, non-regular gamblers can have a gambling problem. Especially for those on low incomes, a large proportion of a fortnight's income can be lost on a

[4] Some of the limitations of SOGS are described by one of Anglicare's gambling support workers as follows: "Many of my clients would not tick enough boxes on the South Oaks Gambling Screen to rate as a problem gambler, even though they may have lost all their savings, or become bankrupt, or considered suicide because of losses due to gambling. Probably at least a third of my clients have lost $60,000 or more but the South Oaks screen does not ask about total losses. I am particularly concerned for the elderly, who have no way of earning money to replace what they have lost. For example, an elderly woman's husband dies. She receives a lump sum from his life insurance. She can't bear the loneliness of being in the house alone without him, so goes to a 'safe' place – the venue. Playing pokies numbs her for a while. When she realises she has played away the entire insurance benefit she is filled with shame – what would he think of her? She thinks she has a gambling problem. But according to South Oaks she is not a problem gambler because she can't say yes to questions like, has any one argued with you about your use of money? have these arguments centred around gambling? have you claimed to be winning when you were losing? have you lost time from work or study due to gambling? have you hidden betting slips? None of these questions apply to old people living alone."

[5] All references to page numbers in sections 5.1, 5.2 and 5.3 refer to the pages of the 2005 Tasmanian prevalence study (Roy Morgan Research 2006) unless otherwise stated.

single pay day or monthly binge. The Tasmanian report does acknowledge that the methodology may "very slightly underestimate the prevalence of problem gambling" (p.128) but provides no measure of how much the adjustment factor might be. Nor is this qualification included in the main findings of the report.

Once the CPGI figures included in the body of the report are collated, it appears that the problem gambling prevalence rate in Tasmania was 1.75%, higher than in South Australia, roughly comparable with the prevalence rate in Victoria, which is 1.88%, but lower than the prevalence rate in Queensland, which is 2.52% (p.131). It appears from these figures that Tasmania has a similar level of problem gambling to Victoria.

The main conclusion of the 2006 report is that "[w]hen compared with the most recent estimates from research in other states and territories, Tasmania has one of the lowest prevalence rates for problem and at risk gamblers according to SOGS. This is consistent with the findings of the 1999 Productivity Commission survey" (p.v). But the Productivity Commission survey was based on a sample of only 480 Tasmanians, which is too low to have much relevance, as the Productivity Commission itself acknowledged (Productivity Commission 1999). It was conducted shortly after poker machines had been introduced into pubs and clubs, during the first two years of the roll-out, there were very low legal maximum bet limits on poker machines, when fewer machines were allowed in each venue, and when total turnover was considerably lower than it was by 2005. Anglicare's view is also that the 2006 report did not show that "Tasmania has one of the lowest prevalence rates for problem and at risk gamblers according to SOGS". The 1.41% of Tasmanians found under SOGS to be in the at risk and problem gambling category (p.135) represented a prevalence rate higher than that in Victoria in 2003 (1.12%) (Centre for Gambling Research 2004 in Roy Morgan 2006) and broadly comparable to prevalence rates in other states.

The 2006 report concluded that problem gambling had not increased in Tasmania because the apparent increase in the at-risk group "was not statistically significant" (p.v). Yet the at risk group represented 1.23% of the adult population, nearly double the 0.65% observed in 2000 (p.131). The body of the report itself acknowledges this, with p.130 stating that, "It is indeed likely that the prevalence of at risk gamblers in Tasmania between 2005 and 2000 has increased."

The finding that the Tasmanian at-risk rate, at 1.23%, was much higher than in Victoria, at 0.82%, was explained on pp.131-2:

> At first glance, Victoria appears to be an exception, with a lower proportion of at risk gamblers compared to Tasmania. However, the SOGS questions in the Victorian survey… were offered only to regular gamblers, whereas the SOGS questions in the 2005 Tasmanian survey were offered to both regular and non-regular gamblers. A revised 2005 estimate for comparison purposes, based on prevalence among regular gamblers alone, would suggest that 0.13% of Tasmanian adults are problem gamblers according to SOGS, with a further 0.87% falling into the "at risk" category, again indicating that the prevalence rates in Tasmania are among the lowest.

As stated, the report argues elsewhere that there is no need to adjust Tasmania's CPGI score, even though the CPGI questions were only offered to regular gamblers. Reducing the SOGS figures by a sizeable adjustment factor on the basis that this is necessary for valid comparisons with a state in which the questions had only been asked of regular gamblers is somewhat of a contradiction.

The main purpose of the study was to measure the level of problem gambling in Tasmania and to establish whether this has changed. The summary of the report did not mention that problem gambling in Tasmania, according to the preferred SOGS measure, seems to be rapidly increasing. Yet the body of the report indicates that the number of Tasmanians who had a SOGS score of five plus (that is, those who were problem gamblers or at risk of becoming so) increased between 2000 and 2005 from 3,100 people (0.9% of the population) to 5,200 (1.41%), an increase of over 50% (p.135). The number of those with scores of SOGS six plus went from 2,100 people (0.6% of the population) to 4,100 (1.12%), an increase of 2,000 people (p.135). And given that for each person with a gambling problem another five to ten people are affected (Productivity Commission 1999), it is likely that during the five years prior to the survey, somewhere between an additional 10,000 to 20,000 Tasmanians were directly affected by the growth in problem gambling.

Anglicare is concerned that these findings, taken from the body of the report, were not included in the executive summary, which stated that the "prevalence rate of problem gambling for 2005 is the lowest observed for all waves of the survey" (p.v). It is the executive summary which was publicised and which is most regularly cited by Government, the TGC and the industry.

As already noted, prevalence data must be used with caution. With this caveat, other figures from the body of the report (p.137) do lend considerable credence to the argument that problem gambling is rapidly increasing in Tasmania. For example:

- 42% of those surveyed said that they personally knew of someone who had experienced serious problems with their gambling.
- 6.1% of those surveyed said that a family member had experienced problems in the past 12 months.
- 1.1% of those surveyed said that they had experienced difficulties because of their gambling in the past 12 months.

The report presents the proportion of respondents who said that they or a family member had experienced gambling problems with the last 6-12 months as 6.1%, arguing that this is a "similar result" to that in 2000, 5.6% (p.v). Anglicare's analysis is that this figure should be 7.2%, which means that the proportion increased by over 25% between 2000 and 2005. And in 1996, before poker machines were introduced into hotels, the proportion was 2.3% (p.137), which means that the number of Tasmanians who either admit to having a problem with excessive gambling themselves or who have a family member with a problem rose by over 300% in less than a decade. When the time constraint of within in the last six or twelve months is removed, the proportion who said they or a family member had a gambling problem is 12.2% (p.137).

The report turns the level of problem gambling into a positive, by linking the figure to awareness of problem gambling services.

> The fact that the growth in awareness of problem gamblers between 2000 and 2005 far outstrips the growth in the prevalence of problem and at risk gamblers in the same period suggests that this change in awareness can be attributed to a substantial increase in community awareness of problem gambling and a greater readiness of family members to be sensitive to its occurrence within their network of relations. It may also indicate a greater readiness of problem gamblers to share their concerns within the family. If correct, this suggests that compared with 2000, the social context in which problem gambling is occurring in Tasmania in 2000 may be more helpful

> to problem gamblers, and that it may be increasingly understood that problem acceptance and recognition are crucial first steps in the process of change or treatment, and social support from the family is a key factor in the successful resolution of problems (p.138).

However, increased awareness of problem gambling services does not necessarily mean that there is increased awareness of problem gambling. The fact that awareness of problem gambling services has increased rapidly is not surprising given that the Break Even network has only been established since 1997 and has been promoted through major advertising campaigns, the most recent, which just preceded the 2006 survey period, involving extensive television and print media advertising. It is more likely that Tasmanians have always known it was possible to have problems with gambling but only recently found out the name of the support service. The only program to pre-date Break Even, Gamblers Anonymous, had a very high awareness level of 71% even in 2000 (p.159).

## 5.2. Who are Tasmania's regular poker machine users?

Industry data from Victoria has confirmed that a small minority of poker machine users account for the majority of the profits. According to Tattersalls and Tabcorps, 15-20% of poker machine users (about 6% of adult Victorians) provide them with about 60-80% of their revenue (Doughney 2007). This figure is broadly consistent with Productivity Commission research (Productivity Commission 1999). Applied to Tasmania, it would mean that 10,000-20,000 Tasmanians are responsible for over $200 million in losses a year, $10,000-$20,000 dollars each.

Data in the body of the 2006 Tasmanian prevalence study also indicates that recreational poker machine users are a minority, and that the rapid increases in turnover have been driven by problem gamblers. For example, between 2000 and 2005 there was a massive increase in expenditure per session – a 67% increase in pubs and clubs and doubling in casinos (pp.vii-viii). The study also pointed to the fact that heavy poker machine users were particularly attracted to casinos, with the proportion of Tasmanian poker machine players spending more than $51 on poker machines at a casino doubling since 2000 (14% compared with 6%), and the average spend per session increasing by 51% to $43.20 in the casino, which was double the spend in hotels (p.vii). As previously stated, recreational users prefer to spend smaller amounts.

The demographic profile of heavy poker machine users confirms that they are predominantly drawn from lower socio-economic groups and particularly unable to afford their losses. Those who used the poker machines at the casinos at least weekly were more likely than the general population to have lower levels of educational attainment, be on an income of less than $40,000 annually and be out of full time employment (p.84). People on low incomes were even more over-represented among regular users of poker machines in hotels and clubs, perhaps because of the concentration of poker machines in more disadvantaged suburbs and regions (p.87). The 2006 prevalence study found that heavy poker machine users in hotels and clubs were more likely to be earning between $10,000 and $29,999 annually, and to have left school early (p.102).

The 2006 study also found that while three in ten poker machine players in hotels spent less than $5 per session, the average spend per session was $22. Once this numerically-large but turnover-small group of recreational users are removed from the data, it can be seen that seven in ten users are losing an average of $30-$40 per session (p.87). The body of the 2006 study points to the depth of the losses routinely suffered by people with low incomes. In answer to the question, "Approximately how much money did you spend (out of pocket) on the LAST day/week you played?", 25% cent of those who spent $21-$50 at a club or pub earned less than $20,000 per year (p.102). Only 18% of big poker machine spenders earned more than $50,000. The figures for casinos are higher: 32% of those spending $21-$50 in their last playing session earned less than $20,000, and only 12% of regular players who spent $21-$50 earned more than $50,000. It is also important to consider that low income earners would generally have much less than $50 to spend other than on pay day, having low weekly incomes and usually no savings. Therefore, their last spend might have been low in dollar terms but in fact represent a very high proportion of their remaining money, perhaps even all of it. When half the Tasmanian population have incomes so low that they are eligible for a Health Care Card, even average spending per weekly session in the casino, about $40, represent losses that would cause enormous stress on the household budget and lead to sacrifices in essentials such as food and heating. Previous Anglicare research into problem gambling has found a financial loss as low as $15 per fortnight caused problems for research participants because of their low incomes and limited financial resources (Law 2005).

Research conducted by one large Hobart emergency relief provider found that 11% of their clients either had gambling problems themselves or had been adversely affected by gambling problems of a family member. Emergency relief assistance provided to this group of clients totalled 18% of the total services provided by the agency (Knox 2001).

When a person's income cannot support even average losses, it is likely that people will go into debt. In the Productivity Commission survey, 50% of people who had a problem with their gambling went into debt to finance their gambling (Productivity Commission 1999). That finding dates from 1999. The Anglicare research found that people who went into debt while on a low income did not have the spare resources to buffer them against rising interest rates or a deadline for repayment, and that many problem gamblers, in desperation, gambled even more in the hope of winning their money back (Law 2005). The Productivity Commission (1999) found that when all legal sources – income, debt – were exhausted, problem gamblers may resort to illegal activities to obtain the money to gamble. The Commission found that about 10% of people with gambling problems – about 60% of those in counselling – had committed a crime in order to finance their gambling.

The Productivity Commission (1999) found that on average, people with a gambling problem spend 22% of their household income on gambling. The analysis above also suggests that the majority of regular players are losing a significant proportion of their income on poker machines, causing immense hardship to themselves and their families.

## 5.3. The targeting of young people

In 2005 over one third of regular poker machine players in Tasmania came from the 18-24 age group, even though they comprise only 12% of the population. Of those who played poker machines at the casino at least weekly, 36% were in the 18-24 age group and in hotels and clubs 18-24 year olds made up 34% of regular users (pp.22-23). The stereotype of the typical poker machine regular user being an older person is not applicable to Tasmania. In fact the 50 plus group is not over represented, comprising 41% of regular users despite representing 44% of the population (pp.22-23). Figures for under-18s are not available. Unlike the 2005 South Australian prevalence study, the Tasmanian sample did not include any one under 18 in the survey.

### 5.4. Problem gambling services are not the only solution

It is clear that problem gamblers contribute a large proportion of poker machine expenditure. It is also the case that only a small proportion of problem gamblers seek help from services: the Productivity Commission (1999) found that only one in five people with severe gambling problems wanted help, and that less than half of those who wanted help had actively sought it. More recent research has confirmed that many people with gambling problems do not attend counselling, and of those who do, only a small number have a positive response (McMillen et al 2004). These findings confirm that while counselling and support services are an essential resource and should be made available, they are only able to help a comparatively small proportion of people. It is important to underpin the provision of counselling services with early intervention and preventative strategies.

## 6. The economic impacts of poker machines in Tasmania

National research shows that poker machines cost jobs. Only about 3.2 jobs are generated per $1 million of gambling income compared with 6.5 jobs per $1 million of income in retail and 20.2 jobs per $1 million in income from food and meals (SA Centre for Economic Studies 2005). Given that Tasmania has the highest rate of unemployment in Australia (ABS 2007c), the reduced employment opportunities associated with poker machine losses have higher flow-on costs because for many thousands of people there is no alternative work available.

Tasmania has a much smaller and more vulnerable economy than any other state; Gross State Product (at market prices) per capita for Tasmania in 1999-2000 was $24,600 compared with $33,200 for Australia as a whole (ABS 2007a). Tasmania has the most decentralised population of any state or territory with a number of regional areas suffering a sustained economic crisis. Both these factors mean that the impact of poker machines in reducing employment and discretionary income is heightened. The Tasmanian poker machine market model concentrates profits to a far greater extent than any other state and territory, and the taxation return is set well below market levels.

### 6.1. A decentralised economy

In regional areas the multiplier effects of the foregone expenditure associated with poker machine losses are not only higher, but more critical, because the survival of often marginally profitable local businesses is essential for social and economic sustainability. The Tasmanian economy is dependent on small business to a greater degree than any other state or territory – it is the only state where the number of businesses per 10,000 people is greater than the number of jobs per 1,000 people (SA Centre for Economic Studies 2005).

The risk posed by poker machines to Tasmania's regional economies was last considered by the 1993 Legislative Council inquiry. One of its members, Mr. Schulze, summarised the concerns raised, stating, "in terms of the effects on a small town I do not believe that much money can be drawn from a small town… without doing immense harm" (*Hansard* 1993a). Given the socio-economic profile of regional Tasmania, it is clear that each dollar lost on poker machines would be being spent in other ways if poker machines were not present. The economic loss represented by this foregone expenditure must be considered alongside the local economic benefits of poker machines. A 2000 Latrobe University study of the net economic impact of poker machines in the regional centre of Bendigo quantified the opportunity costs of poker machine losses. It found that the $32 million lost to poker machines resulted in a net loss of 237 jobs (Pinge 2001). Bendigo has a similar population to greater Launceston.

## 4.2. Concentration of profit

The Tasmanian market concentrates poker machine profits to a far greater degree than in any other state. Approaching 2% of household disposable income in the state is channelled to one private company, which owns the casinos, has full commercial freedom to decide which hotels and clubs will be allocated poker machines, and, through its subsidiaries, owns many of the most profitable poker machine venues outright. Tasmania and Victoria are the only states where the ownership and operation of poker machines are separated, and Tasmania is the only state where there is a monopoly provider. Anglicare's analysis of the publicly available figures suggests that from each dollar lost by a Tasmanian poker machine gambler, over 60 cents goes to Mulawa Holdings, just under 27 cents to the Government in taxation revenue and only about 12 cents to hotels and clubs not owned by Mulawa Holdings.

Hotels and clubs account for only about half of poker machine expenditure in Tasmania (OESR 2006; TGC 2006). Mulawa Holdings, through its subsidiary Network Gaming, roughly splits the gross profit from this expenditure with the hotels. An unknown but considerable proportion of these hotels are fully owned by Mulawa Holdings through its subsidiaries. The TGC allows 25% of the poker machines outside the casinos to be operated by the Vantage Group subsidiary but since it places no restrictions on which hotels the company can buy (Challen 2003), Vantage seems to concentrate on high turnover venues. Furthermore, additional rental and maintenance fees for the machines are levied, and refurbishment and other fixed investment costs are a hotel's responsibility alone. Network Gaming is essentially an IT business with limited fixed costs which carries little of the risk.

It is very difficult for any hotel or club to comment on the terms of its contract with Network Gaming because Mulawa Holdings has full commercial freedom to decide which hotel or club will get (or lose) poker machines. It is also a fact that Mulawa Holdings is an influential participant in the Tasmanian branch of the Australian Hotels Association and in local industry and tourism peak bodies.

Because Mulawa Holdings is a private company, detailed information on the source of its extraordinary recent expansion is limited but it is likely that it is sourced from its very generous Tasmanian poker machine licence. According to IBISWorld (2006), Mulawa Holdings had sales revenue of $405 million in the 12 months to 30 June 2006. Since 1999-2000, net profit before tax has increased from $18 million to around $48 million, an increase of over 250%. In 1993, profit was only $596,000.

The level and certainty of its poker machine profits have enabled Mulawa Holdings to obtain the loans needed to take over a large number of existing Tasmanian businesses, and undertake new investment, including but by no means confined to the five star tourism market. Analysts universally agree that it is the cash flow associated with the poker machine monopoly which has driven the company's rapid growth (Way 2006).

## 4.3. Taxation return

The main economic benefit usually claimed in relation to poker machines is the financial return to the state through taxation and licence fees. In Tasmania, where there are acute pressures on the budget because of widespread social disadvantage, poverty and a small, decentralised and ageing population, the revenue argument is particularly pertinent. Delivering essential services to all Tasmanians is an increasingly expensive and challenging task. Large, long-term increases in spending will be required from a limited tax base. In this context, the tax return from poker machines is, in the public's mind, the main and perhaps only benefit of poker machines. Indeed it was the capacity of poker machine taxation returns to solve the crisis in Tasmania's public finances in the early 1990s that was original and only justification for their roll out into clubs and hotels in the first place.

The advantage of separating the ownership and operation of poker machines is that it provides the state with the opportunity to realise the full market value of the licence. With few fixed investments, the licence is easily transferable and, after the number of machines are established and regulations put in place, the licence can be sold for a set term to the highest bidder. In Victoria's case, where a similar model exists, the licence is up for renewal in 2012 and is available for a shorter period than is in place in Tasmania. The Victorian license is expected to fetch around $3 billion (Clark 2004). In both Victoria and Tasmania it is the most valuable public licence available.

Given that almost all the investment costs and risks are borne by the individual clubs and pubs, the monopoly rights to run poker machines in Tasmania is not like any other business enterprise. It is virtually a license to print money. There is no scenario in which a loss would be made and there is no risk – except a change in Government policy – to be managed. It is a company's dream: a significant, yet predictable, recession-proof and risk-free profit flow. Even the one significant upfront investment, the cost of purchasing the machine, is guaranteed to be returned by the club or hotel that rents it regardless of performance. Any company would be expected to pay a high price in an open market to win such privileges.

It is therefore of great concern that the Tasmanian Government has admitted that no financial modelling was ever been done on the market value of the licence, nor was there any interstate taxation comparisons completed (Challen 2003). Documents obtained by *The Mercury* under Freedom of Information confirmed that no external advice was sought on the value of the licence, and that negotiations were conducted over just six weeks from 20 January 2003 between the heads of the Tasmanian Treasury and Mulawa Holdings respectively. The contract was secretly signed on 18 March 2003 with no public input, consultation or research having occurred. Citigroup's Jenny Owen and the ABN Amro analyst, Sean Monaghan, have estimated the public subsidy involved at between $130 million and $157 million (Clark 2004). These are enormous figures in the context of the Tasmanian Budget.

The Treasury Secretary, Don Challen, explained to the Public Accounts Committee how an interstate taxation comparison could be done, even while admitting he had not done it. He stated,

> What you would do is you would work out the average tax rate that applies at the level of turnover that exists in the Tasmanian market and then you would have to spread the up-front licence fee payments that occur in some other states over the life of the agreement to try to equalise the effect out (Challen 2003).

The only other body to review the 2003 arrangements was the National Competition Council. The Council's 2004 report represents a damning assessment of the Tasmanian Government's justification of the poor public return from the 2003 deal and the claims made by the government and industry in defence of it (NCC 2004).

Anglicare has called for and will continue to call for greater transparency in relation to the 2003 deal and the massive public subsidy it represents, particularly in relation to the benefits that allegedly flow from it.

# 7. Recommendations: setting a turnover target and reaching it

Anglicare believes that it is not possible for the same government department that is responsible for providing policy advice to the government to also be the body charged under law with delivering "independent policy advice" on the same issue. We also believe that pursuing regulatory reform through consensus agreement with industry will never deliver any change that will impact on turnover or profit. There has not been one regulatory change in Tasmania arising from these structures and processes since 1997 that has impacted on turnover. The impact of the current arrangements has been to prevent reform.

Despite this, the Government and TGC continue to insist that Tasmania leads the nation in regulatory practice. Yet an Anglicare discussion paper (Law 2004) details many consumer protection measures which are not followed in Tasmania, but have been implemented interstate. The recommendations of this paper were never taken up, not even for further research or public discussion.

Anglicare is in little doubt that current poker machine expenditure is well beyond the sustainable level, reflecting the fact that at present a high proportion of gambling expenditure is by people who, from any perspective but their own, have a gambling problem. As a community, we have become so used to focusing on the number of poker machines in operation that we have forgotten that poker machine expenditure is the critical policy issue. The industry knows this, and has continued to increase expenditure despite the supposed cap on machine numbers by redistributing machines to high turnover venues, targeted advertising, incentive schemes that encourage individual heavy users to spend more, longer opening hours, and rolling out new machines designed to increase player losses.

Sizeable reductions in expenditure can be achieved by the very same strategies employed by the industry to increase it: controls over the location of machines, targeted advertising about the harm caused by poker machines – and bans on industry advertising, smart cards that identify and assist problem gamblers, bans on incentive schemes, shorter opening hours, and, most critically of all, use of technology to reduce player losses. Such technology exists, is practical and easy to implement, and can significantly reduce expenditure by problem gamblers while having a minimal impact on recreational users. Bet limits, better player information on losses, and slower game speeds are just a few of the well known examples, but what is also needed is a reversal of the regulatory change that liberalised what poker machines can be legally employed in Tasmania.

Regulations need to be brought broadly into line with those which still exist in Western Australia and which applied in Tasmania just nine years ago. These machines, the original poker machines, are often now called video gaming machines. They are liked by recreational users, because they need to be actually played. They are disliked by industry because they reduce the speed with which money is lost by a small group of heavy dependent users. The reason they have been replaced by single button high speed technology is not consumer driven, it is profit driven. The new machines were introduced in Tasmania only after Parliament had insisted that their impact would be regularly and independently researched and that policy would be adjusted to minimise any harm that was being caused. The research has not, to date, been done.

**Anglicare urges this inquiry to recommend the establishment of a turnover target that lies at that point where the social and economic costs of poker machines cancel out the social and economic benefits. To achieve this, a number of measures may be necessary, including steps to ensure the TGC is able to operate as truly independent from Government, an end to industry self-regulation, stronger measures around consumer protection and the funding of a comprehensive program of gambling research.**

Those Tasmanians who have a problem with gambling, the tens of thousands who have a family member or friend with a gambling problem, the community organisations and health services struggling to cope with the impacts of problem gambling, and thousands of small businesses, especially those in regional areas, who are losing much needed income, as a result of poker machines, cannot afford the status quo to continue any longer.

# 8. Attachments

Enclosed with this report are three pieces of work conducted by Anglicare Tasmania on gambling issues, and another report which explores the level of socio-economic disadvantage facing Tasmanians.

*House of Cards: Problem gambling and low income earners in Tasmania* (Law 2005) explores the experience of low income earners affected by problem gambling in Tasmania.

*From Patron Care to Consumer Protection: Poker machines in Tasmania* (Law 2004) examines the case for more stringent regulation of poker machines in Tasmania.

*The Emperor's New Clothes: The Tasmanian Gaming Commission* (Law 2003) looks at the role of the Tasmanian Gaming Commission in Tasmania.

*The Tasmanian Community Survey: Hardship* (Madden and Law 2005) is the first report of a survey of the whole Tasmanian community which contains a number of findings in relation to disadvantage and hardship.

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