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The Provincial Cities Association of South Australia¹ welcomes the Inquiry into management of gaming machine numbers being conducted by the Independent Gambling Authority (SA).

The Association is pleased to respond to the invitation to provide a written submission to the Inquiry. The emphasis of this submission is to provide an important regional dimension or perspective to the work being undertaken by the Inquiry, a perspective which the Association believes was actually lacking in the March 2003 discussion paper.

The Provincial Cities note that the Terms of Reference for the Inquiry are focussed on the specific question, namely

“all reasonably practicable options for the management of gaming machine numbers, with particular attention to strategies to minimise gambling related harm”. (ToR: 1.1).

The Information Sheet published by the IGA (12 August, 2002) indicated that written submissions should propose one or more options for the management of EGMs;

- status quo option: continuation of the freeze.
- default option: present freeze provisions lapse and return to “need” based application system.
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The IGA has provided a brief historical overview of the history of the introduction of

Although sections 1 and 2 of the discussion paper present concise summaries of the history of gaming in South Australia and the current regulatory arrangements in South Australia, the other States of Australia and New Zealand, little data or information on machine numbers is presented. Of particular interest to the Provincial Cities Association, numbers of machines broken down spatially (metro/non-metro area) and by clubs/hotels would have assisted in the Provincial Cities Association's ability to respond to the discussion paper.

The Provincial Cities Association is also concerned about the incompleteness of the information presented to the inquiry and back to stakeholders through the discussion paper. While the discussion paper mentions the work done by the Productivity Commission in regard to Australia's gambling industries (completed in 1999)², and draws on (and includes) the work done by Delfabbro³ covering the Adelaide metropolitan area, there is no discussion or even mention of the work done by the SA Centre for Economic Studies on behalf of the Provincial Cities Association (completed in 2001)⁴. This is an important, relevant body of work pertaining to the impact of electronic gaming machines in non-metropolitan areas of South Australia and cannot be disregarded when considering issues surrounding the future South Australian gaming environment.

From the point of view of the Provincial Cities Association, the discussion paper showed a disappointing lack of analysis of issues relevant to non-metropolitan South Australia. The Provincial Cities Association have long-held concerns about the South Australian gaming environment and future policy directions and, to gain a better understanding of these, commissioned a study of the impact of electronic gaming machines in non-metropolitan communities. As mentioned above, there was no discussion or even mention of this work in the discussion paper which is specifically South Australian focussed.

Furthermore, the discussion paper draws no distinction between the environment in regional South Australia and that in metropolitan Adelaide. There is no discussion of issues of particular relevance to regional areas and no suggestion that non-metropolitan areas may need special consideration when determining the allocation of gaming machines (as in some other states). This is of concern to the Provincial Cities Association.

² Productivity Commission (1999), *Australia's Gambling Industries*, Report No. 10, AusInfo, Canberra.

³ Delfabbro, P.H. (2002), "The Distribution of Electronic Gaming Machines (EGMs) and Gambling-related Harm in Metropolitan Adelaide", a report for the Independent Gambling Authority, Department of Psychology, University of Adelaide.

⁴ SA Centre for Economic Studies (2001), "The Impact of Gaming Machines on Small Regional Economies", a report prepared for the Provincial Cities Association of SA.

In 2001 the Association commissioned the South Australian Centre for Economic Studies to prepare an independent report on the Impact of Gaming Machines on Small Regional Economies (August 2001). This initiative represented the first independent analysis of the impact of EGM undertaken in South Australia.

That report was presented to the then Premier, John Olsen, and referred to the then Minister for Gambling, Robert Brokenshire. Copies of the report have been supplied to the current Premier, the Hon. Mike Rann and Minister Hill and Minister Weatherall, the current Minister responsible for gambling issues.

Reflecting on that report, the Association records that no formal or informal response has ever been provided by either Government. However, we note that Mr Garry Banks, Chairperson of the Australian Productivity Commission had this to say about that report,

... [the report] found predominantly negative impacts (net losses) from gaming machines in small regional economies (even with the assumed re-injection of money lost in pokie taxes), but with some possibility of a net benefit for the State as a whole. This was broadly consistent with the Commission's⁵ own findings.⁶

In a muted criticism of some industry funded reports, Mr Banks reiterated "the importance of securing arrangements for *independent* research in this complex and highly contentious area of public policy",⁷ to avoid a situation where the needs of the sponsor exert undue influence on the research undertaken.

It is rewarding to see the Chairperson of the Productivity Commission comment favourably on the report commissioned by the Association, and it reflects well on the quality of analysis undertaken by the researchers and the independence and integrity of the Centre. That analysis and subsequent report forms the basis of the Association's submission to this inquiry.

From a regional perspective, and based on work commissioned by the Association (which is referred to in this submission) we are concerned with:

- research findings that indicate higher estimates of social costs for the Provincial Cities arising from the large number of gaming machines per capita; and
- the observed relationship between the concentration of gaming machines and higher expenditure.

⁵ Here he was referring to Productivity Commission (1999), Australia's Gambling Industries, Report No. 10, AusInfo, Canberra.

⁶ Banks, G., p. 6.

⁷ *op. cit.*, p. 7.

In this section we provide a brief summary of the findings of the report commissioned

These facts appear to be explained largely by,

an increase in the number and share of female problem gamblers] appears strongly associated with the spread of gaming machines.”¹⁰

In terms of electronic gaming machines, the Commission found evidence of a “statistically significant positive relationship between the number of machines per adult in a jurisdiction [i.e., state or territory] and the overall problem gambling prevalence rate”.¹¹ Similarly, there appeared to be a positive correlation between numbers of gaming machines per capita and the number of clients seeking help from counselling services. In support of this, the Commission cited data from the BreakEven Counselling Service in Victoria. The Centre for Economic Studies has analysed similar data,¹² and finds this to be consistent with the Commission’s findings and international research. That is to say, the Commission (and others) came to a view that there exists a link between accessibility and the incidence of problem gambling. Equally compelling, as the Centre has noted, is the fact that Western Australia not only has no EGMs outside of the Burswood Casino, it also has an incidence of problem gambling around half that of other

-
- a positive relationship between the number of gaming machines in a location and the amount spent per machine in Queensland, New South Wales and South Australia. This implies that although gaming machines have a tendency to be located in areas of lower income, the spending per machine is not necessarily lower but in fact higher on average; and
 - for South Australia only, an inverse relationship between income and the total amount spent on gaming machines. Hence, regions with lower socio-economic status were associated with greater absolute amounts of gambling expenditure.

To better understand the relationship between the density or availability of EGMs and gaming related harm, the IGA commissioned a report on the Distribution of EGMs and Gambling related harm in metropolitan Adelaide.¹⁴ In an economic analysis of the relationship between EGM expenditure and harm and the density of gaming machines for statistical local areas in the Adelaide metropolitan area, the report found the following:

- a strong positive relationship between the density of EGMs in statistical local areas and net gaming revenue in the Adelaide metropolitan area;
 - a very high correlation between the number of EGMs in statistical local areas and the number of venues;
 - higher net gaming revenue in areas with a greater number of venues;
 - gambling losses were modestly associated with indicators of social and economic disadvantage, with gaming losses being higher in areas which9(y)04-0.5 TDA6(dest desclivenrvalencde of gaming mchn
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The comparative situation for the Provincial Cities is shown in the last row where the contrast between South Australia and the Provincial Cities on a density measure and NGR per adult can be observed.

States and Territories¹ – 2000-01

| | | | | | |
|-----------------|---------|------|-------|-----|--------|
| | | | | | |
| New South Wales | 100,162 | 20.2 | 4,119 | 830 | 41,128 |
| Victoria | 27,444 | 7.5 | 2,366 | 648 | 86,213 |

At first glance it may appear that Queensland goes against the trend of higher expenditure in areas of highest prevalence of gaming machines as it has a modestly higher density of gaming machines relative to South Australia (13.0 machines per adult versus 12.2 machines), but a lower expenditure per adult (\$376 versus \$469). However, a lower relative expenditure in Queensland is largely explained by the presence of three additional casinos in the State and its higher population growth rate.

South Australia had both a lower prevalence of gaming machines (12.2 machines per 1,000 adults) and a lower gaming expenditure per adult (\$469) in comparison with the average for Australia as a whole (14.0 machines per 1,000 adults and \$630 per adult). This, together with the fact that New South Wales and the Australia Capital Territory both have a very high prevalence of EGMs and gaming expenditure, suggests that there is scope for further increases in the density of gaming machines and relative expenditure on gaming machines in South Australia in the absence of any cap on gaming machines or other actions designed to curb the availability of gaming. We are not recommending this course of action.

However, the Provincial Cities have a much higher penetration rate of machines (19.8) per 1,000 adults and a gaming expenditure per adult of \$590. Equally, this suggests that there is scope to redirect gaming machines from the Provincial Cities to reduce the density of machines to the metropolitan average. There are a range of possible policy mechanisms to do this, which may be influenced by other policy decisions.

While the IGA sought to satisfy itself, beyond the Productivity Commission inquiry, that ‘access to gaming machines is a driver of problem gambling’, it provides no indication of whether the report it commissioned satisfies the IGA of the nature of the relationship between harm and the number of gaming machines in total and the number in particular locations.

Notwithstanding, the body of evidence cited here suggests that the number of gaming machines and the number in particular places is a driver of problem gambling.

The imbalance between the Adelaide metropolitan area and the Provincial Cities is well documented. Where similar conditions have prevailed in other jurisdictions, policy responses such as regional caps have been imposed.¹⁵

A critical issue that has arisen from the studies conducted by SACES that has concerned the Provincial Cities is that there are significant differences in regional outcomes in terms of the incidence and impact of problem gambling. Such regional differences we believe have important implications for the management of gaming machine numbers in order to minimise gambling related harm, with the main implication being that a regional perspective should be adopted when implementing measures designed to minimise such harm.

The important factors which drive regional differences in terms of the impacts of gaming machines are:

- the prevalence of gaming machines and gaming venues, with there being evidence of a positive relationship between the prevalence of machines and venues and net gaming expenditure and problem gambling; and
- the socio economic status of regions, with there being evidence of higher gaming expenditure and increased density of gaming machines in regions of lower socio economic status as identified by demographic 'risk' factors.

These relationships have been identified in work carried out by the Centre and also by the Productivity Commission¹⁶ and for the IGA¹⁷.

The following sections present the Centre's findings in respect of its investigations into these relationships. The discussions are drawn from the Centre's report on the impact of

This is not necessarily the case, however, as statistical correlation does not imply causation. It could just as easily be the case that expenditures and income are both related to some other factor, such as age.

The Centre was interested in testing the factors which influence the differences in net gaming revenue between different areas in an attempt to determine if there was a link between low incomes and electronic gaming machine revenue, or whether it was other factors which were influential. The regression technique used was ordinary least squares (OLS) regression, current council areas were used as the regions, and the dependant variable chosen was Average Net Gaming Revenue per Adult in each council area.

A significant number of demographic and macroeconomic factors were included in the analysis but were eliminated from the final estimated equation as they were not statistically significant. The results of the analysis are summarised in Table 3.1. As can be seen from the various test of significance,¹⁸ this equation is a good model of the factors influencing the level of Net Gaming Revenue per adult in South Australia, explaining 84 per cent of the variation in regional net gaming revenue.

| | | | | |
|------------|----------|--------|-------|--------|
| | | | | |
| Intercept* | -222.838 | 106.68 | -2.09 | 0.0410 |

The number of electronic gaming machines relative to the adult population, and the geographic concentration of machines in the council area are also influential factors in explaining differences in average net gaming revenue between councils.

The influence of the number of gaming machines and density of gaming venues on net gaming revenue is supported by the recent findings of Delfabbro, who found a very strong positive relationship between the density of gaming machines in statistical local areas and net gaming revenue in the Adelaide metropolitan area. Unsurprisingly, Delfabbro also found that the number of gaming machines was very highly correlated with the number of venues, and that losses were higher in areas with a greater number of venues.

The identification of a strong positive relationship between the density of gaming machines and net gaming revenue by the Centre, Delfabbro and others provides strong support for the implementation of some form of state-wide cap on gaming machines. This position is also reinforced by the widely reported evidence of a relationship between the distribution of Break Even problem gambling clients and the prevalence of gaming machines.

Previously the Centre has argued that a state-wide cap or reduction in machines may not be desirable in order to protect the legitimate benefits that arise from gaming machines in terms of consumer surplus and taxation revenue. However, if the benefits that arise in the form of a decline in gaming related harm due to a reduction in the number of gaming machines outweighs the benefits lost through a fall in consumer surplus and taxation revenue, then a reduction in the number of gaming machines would seem appropriate. Implementing a cap at the point where the extra costs of allowing additional gaming machines begins to outweigh the benefits of doing so would be an ideal outcome. Identifying the number or density of gaming machines at which this balance is achieved represents a potential area of research which should be undertaken prior to permanently establishing any state-wide cap.

One possible guide as to the appropriate number of gaming machines is provided by Delfabbro's conclusion that "maintaining densities of less than 10 or 11 machines per 1000 population would appear to be a potentially useful way of minimizing the risks of gambling-related harm within small clusters of continuous SLAs". It should be noted that as at 30ea

A concern from the Provincial Cities perspective is that a state-wide cap in itself is not sufficient to address harm from problem gambling because of significant regional differences in the density of gaming machines and incidence of problem gambling. The Centre has estimated that problem gambling is higher in the Provincial Cities relative to the average for the state and that the net benefits of gaming machines are negative for the Provincial Cities as a whole (see Section 2.2). This suggests that regional caps should also form an important component of any attempts to reduce gaming harm through the management of gaming machine numbers. This conclusion also flows naturally from Delfabbro's findings.

Of particular concern to the Provincial Cities is the high prevalence of gaming machines in the regions and Delfabbro's identification of 10 or 11 machines per 1,000 adults as a potential ceiling for minimizing the risks of gambling-related harm. Table 3.2 shows, the density of gaming machines in the Provincial Cities is very high relative to Delfabbro's benchmark of 10 or 11 machines. In 2000-01, the Provincial Cities had an average of 20 machines per 1,000 adults compared to 12 machines for South Australia. Gaming

The accuracy of the model is further supported if the two Riverland councils of Berri-Barmera and Loxton Waikerie are compared. Although the two have almost identical income levels, Berri Barmera has higher values for both the two 'density' variables and for the three demographic variables. As a consequence of this, despite the almost identical income levels, the model predicts that Berri Barmera would have an expenditure level 1.6 times that of Loxton Waikerie, not too dissimilar from the actual difference of 1.8.

Regression analysis by Delfabbro found that while gaming machines did not appear to be consistently concentrated in areas of lower socio economic status as suggested by the Productivity Commissions analysis, his results did indicate "quite consistently that indicators of social and economic disadvantage are moderately associated with gambling-related losses, suggesting that people from less advantaged areas are more likely to spend more on EGMs".²⁰ Like the Centre, Delfabbro established that gaming losses were higher in areas where there was a relatively larger indigenous population and a greater number of housing trust properties. He also found that losses were higher where there is a higher proportion of young people and a larger number of people not in stable relationships (i.e., separated/divorced and never married). While certain demographic factors were associated with

13.76-3

towns. There are other factors at play here, and the Centre has noted that higher expenditure is related to other risk factors (see Section 3.2).

The estimated social costs of gaming machines presented in Table 3.5 are based on the Productivity Commission's estimates of the social costs of problem gambling and an estimate of the excess loss of problem gamblers (i.e., the amount by which spending by problem gamblers exceeds the level it would have been had their spending been

gaming expenditures in the Provincial Cities. The update is included at Appendix A for information purposes.

Probably the most interesting finding from the perspective of the Inquiry is that the

Because the current system effectively manages the number of the machines, their location and a basis for that locational pattern, and policy initiatives to distribute the surplus from gambling need to be addressed jointly. the

Banks, G., (2002), "The Productivity Commission's gambling inquiry: 3 years on", keynote address to the 12th Annual Conference of the National Association for Gambling Studies (NAGS), Melbourne, 21 November.

Delfabbro, P.H., (2003), "The Distribution of Electronic Gaming Machines (EGMs) and Gambling-related Harm in Metropolitan Adelaide", a report for the Independent Gaming Authority, Department of Psychology, University of Adelaide.

Productivity Commission (1999), "Australia's Gambling Industries", Report No. 10, AusInfo, Canberra.

South Australian Centre for Economic Studies (2001), "The Impact of Gaming Machines on Small Regional Economies", a report for the Provincial Cities Association of SA, August.

_____ (2002), "An Assessment of the Impact of Gaming Machines on Small Regional Economies", Economic Issues Paper No. 3, May.

_____ (2003), "A Review of Progress: Provincial Cities 1996 to 2003", a report for the Provincial Cities Association of SA, March.

Concern over the potential negative effects of gaming machines in terms of problem gambling and loss of revenues/income from regions led the Provincial Cities to commission SACES to analyse the economic and social impacts of gaming machines on the Provincial Cities in 2001. The analysis found that the prevalence of gaming machines and gaming machine expenditures (i.e., player losses) were higher in the Provincial Cities relative to South Australia. This was a concern given that the Provincial Cities were estimated to have a higher prevalence of problem gambling than South Australia as a whole, and an increased prevalence of gaming machines may be an important factor, *inter alia*, that explains higher levels of problem gambling. The relatively higher expenditure was also a concern because it implied higher taxation revenues per adult for the Provincial Cities and therefore significant flows of taxation revenues out of the regions, which may not necessarily be returned to the regions through associated state government funding.

Around the time of the study the then State Government implemented several measures to help curb the impact of gaming machines on problem gambling. The measures include:

- a freeze on gaming licenses for a further two years, but not a cap on the number of machines;²³
- a ban of autoplay facilities on all gaming machines;
- a ban of note acceptors on all gaming machines;
- the establishment of a daily limit on all cash withdrawals from ATMS and EFTPOS facilities at gaming venues;
- an increase in the minimum rate of return for new gaming machines from 85 to 87.6 per cent
- the establishment of a barring register to be administered by the Independent Gambling Authority; and
- mandatory codes of practice relating to advertising and promotional codes, the installation of clocks and a requirement to display gambling warning signs.

Given these changes and the availability of data for two more financial years since the original study, it is interesting to review how gambling patterns have continued to evolve. Since a majority of these changes were only implemented in late 2001 or from the beginning of 2002, any changes due to these measures will not be evident in the latest data. Any changes due to the freeze on gaming licences, which was originally instituted

²³ The freeze has been extended for a further year to enable the IGA to complete their inquiry and report to government.

Despite the freeze on new gaming machine licences, gaming machine expenditures have continued to grow strongly. For example, although the freeze on new gaming machine licenses was instituted halfway through 2000-01, the Provincial Cities recorded a year on year rise in total gaming expenditures of 9.9 per cent for the financial year, which exceeds the growth in gaming expenditures for the previous 3 years. Furthermore, year on year growth in gaming expenditure in 2001-02 (10.5 per cent) was the highest annual rate of growth recorded for the Provincial Cities.

The continued strong rise in gaming expenditures can be explained by the fact that new gaming machines were still 'waiting in the pipeline' to be installed after the freeze on new licenses was instituted, while the announcement of the freeze briefly generated a rush of new applications. (As will be seen on the following section, the number of new gaming machines rose very strongly in the 2000-01 financial year.) Other explanations include that economic conditions in most areas have been buoyant over recent years, facilitating increased spending on entertainment, including gambling, while an increase in problem gambling could also explain increased expenditures.

The Provincial Cities share of state gaming machine expenditure, which fell from 13.3 per cent in 1995-96 to 11.6 per cent in 1999-00, continued to fall slowly over the latest two years, to 11.2 per cent in 2001-02. This fall is due to stronger growth in aggregate gaming expenditures at the state level.

Looking at growth rates in gaming expenditures for the individual cities over the latest two years of data, Port Augusta (30 per cent) and Port Lincoln (29 per cent) experienced the largest rises in gaming expenditure between 1999-00 and 2001-02; Whyalla (27 per cent) and Port Pirie (26 per cent) also experienced strong rises in gaming expenditure, and were followed by, in descending order, Murray Bridge (22 per cent), the Riverland (16 per cent) and Mount Gambier (13 per cent).

In aggregate terms, total gaming expenditure was clearly highest in the Riverland (\$15.1 million) and Mount Gambier (\$13.4 million), followed by Whyalla (\$10.3 million), Murray Bridge (\$7.5 million), Port Lincoln (\$7.3 million), Port Augusta (\$7.2 million) and Port Pirie (\$7.2 million). The differences in aggregate expenditures between the

far) on gaming expenditures. It is possible that the strong rise in expenditures may be associated with gaming machines being installed towards the latter part of 2000-01, however the actual pattern of machine instalment is unknown. Other important factors may include improving economic conditions which have stimulated and supported stronger consumer spending on gambling, an increasing share of the population gambling via gaming machines, and growth in problem gambling. Nevertheless, it is still too early to determine whether the freeze on gaming licenses has had any impact on trends in gaming expenditure – further annual data will be needed before any firm conclusions can be drawn.

The Provincial Cities continue to have a significantly higher prevalence of gaming machines relative to South Australia. The number of gaming machines per 1,000 adults in the Provincial Cities rose from 18.2 in 1999-00 to 19.8 in 2000-01, while the number for South Australia rose from 11.1 to 12.2 between these years.

Of the individual Provincial Cities, Port Augusta (31.1 machines per 1,000 adults) and Mount Gambier (25.0) had the highest frequency of gaming machines in 2000-01 — substantially higher than the South Australian average of 12.2 machines. The incidence of gaming machines for Port Lincoln (22.3), the Riverland (19.0) and Port Pirie (18.8) in 2000-01 was around the provincial city average, while the frequency of gaming machines for Whyalla (13.3) and Murray Bridge (12.6) was closer to, but still above, the lower South Australian average.

Information on the number and incidence of gaming venues is presented in Table A.4 for the Provincial Cities and South Australia. The number of venues with gaming machines in the Provincial Cities rose by 1 venue in 2000-01 and then fell by 1 venue in 2001-02 to remain unchanged between 1999-00 and 2001-02. In comparison, the number of gaming venues for South Australia has risen by 4.8 per cent over this period.

With a substantially higher frequency of gaming machines, it is not surprising that the Provincial Cities also have a higher frequency of gaming venues in comparison with South Australia. On average, there were 1,413 persons for every gaming venue in the Provincial Cities in 2000-01 in comparison with 1,962 persons for every venue in South Australia. The prevalence of venues has steadily increased for both the Provincial Cities and South Australia since 1995-96. The higher frequency of venues for the Provincial Cities is a particular reason why gambling expenditures are higher, since there are many more opportunities to gamble on gaming machines.

The prevalence of gaming machines is highest for Port Augusta, where there were only 778 persons per gaming venue in 2000-01. The Riverland (1,187 persons per venue),

Provincial Cities – 1995-96 to 2001-02

| Mount Gambier | 10 | 10 | 11 | 12 | 13 | 13 | 13 |
|---------------|----|----|----|----|----|----|----|
| Murray Bridge | 5 | 5 | 5 | 6 | 6 | 6 | 6 |
| Port Augusta | 8 | 9 | 11 | 11 | 11 | 13 | 12 |
| Port Pirie | 5 | 6 | 6 | 6 | 7 | 7 | 7 |
| Whyalla | 6 | 7 | 7 | 7 | 7 | 7 | 7 |
