15 Regulating access

Box 15.1 **Key messages**

- The only justifiable policy rationale for regulating access to gambling is to limit social harms or to meet community norms. Other reasons — based on helping the 'club' industry or creating monopoly rents for taxation purposes — do not withstand scrutiny.
- The impact of caps on gaming machines depends on other aspects of the policy environment, such as who owns the machines and whether price controls are in place.
- Caps on gaming machine numbers are blunt instruments for reducing adverse social impacts associated with problem gambling or dealing with community concerns.
- Where the starting point is one of considerable accessibility to gaming machines — as in New South Wales and Victoria— then (binding) *state-wide* caps would not be likely to reduce problem gambling significantly, but would have adverse impacts on recreational gamblers.
- *Venue* caps can play a role in moderating the accessibility drivers of problem gambling and are preferable to state-wide caps for this purpose.
- It is likely that when gambling venues are widely dispersed throughout the community, they pose a bigger hazard for problem gambling than when they are concentrated in a few locations. This aspect of accessibility is largely ignored in current regulatory approaches.
  - Controls on where gambling venues may be located might be a better way of reducing hazards than restrictions on the *number* of gaming machines.
- An even better approach is to reduce the potential social hazards of gambling at their *source*, by re-designing aspects of gambling technologies, the environment of the venues, greater visibility of help services and stronger prevention programs (chapter 16).
- If governments do not significantly reduce the risks associated with gaming machines through effective harm minimisation strategies, there is a case for maintaining quantity restrictions where gaming machines are not yet available (as in Western Australia) or where existing venue caps are set at relatively low levels (as in Tasmania and South Australia).
- Either way, the Commission considers that uncertainties about the way in which caps may affect problem gambling, combined with community attitudes about the prevalence of gambling, suggest that any moves to lift the restrictions in place would need to proceed gradually to enable the impacts to be gauged.

15.1 Introduction

As noted in chapter 8, there are many dimensions to accessibility, but regulatory controls are focused narrowly on a mixture of:

- restricting the number of venues for casinos, often to just one or two in a state. In this area of regulation, the issue of accessibility and exclusivity overlap, in a way that does not apply to other gambling forms. Clearly a rule that establishes just one casino limits accessibility and at the same time establishes exclusivity. The issue of exclusive rights for casino operations has already been analysed in chapter 14 and is not revisited here;
- barring access to minors to all forms of gambling, and from entry to gambling areas of selected gambling venues (gaming machines and table games, but not TABs, racecourses or newsagents selling lottery tickets). This issue is taken up in chapter 16;
- restricting the opening hours of some venues, such as hotels and newsagents, which offer gambling products. However, these restrictions relate to general regulations applying to such venues, and do not take into account whether gambling is offered. The Commission notes that, perversely, retailers of many services face stringent (and probably inappropriate) shopping hour regulations, while opening hours for gambling venues, such as clubs and casinos, are typically unrestricted, despite their hazards.[1] The issue of whether opening hour restrictions should be considered for gambling venues is part of a broader question about designing a safe gambling environment — and is examined in chapter 16;
- controls on who can gamble on the internet (an issue which is considered as part of chapter 18);
- limiting gaming machines to licensed premises (which is examined in chapter 14);
- planning controls on the location of gaming machines in shopping centres;
- jurisdiction-wide caps on gaming machines; and
- caps on gaming machines per venue.

Regulations on access to *gaming machines* are reviewed in this chapter. Chapter 16 explores a number of questions about accessibility to other forms of gambling.

[1] But jurisdictions vary — for example, hotel and club gaming venues in South Australia are subject to a mandatory 6-hour break each day.

While there are many reasons that quantity restrictions may be employed — from protecting clubs to creating monopoly 'rents' — the Commission considers that there are only two potentially sound rationales for such measures, namely:

- to reduce the incidence (new cases) of problem gambling and abate the adverse impacts on existing problem gamblers (by cutting their spending or decreasing recidivism rates by limiting the accessibility and visibility of gambling opportunities); and
- to be in accordance with the social norms of communities. This raises contentious issues about how such norms would be determined and tensions between community values and individual freedom, an issue touched on in chapter 10. This chapter deals with this issue broadly, while chapter 22 explores the extent to which local communities should have a say about access.

It is also important to recognise more pragmatic aspects of caps on gaming machines. What might be the best policy prior to their introduction, may not be the best policy after widespread liberalisation has taken place. In Western Australia, where there are no genuine poker machines, the government can make decisions without considering the adjustment costs for the gambling industries. But in all other jurisdictions, even *if* it were decided that it was a mistake to have let the number of machines expand as they have, there would be significant costs to shareholders, operators and employees from any significant reduction, depending on its timing and extent.[2]

Community attitudes to accessibility

Concern over the social impacts of gaming machines have led to calls for restrictions on the number of machines in some jurisdictions. Very few Australians in any state or territory say that they would like to see an expansion in the number of gaming machines in their local community (table 15.1). Even in Western Australia where there are no poker machines (and no gaming machines in venues outside the casino), less than 7 per cent of people (based on the Commission's *National Gambling Survey)* wanted an increase in machine numbers. A (small) majority of Australians wanted numbers to decrease, often by a large amount. Community attitudes to gaming machines were particularly negative in South Australia and Tasmania. For example, about 75 per cent of South Australians wanted to reduce the number of gaming machines in their local communities.

[2] One US state, Louisiana, held a referendum in 1996 on gambling operations already in place. Of its 64 parishes, 33 voted against video poker, which means that 45 per cent of the state's 15 000 machines will have to be relocated or leave the state by 1999 (Sturges 1997).

Table 15.1 **Attitudes to gaming machine numbers by state, Australia, 1999**

	NSW	*VIC*	*QLD*	*SA*	*WA*	*TAS*	*NT*	*ACT*	*All*
	%	%	%	%	%	%	%	%	%
Clubs									
Large increase	0.6	0.2	0.1	0.0	1.8	0.0	1.4	0.0	0.5
Small increase	0.4	0.3	0.4	0.6	2.7	0.0	1.4	0.2	0.6
Same	51.4	52.6	55.3	43.7	59.7	47.8	53.6	51.3	52.5
Small decrease	13.9	12.5	10.4	7.0	5.7	8.2	10.4	17.5	11.4
Large decrease	26.5	26.0	24.9	43.3	17.1	37.1	24.2	23.3	26.7
Can't say	7.3	8.4	8.9	5.5	13.0	6.9	9.0	7.7	8.3
Hotels									
Large increase	0.6	0.4	0.1	0.0	1.6	0.0	1.4	0.0	0.5
Small increase	0.6	0.2	0.2	0.0	1.9	0.0	0.0	0.0	0.5
Same	42.1	43.3	53.8	26.4	60.1	39.0	56.9	50.8	45.2
Small decrease	17.2	17.6	10.6	12.5	5.6	13.2	7.2	18.7	14.4
Large decrease	31.0	31.3	25.5	57.4	17.4	42.2	25.3	22.0	31.0
Can't say	8.6	7.2	9.8	3.7	13.5	5.6	9.3	8.5	8.5
Casinos									
Large increase	0.7	0.2	0.1	0.0	1.0	0.0	0.9	0.0	0.4
Small increase	0.5	0.2	0.5	0.5	0.9	0.0	0.0	0.1	0.4
Same	64.3	63.4	66.9	64.3	69.6	71.0	72.4	62.7	65.3
Small decrease	6.1	7.5	5.7	3.5	3.4	4.4	3.7	11.1	5.9
Large decrease	16.6	18.9	15.7	22.8	13.4	19.1	14.0	12.8	17.2
Can't say	11.9	9.7	11.2	8.8	11.8	5.6	9.0	13.4	10.8
All venues									
Large increase	0.7	0.5	0.1	0.0	1.8	0.0	1.4	0.0	0.6
Small increase	1.2	0.6	0.5	0.6	4.4	0.0	1.4	0.2	1.1
Same	37.4	40.7	49.2	20.7	56.3	36.9	50.2	45.2	41.1
Small decrease	20.5	20.0	13.8	14.3	6.2	14.4	11.1	23.9	17.1
Large decrease	34.3	32.1	27.7	61.3	21.1	45.1	27.6	24.5	33.5
Can't say	5.9	6.1	8.7	3.2	10.3	3.6	8.3	6.2	6.6

Source: PC *National Gambling Survey*.

Australians were generally most concerned to reduce gaming machine numbers in hotels, followed by clubs and lastly casinos. Even in New South Wales, where clubs are the dominant venue for gaming machines (and are uncapped), more people wanted to cut back machine numbers in hotels than in clubs.

Of course, community attitudes by themselves are not strong grounds for caps, as people may be overly optimistic about the degree to which such measures are effective at achieving their objectives. Nevertheless, the attitudinal data point to widespread community concern about the number of gaming machines in Australia, and provide some qualitative information to decision makers about the community's weightings on costs versus benefits.

15.2 What are the impacts of state-wide gaming machine caps?

The current arrangements

Chapter 13 outlines the regulatory arrangements for the major forms of gambling in Australia, including the regulation of gaming machines. Table 15.2 summarises the situation relating to caps on gaming machine numbers in each jurisdiction in 1997-98.

Table 15.2 **Caps on gaming machines 1997-98**

	Casino cap	*Global cap on clubs and hotels*	*Cap on individual clubs*	*Cap on individual hotels*
New South Wales	1500	-	unlimited	30
Victoria	2500	27 500	105	105
Queensland	**a**	-	280	35
Western Australia	**a**	no gaming machines permitted		
South Australia	**a**	-	40	40
Tasmania	-	-	25	15
ACT	0	5 200	unlimited	13**b**
Northern Territory	-	target of 680	45	6

Source: chapter 13

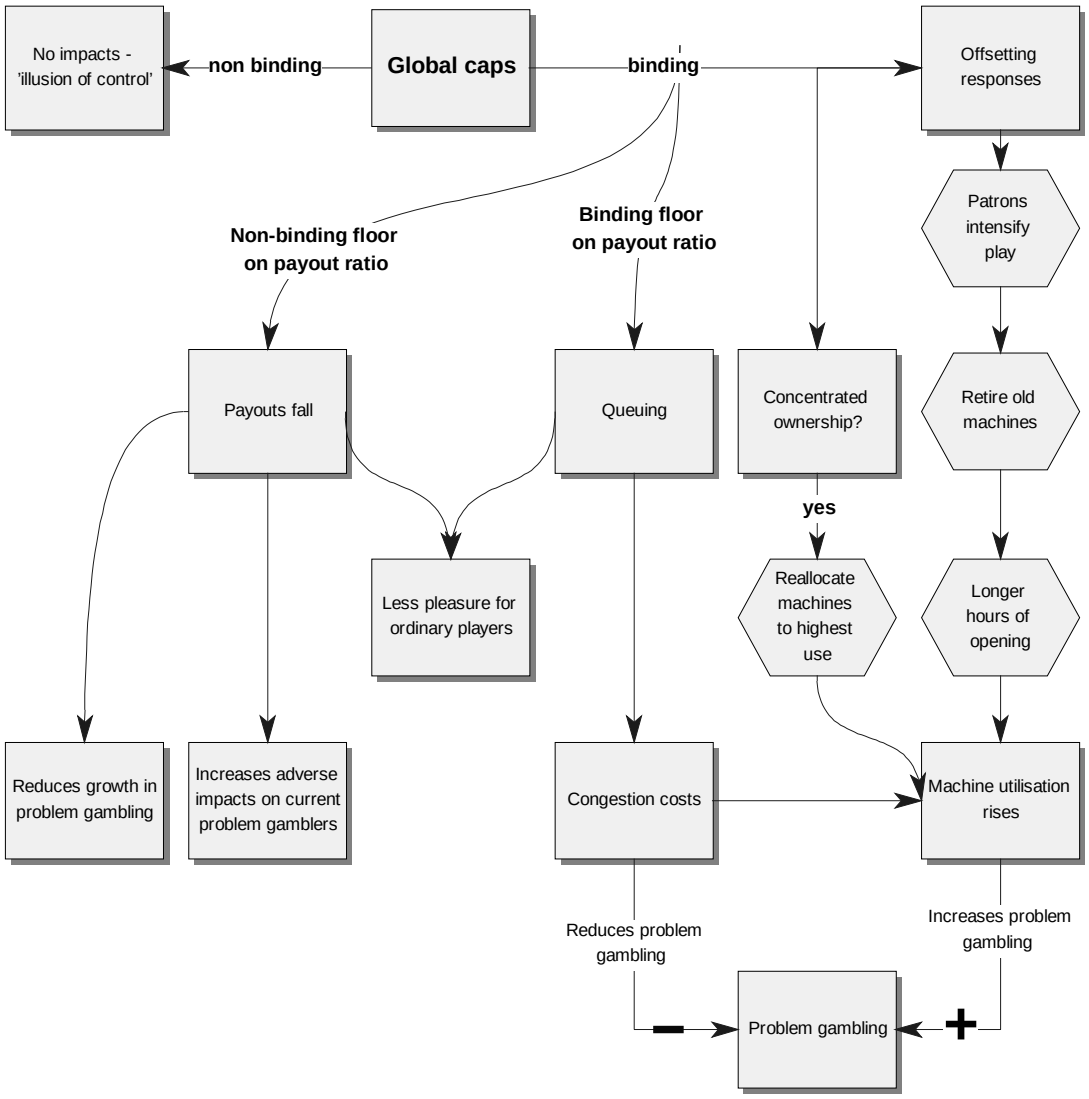
a No formal limit, but any increase requires government approval. **b** 'Draw card' and 'draw and hold' machines only.

The impacts of such caps depend on:

- how tightly they are binding;
- other aspects of the regulatory environment (such as price controls and the extent to which the machines are centrally owned); and
- offsetting responses by consumers or venues, such as more intensive playing (figure 15.1).

The influence of these factors on the impact of state-wide caps are assessed in the following sections.

Figure 15.1 **Impacts of global caps on gaming machines**



Are caps binding?

Victoria has an aggregate limit currently in place, as does the ACT:

- The existing ACT cap is well above the actual number of gaming machines and so clearly is not binding.
- In Victoria, the number of gaming machines was significantly below the cap in 1996-7. It is probably just binding in 1999 (table 15.3). The extent to which the Victorian cap is binding will intensify as underlying demand rises with the growth of the population and per capita income.

Table 15.3 **Are Victorian caps binding?**

	Required	*Actual*	*Ratio of actual to required*[a]
	Number	Number	%
Clubs	Maximum of 13 750	13 479	98.0
Hotels	Maximum of 13 750	13 632	99.1
Total clubs and hotels	Maximum of 27 500	27 111	98.6
Country	*Minimum* of 5 500	7 456	not relevant
Metropolitan	Maximum of 22 000	19 655	89.3

[a] Quota limits are not met for any category. However, this should not be interpreted as implying that the cap does not bind, simply because venue changes, machine replacement and other factors will usually mean that actual machine numbers will be a little below the cap amount for most of the time. However, it is likely that the caps have only just started to bind because machine numbers were well below the cap amount until recently.

Source: Information provided by the VCGA. The data relate to 30 September 1999.

Offsetting responses by venues and patrons to quantity caps

The introduction of binding state-wide caps could be expected to elicit a number of responses by venues and customers.

Firstly, since machine quality varies, venues would prematurely retire less popular, less highly featured machines. This would lead to higher utilisation rates of machines, which would partly offset the intended effect of the cap.

Second, machine utilisation rates and hours of operation vary between venues. For example, the average annual turnover per machine in New South Wales clubs with less than ten machines is $82 000, which is one seventh of that for clubs with over 300 machines (table 15.4). Similar patterns are apparent for other states.

Where decisions on the allocation of the machines is determined centrally so as to maximise revenue — as in Victoria — the introduction of a binding state cap would tend to lead to the reallocation of machines to venues with higher capacity utilisation. Both Tabcorp and Tattersall's acknowledged that their practice of reallocating machines away from lower-performing venues is partly a commercial response to the cap on total gaming machine numbers permitted in the state.

Table 15.4 **Gaming machine utilisation by venue size, 1997-98**[a]

New South Wales				*Queensland*				*South Australia*		
Club size category	*Club TPM*	*Hotel size category*	*Hotel TPM*	*Club size category*	*Club ADT*	*Hotel size category*	*Hotel ADT*	*Size category*	*Club TPM*	*Hotel TPM*
	$'000		$'000		$		$'000		$'000	$'000
1-10	82	1	32	1-20	229	1-10	331	1-10	106	130
11-20	154	2	59	21-50	393	>10	494	11-15	135	166
21-30	205	3	82	>50	721			16-20	134	192
31-40	238	4	79					21-25	277	262
41-50	261	5	83					26-30	142	240
51-60	290	6	102					31-35	190	236
61-70	325	7	96					36-40	242	403
71-80	297	8	108							
81-0	353	9	102							
91-100	376	10	174							
101-150	373	11-15	136							
151-200	427	16-20	175							
201-300	475	21-25	190							
>300	585	26-30	357							

a TPM is turnover per machine per year, and is the best single measure of machine utilisation. Data on TPM were not available for Queensland by venue size, so average daily turnover (ADT) per gaming machine was used.

Source: NSW Gaming and Racing Department, *Gaming Analysis 1997-98*; Queensland Office of Gaming Regulation 1998, *Queensland Gaming Newsletter* 1(1); October and information from the South Australian Government.

This reallocation would tend to offset further the impact of the cap on aggregate spending, and might, by changing the nature of the venues, increase the risks of problem gambling. For example, in response to the threat of losing machines if they do not achieve sufficient revenue per machine, a venue proprietor may:

- extend the hours of opening of the venue (subject to any liquor licence restrictions); or
- be more reluctant to deter problem gamblers, who are highly profitable patrons (chapter 7).

Where the machines were owned by each venue, as in New South Wales, and machines were tradeable, in the presence of a binding cap, the same effect would also occur, but probably more gradually.

Finally, customers may make more intensive use of the limited number of gaming machines in place. For example, consumers will tend to shift to non-peak periods, so that overall utilisation rates increase. As well, consumers have a range of choices about the intensity of their gaming machine gambling (the total bet size per button push) relative to the duration of their playing. For example, a patron could sit at a

two cent machine and play one line and one credit per button push, losing only about $1.40 an hour.[3] Or the same patron could choose to use a 10 cent machine, playing 9 lines and 10 credits per button push, losing about $650 an hour.[4]

After the introduction of a cap, waiting time or venue-imposed time limits would restrict the use of low intensity, long duration playing styles. That suggests that caps would tend to lead to a shift in customer orientation towards either greater use of lines or credits (and to a lesser extent, higher denomination machines) — so that a given percentage cut in machine numbers would lead to a less than proportionate decrease in expenditure (box 15.2).

Impacts on gamblers

Notwithstanding the partially compensating behaviours of consumers and venues, a binding cap creates scarcity of gaming machines. This would push up the cost of acquiring a machine as competing venues bid for a fixed number of machines. In turn, this creates a 'rent' for whoever held the rights to the scarce machines (box 15.3).

These rents would flow to the government, where it issues licences for machines and charges a licence fee.[5] In this sense, there is a parallel between a cap and a tax on gaming machines.

But whether actual gaming machine prices can rise will depend on whether there is a binding restriction on the payout rate or not. All jurisdictions have statutory floors on the payout rates for gaming machines (chapter 13), though none of these are currently binding.

[3] Based on the assumption that each button push takes about 5 seconds, so that turnover is about $14.40 an hour. With an average rate of return of 90 per cent, this implies an *expected* spend of about $1.40 an hour.

[4] At each button press, the gambler is outlaying $9, so that their turnover per hour is $6 480 and their *expected* spending around $650.

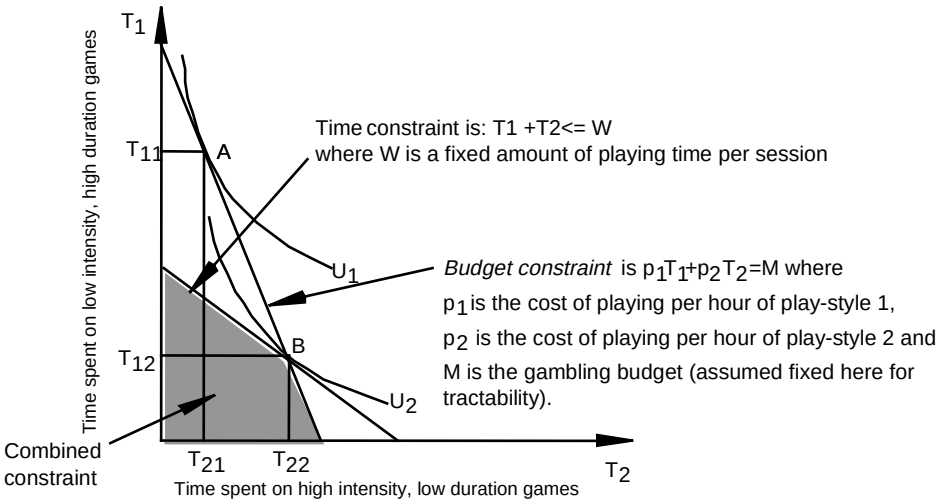
[5] It is possible that the machine manufacturers and existing licensees might also obtain a share of the rent.

Box 15.2 **How queuing may change people's style of playing**

For many gamblers, playing on the machines is about purchasing entertainment time. But by varying the lines, credits or denominations of the machines, gamblers buy different types of experiences. Because modern gaming machines have such a diversity of choices for lines and credits, there is a continuum of playing styles. For example, the 2 cent Aristocrat *Dream Weaver* machine offers players a choice of up to 25 credits per line and up to 20 lines. For a fixed budget, say $10, three strongly contrasting styles of play can be distinguished:

- *The long duration, low volatile style*. Playing on a two cent machine one line and credit at a time, will produce a very long duration game. The prospects of getting any large prize with this type of play is more remote, but many small prizes are likely. Outcomes are not very volatile, because the gambler is spreading risks over many repeated gambles over time.
- *The short duration, low volatile style.* Playing one credit per line and 20 lines per button push, will produce a much shorter duration game, but with more wins per minute than the previous style of play. Outcomes are not very volatile because the gambler is spreading risks over many lines.
- *The high volatile, short duration style.* Playing 25 credits per line and 1 line per button push also produces a much shorter duration game, but one with more volatile outcomes. In many cases, the gambler may not win at all (for a fixed budget), but if there is a win, it will be a significant amount relative to the gambler's budget.

The different playing styles can be seen as substitutes. Machine shortages create queuing, which has a number of possible impacts. First, in order to play, people have to spend time waiting. Given that people have constraints on the total amount of time they can spend gambling, this restricts the amount of time they can play. Second, a possible response by venues to queuing is some form of time rationing on machines, which would have the same effect. Consumers now faces two constraints when deciding how to allocate their budget between different styles of game — the usual budget constraint and the new time constraint. Any choice has to be within both constraints (the shaded area). The result is that time spent playing the more time consuming machine is likely to drop (from T_{11} to T_{12}), and time spent on the higher intensity machine increases (from T_{21} to T_{22}). Overall expenditure on gaming machines may not fall by much, though time spent playing has decreased (as has the recreational gambler's level of entertainment from U1 to U2).

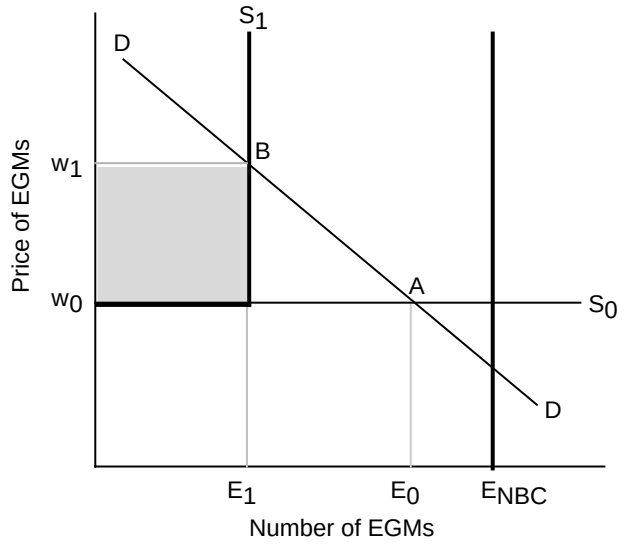


Box 15.3 **What are the effects on machine prices/licence fees?**

The figure below depicts the supply (S curves) and demand (D) for gaming machines. They can be used to illustrate the possible impacts of a global cap. Prior to the cap, venues purchase E_0 gaming machines to meet demand. If the cap is set at something like E_{NBC} it is *non-binding* — the existing level of machines is less than the cap, and the cap has no impact.[6] Of course, over time demand would probably rise with income or increased population (an outward shift in the demand curve) and the cap would bind.

The impact of a *binding* cap set at E_1 is to raise the price paid for the machine, so that the owner of the selling rights (probably the government) would receive a transfer equal to the shaded area — with the price per machine rising to w_1. The magnitude of the price increase depends on the extent to which the cap binds (the price of Victorian gaming machines appears to have risen — albeit only by 3 per cent — as the cap started to bind).[7]

If there is no binding floor to the odds on gaming machines, then the increased price of gaming machine licenses would be expected to be passed onto consumers as reduced odds (lower payout rates). Some recreational gamblers will no longer gamble as much as before, reducing the consumer surplus of gambling. If regulations on minimum odds are binding, then machine time is rationed by queuing. Machines would no longer be allocated to those people who value them most highly. Instead, there would be congestion and queuing to use machines. Abstracting from any positive effects on problem gambling, this would be more distorting than rationing by price.



6 In theory, it is possible in the Victorian case that the regional cap or the club/hotel quota may bind, even if the global quota does not.

7 Based on gaming machine numbers from the VCGA and revenue data from the Tasmanian Gaming Commission. Of course, this price rise may have reflected factors other than a gradually binding cap.

With no (binding) payout rate restrictions on gaming machines

To the extent that they are not already constrained by binding controls on the machine payout rates, gambling venues would tend to reduce the payout rates for gaming machines, reflecting the additional costs of providing gaming machines. Recreational gamblers would be adversely affected, simply because they face lower odds on playing the machines than before. Such players would cut back on time spent on the machines (or in some cases, never commence playing) and receive less pleasure from gambling than prior to the cap. The magnitude of this loss of 'consumer surplus' (chapter 5) would depend on how responsive such players are to increased prices.

While binding global caps would have adverse impacts on recreational gamblers (and, in the short run, on venue operators or gambling industry shareholders), that cost has to be weighed against any potential positive social benefits, such as reduced problem gambling.

If caps were quite restrictive they may reduce future problems by lowering the rate at which new problem gamblers are created. By limiting the number of machines and making them more expensive, fewer people would play, thus reducing exposure to the risk of problem gambling. For example, the Western Australian Government argued that there are a number of benefits associated with its restriction on gaming machines, including the banning of gaming machines:

> ... the social costs of problem gambling are reduced. Given that it appears that problem gambling is more likely to be associated with forms of gambling such as gaming machines, the restrictions assist in reducing the economic costs associated with problem gambling. Costs incurred in this sense include individuals incurring productivity losses; job change costs; legal system impacts (through gamblers turning to crime to support their problem); family and individual impacts, including divorce costs; bankruptcy costs and treatment costs (sub. 76, p. 30).

On the other hand, Victoria's AHHA argued that the global caps in Victoria had no effect on problem gambling:

> There is simply no evidence to suggest that a cap of 27,500 machines has any effect whatsoever on the incidence of problem gambling (sub. 154, p. 17).

The Association (sub. D237) and Clubs Victoria, decried the announcement by the (former) Victorian Government that it intended to 'freeze' gaming machine numbers across the state. (It also announced an intention to introduce regional caps.)

Any effects of the Victorian cap would likely be muted because it has only has just begun to bind. Its future effects, depending on how long it is maintained, may be more pronounced.

However, state-wide caps on gaming machines could, perversely, have adverse effects on *existing* problem gamblers. As the cap binds, player returns would be expected to slowly fall (possibly as far down as the floor to returns set by the government). As problem gamblers are likely to be less responsive to price changes than other gamblers, they would continue to play at much the same rate as before, albeit at a higher price. This implies that overall expenditure by existing problem gamblers might rise, even though machine numbers had fallen. (Or if playing to the limits of available funds, will run out sooner — putting more pressure on the need to obtain more money.)

For the same reasons, it may also lead gamblers at risk of developing problems to 'cross the threshold'. Among such people would be those who have very inelastic demand and can just afford their gambling prior to the cap. They may experience some of the traits of a problem gambler, such as chasing losses, guilt and preoccupation, but they can just afford their current pattern of play, without major problems. The cap, by inflating prices, increases their expenditure past the point of affordability, triggering some of the more harmful aspects of problem gambling (relationship problems, possible crime, intensification of anxiety and so on).

Thus, whether caps are in the public interest depends on the trade-off between:

- the relative magnitudes of additional burdens placed on incipient and current problem gamblers and pleasure forgone by recreational gamblers; and
- the magnitude of the costs avoided by reducing the number of new problem gamblers.

The effectiveness of state-wide caps in controlling problem gambling would, in part, depend on the starting point in the community which is contemplating caps. Where the starting point is one of considerable accessibility to gaming machines — as in New South Wales and Victoria — then the current number of problem gamblers is already high relative to the future possible reduction of problem gamblers that could be achieved by any realistic cap. In this case, (binding) caps would not be likely to reduce problem gambling (but would have adverse impacts on recreational gamblers).

At the draft report hearing, Victoria's AHHA argued:

> ... there is no evidence which shows a correlation between problem gambling and machine numbers once the numbers are such as to give a substantial cover throughout the state ... there is no correlation between a reasonable number of machines and more machines ... [it] does not solve problem gambling and does nothing to implement harm minimisation strategies (sub. D237, pp. 2–3).

Wesley Gambling Counselling Services argued that capping gaming machine numbers in New South Wales now would be ineffective in reducing problem gambling, because of the large number of gaming machines already available for up to 24 hours in numerous locations:

> ... there can be no suggestion that placing a cap on the number of poker machines will be of any assistance in controlling problem gambling. Such a cap would only inhibit access to machines at times of peak demand ... Instead it will be necessary to develop more sophisticated strategies to protect consumers and minimise the incidence of problem gambling (submission to IPART inquiry, August 1988, pp. 8-10, cited in IPART report).

However, where the starting point is one of low accessibility to gaming machines — as in Western Australia — then caps *may* provide significant benefits from reducing problem gambling.

With binding payout rate restrictions on gaming machines

As noted earlier, current payout rate restrictions are not binding. However, these price controls would bind if machine caps were significantly below levels determined by an open market. In this case, the payout rates would not be affected by the cap on gaming machines. Machines would no longer be allocated to those people who value them most highly. Instead, there would be congestion and queuing to use machines.

For example, there might be social (and possibly venue) pressure on individuals to use the machines for less time (to give others a 'fair' go).[8] Customer congestion also implies that those who were patient and who valued their time less than others — for example, retirees — would be more likely to gain access to the machines. Problem gamblers are over-represented among the young and employed (chapter 6), which suggests that they would be under-represented in the group of people who are willing to wait.

Accordingly, machine caps combined with price caps, would be likely to reduce expenditure by current problem gamblers[9], and by rationing use among others may

[8] The Commission was told, for example, of fights breaking out between tourists over the use of the few machines in a remote hotel in the Northern Territory!

[9] One rational response that might moderate this effect is if problem gamblers were to play on less occasions but for longer durations. On the other hand, problem gamblers report being uncomfortable with other people watching them play and prefer anonymous uncrowded facilities. Caps, by increasing crowding, would tend to increase the discomfort of problem gamblers and reduce their incentive for playing (Focal Research 1998, p. 60).

also reduce the future incidence of problem gambling. Against this, such caps would reduce the pleasure of playing for recreational gamblers.

As noted previously, a quantity cap, *without* a sufficiently high floor to player returns, somewhat resembles a tax on gaming machines (with similar regressive outcomes to those described in chapter 19). In contrast, if a binding payout restriction exists, then venues would be unwilling to spend much more on licenses for machines than they did prior to the quantity cap, since they cannot recover the additional costs from customers. Thus a combined payout and quantity cap would not earn governments as much license revenue — the revenue being transferred to consumers, avoiding any implicit regressive tax.

In conclusion, *combined* payout and quantity caps probably generate better outcomes with respect to problem gambling than caps on gaming machines with freely adjustable player returns. This is not the usual result. Quantity constraints with freely adjustable prices are usually more efficient because people with the highest use-value are allocated the scarce goods. However, in the gambling case, this is not a desirable end, because those with the highest use value are often problem gamblers. But no state-wide caps may be better still.

Industry development effects

It also argued that some capping regimes — such as Victoria's — inhibit the development of the club and hotel industry. Victoria's AHHA said:

> If more venues could access the gaming market, then more venues would be up-grading facilities, refurbishing, employing more staff, making money ... More venues would present as viable, safe hospitality outlets which are the quintessential tourist attraction.
>
> The present system of operator control and the cap encourages the concentration of machines into as few venues as possible, and as few multi-venue operators as possible. This is a simple matter of economies of scale. Large strategically placed venues can best exploit the restricted resource. Free bus trips are already in use to convey patrons to remote venues ... in Victoria only 253 out of 1800 general licensees have machines. Amongst those venues that do not have access to gaming, probably some 90 per cent would welcome the opportunity to install some machines (sub. 154, p. 16).

However, clubs or hotels are the conduits for services to people, not economic ends in themselves. Maintaining or removing the cap should be based on its overall impact on the community, which primarily involves balancing the opposing impacts of caps on recreational and problem gamblers.

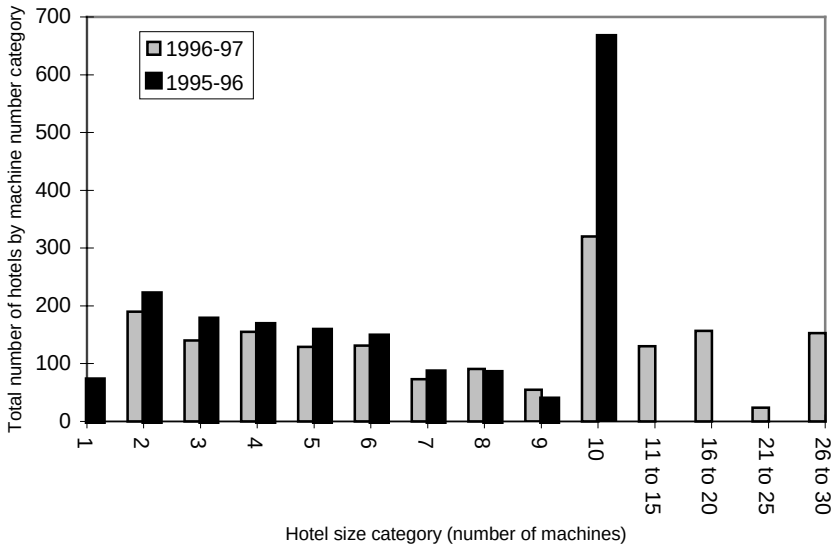
15.3 What are the impacts of *venue* caps on gaming machines?

Venue caps are a much more commonly employed form of rationing and are binding for some venues in most jurisdictions. Caps vary by the nature of the venue, with typically far more generous provision for clubs than hotels (table 15.2).

In any given region, if venue caps are binding on many venues *and* if the number of potential venues are limited (for example, by licensing and planning provisions), then this obviously restricts the number of gaming machines in that region. To some extent, any shortfall of machines in these areas would lead to greater demand (and supply) of machines by neighbouring unconstrained areas. But these substitution effects will be constrained by travel (and time) cost for consumers.

The relaxation in 1996-97 of the cap applying to hotels in New South Wales from 10 machines to 30 provides some evidence about the impact of venue caps. Many hotels were bunched at the point of the cap suggesting that the venue cap was strongly binding (figure 15.2).

Figure 15.2 **Distribution of hotels by hotel gambling size, NSW, 1995–1997**



Data source: NSW Gaming and Racing Department, *Gaming Analysis 1996-97*, March 1998.

Indeed, of the 1808 hotels operating gaming machines in 1996-97, 464 had more than 10 machines, suggesting that the venue cap affected about 25 per cent of hotels. Relaxation of the cap had a dramatic effect on the total number of machines in hotels (increasing from 11 688 to 17 675 — a 51 per cent increase). Venue caps,

therefore, can have a very marked impact on the total number of machines, although these data relate only to the hotel sub-market.

National data also suggest a similar pattern. The number of machines per capita is highest in New South Wales and the ACT, where there are no binding global caps[10] and clubs — the major gaming machine providers — are not bound by venue caps either (table 15.5). In all other states, there are either venue caps for all providers or a global cap, and considerably lower numbers of gaming machines per person.[11]

It is therefore possible that venue caps can effectively act to limit the total number of machines in a state.

Table 15.5 **Gaming machines around Australia**

	Gaming machines outside casinos 1999	*Adults June 1998*	*No of gaming machines per 1000 people*	*Real expenditure on gaming machines (outside casinos) 1997-98*	*Expenditure per machine*
	No.	*'000*	*No.*	*$m*	*$*
NSW	98 172	4 762	20.6	2 989	30 447
VIC	27 111	3 520	7.7	1 711	63 111
QLD	29 256	2 557	11.4	601	25 334
WA	Gaming machines not permitted outside of the casino				
SA	12 149	1 131	10.7	395	32 513
TAS	1 393	348	3.9	24	17 765
ACT	5 013	229	21.9	127	25 334
NT	644	131	4.9	20	31 056

Source: Data on gaming machines is from chapter 13, the adult population from Econdata and the spending data from the Tasmanian Gaming Commission.

But in doing so, venue caps are likely to produce some inefficiencies and offsetting responses. To the extent that a venue located in a high demand area is unable to meet that demand because of a cap, then either:

- that gambling provider may try to raise the price of gambling (reduce the odds), a cost which would be borne by consumers. However, as noted before, they will be somewhat constrained by the statutory maximum price on gaming machines. Moreover, unlike most products, where the price is a feature quite separate from the good, the price of playing on a gaming machine is a machine design feature, generated by the frequency of icons on the separate virtual reels in the machine.

[10] The ACT has an aggregate cap, but it is not binding.

[11] On the other hand, this may also reflect the fact that gaming machines have been liberalised for longer in New South Wales and the Australian Capital Territory than in other jurisdictions.

Thus a gambling venue can only choose from a small suite of prices.[12] This suggests that while individual venues have some scope to increase prices to cope with excess demand they cannot fine tune prices to achieve that end; or

- gaming machine consumers have to bear queuing costs, additional travel and time costs to alternative venues; if such costs are high enough, they will forgo playing.

For example, Star City said that at times of peak attendance within casinos, limits on the number of gaming machines (and gaming tables) restricted the choices available to gamblers:

> [the] inevitable consequence is queuing, customer frustration and unsatisfied demand, especially at those times ... when the working population seek to play (sub. 33).

ACIL said that both Star City and Crown:

> ... report that consumer demand for EGMs is much higher than the limit the regulations impose. In the US industry, where such restrictions do not exist, the ratio of EGMs to table games is thus consumer driven and is much higher, at about 25 EGMs to every table game (sub. 155, p. 151).

Of course, casinos offer a different atmosphere from most other gambling venues, so that ready substitutes are not available. For clubs and hotels, the degree of substitutability will depend on the patterns of use of the gamblers concerned. If the prime motivation of the patron is gaming machine gambling, then many clubs and hotels offer similar gambling environments, and even with venue caps, there are other venues typically within easy reach. These 'footloose' gamblers can avoid congestion by shifting to less used venues. However, substitution possibilities for those gamblers who visit a venue for its particular ambience or for its other functions are much more limited, and these gamblers will bear the residual congestion costs.

The consequence of caps is that any venue in which the cap binds will tend to have higher machine utilisation rates than venues where the cap does not bind. For example, hotels in Victoria tend to be more attractive to gaming machine players than clubs, but the total number of gaming machines must be shared equally between clubs and hotels (each limited to 105 gaming machines). As a result, gaming machines in hotels are more intensely used, generating about 50 per cent more turnover than those in clubs. Where the state-wide cap for hotel machines has been reached, one outcome has been a tendency for some hotels to be converted to clubs in order to offer gaming machines.

[12] For example, venues using the Aristocrat Diamond Touch gaming machine choose between player returns of 87.79, 90.03 or 92.12 per cent, depending on the reel configuration.

Other than generating queuing and/or price rises in some venues — to the detriment of consumers — venue caps may also lower productivity. Some venues are more efficient and entrepreneurial than others, and are able to provide gambling services at lower costs than others, yet can only do so up to the threshold determined by the venue cap.

There may also be economies of scale in the provision of gambling services, which are forgone above the cap limit.[13] Certainly, there is some evidence that player returns are higher in larger venues, though this is disputed (chapter 21).[14] This translates to significant annual savings in expenditure for heavy gamblers.

The social impacts of venue caps

Clearly venue caps have adverse impacts on recreational gamblers and on the efficiency of venues. To be justified, these adverse impacts would need to be offset by social gains.

Venue caps received little endorsement from participants in the inquiry. For example, the Club Managers Association and the Leagues Club Association (of New South Wales) argued against venue caps. They said that venue caps would not have any impact on problem gambling:

> Problem gambling can occur at a venue operating 1,000 gaming machines or at a venue operating 5 gaming machines ... There is no statistical evidence that the incidence of problem gambling is higher in NSW than in other States, despite varying numbers of gaming machines per capita. Calls by other groups for the capping of poker machines in clubs is often motivated by their commercial interests or religious beliefs and not based on proven research (sub. 41).

Notwithstanding this scepticism about the benefits of venue caps, the Commission considered the two major ways in which such caps could have social impacts:

- the average size of venues is clearly smaller under venue caps, which may reduce risk factors and better accord with social norms; and

---

13 For example, construction costs per square metre of floor area tend to decline the bigger the overall area. Thus, the costs of building space per gaming machine should be lower in venues with more machines. As well, a larger venue can support less popular machines that would not have sufficient patronage in a smaller venue. Larger venues, can by their location and advertising, probably also increase machine utilisation rates.

14 The presumption being that the price variations within the club or hotel sector primarily reflect differing cost conditions. If anything, the price variations might understate the economies available for clubs from scale because the tax regime favours small clubs substantially.

- caps bind on some venues — producing congestion or price increases — with potentially positive or negative effects on problem gamblers respectively (as in the previous discussion of state-wide caps).

Do smaller venues mean smaller risks of problem gambling?

As the primary effect of a venue cap is to reduce the average size of gambling venues, the underlying hypothesis is that smaller gambling venues may present smaller hazards for problem gambling than larger venues. This could arise in a number of ways.

Marginalisation of gambling?

A venue with a small number of machines would (if they also had a wider range of non-gambling activities) place gambling in a different, more marginal context, which may discourage extended play. In contrast, where a venue is dominated by a large number of machines, the signal is that it is the norm to gamble without participating in other social or entertainment activities. This may have some slight impacts on the number of new problem gamblers, by subtly altering people's perceptions of what constitutes socially acceptable behaviour. But it is unlikely to be either a strong effect, or to ameliorate problems for existing problem gamblers. Furthermore:

- since many caps are set at high levels, they will not have the effect of marginalising gaming machine playing.[15] Of course, more severe caps could be introduced — but these would impose substantial transitional costs on existing venues unless they were phased in slowly;
- the number of venues offering gambling is another dimension of normalisation, and this number would tend to be higher in the presence of venue caps.

Are small venues less anonymous?

Problem gamblers may desire a degree of anonymity while playing — which may affect their preferences for differently sized venues. There is evidence that problem gamblers tend to feel uncomfortable with people watching them play (Focal Research 1998, p. 3.60), and to choose playing times which are less congested (p. 3.48). Whether these behavioural patterns would make a problem gambler prefer a small or large venue is hard to say:

[15] South Australia, with a maximum cap of 40, and Tasmania with a maximum cap of 25 machines, are exceptions.

- a person playing one machine in a bank of five placed near the bar of a hotel, would be conspicuous to non-gamblers in that venue. However, in some cases the machines are required to be housed in a separate room, thus *increasing* the anonymity, despite the small size of the venue;
- problem gamblers can always travel to venues outside their own communities, where the probability of being seen by someone they know is remote;[16] and
- while gamblers may feel more anonymous in large venues, there is a lot of movement through the banks of gaming machines at these venues, including by venue staff, which means that problem players may have many people viewing their playing, to their discomfort.

In any case, the empirical evidence suggests that while problem gamblers may conceal the extent of their gambling from their family, they nevertheless typically choose a venue close to their home. For example, the Nova Scotia survey of gaming machine players found that problem gamblers had more regular locations close to home. They speculated:

> Having a regular location makes it easier to play longer, as a player will more likely feel comfortable in their regular/familiar place. They are familiar with the staff, the staff know them and their habits, they know the other players, and the location is conveniently close to home (Focal Research 1998, p. 3.31)

Victorian survey data analysed by the Commission also found that problem gamblers tended to play at nearby locations where seemingly the odds of being recognised are greater (table 15.6).

Table 15.6 **How far do problem gamblers travel to play?**

Player category	*Distance travelled to venue to use gaming machines on last occasion played*					
	<5	*5 to 10*	*10 to 15*	*15 to 20*	*Over 20*	*Total*
	%	%	%	%	%	%
Recreational gamblers	60	17	7	4	12	100
Problem gamblers	71	13	0	8	8	100

Source: Data from Market Solutions and Dickerson (1997).

The attraction of anonymity to problem gamblers may therefore be overstated and its policy relevance modest. Even if it were established that problem gamblers preferred larger venues because of their anonymity or some other factor, it would

16 The Nova Scotia survey of VLT players found that problem gamblers were willing to shift locations, and were much more likely to play at more than one location in a given day. Thus 44 per cent of problem gamblers went to more than one location compared with 19 per cent of other regular players (Focal Research 1998, p. 3.49).

have to be demonstrated that this preference was so significant that in the absence of big venues, problem gamblers would change their behaviour. That appears unlikely.

In fact, there is some evidence that problem gamblers do *not* have a marked preference for large venues. For example, the share of problem gamblers among people who gamble on gaming machines at casinos is about the same as that for people who gamble at clubs or hotels (table 15.7), and there is a roughly equal chance that a problem gambler will be encountered playing the machines at a casino as at a club.

Table 15.7 **Problem gambling on gaming machines by venue type, Australia, 1999**[a]

	Clubs	*Hotels*	*Casinos*
	%	%	%
Share of gaming machine patrons who are:			
problem gamblers (SOGS>=5)	5.1	6.4	6.4
severe problem gamblers (SOGS >=10)	0.8	1.3	1.1
Probability[b] of encountering a gaming machine patron who is:			
a problem gambler (SOGS>=5)	30.8	23.7	23.8
a severe problem gambler (SOGS >=10)	12.6	9.0	12.5

a Problem gamblers may have their prime problem originating from a gambling mode other than gaming machines. It is assumed that all non-regular gaming machine players are not problem gamblers.

b This probability is calculated by dividing the total amount of hours spent by problem gamblers playing on gaming machines in a venue by total hours spent by all gaming machine players in that venue.

Source: PC *National Gambling Survey*.

Could problem gamblers be more easily identified in small venues?

The few staff in a venue with a small number of machines are more likely to know their regulars, and in principle may be better able to identify problem gamblers. However,

- the extent to which staff at small venues acts on this information is not clear. No venue or organisation representing venues, suggested that their staff would approach suspected problem gamblers in order to help them, so unless this were to change a better ability to identify problem gamblers is superfluous; and
- staff in venues with many machines, such as casinos or the large clubs participating in the Betsafe program in New South Wales, receive considerable training to make them better able to assist a problem gambler who asks for help. Smaller venues will generally be unable to match these efforts, as the costs will loom larger for them.

Are losses per person lower in smaller venues?

Prices tend to be higher in smaller venues, which for a *given* amount of machine turnover implies greater losses. However, there is evidence that player losses are lower per adult in areas where a fixed number of machines are distributed among many smaller venues, rather than concentrated in a fewer bigger ones (box 15.4). This would tend to reduce the adverse social impacts of a given number of machines.

Box 15.4 **Regional differences in player losses per adult**

In order to look at the impacts that venue and machine numbers have on machine gaming revenue, the Commission analysed Queensland data for 1998 on player losses per adult across 30 regions. Expressed technically, it was found that:

$$\log(LOSS) = -1.38 + 1.518 \log(MACHINES) - 0.369 \log(CLUBS) - 0.112 \log(HOTELS)$$
$$\qquad\qquad (5.4) \qquad (27.4) \qquad\qquad (6.0) \qquad\qquad (2.4)$$

where the figures in parentheses are White's heteroscedasticity corrected t-statistics, $R2 = 0.939$, $N=30$, $SE= 0.112$,

LOSS stands for player losses per adult in each area; MACHINES is the number of gaming machines per 10 000 adults; CLUBS is the number of club venues with gaming machines per 10 000 adults; and HOTELS is the number of hotels with gaming machines per 10 000 adults.

Findings

The model explains most of the regional variation in losses per adult. The negative coefficient on venue numbers is not the result of correlation between machine numbers and venues — venue numbers explain only 22 per cent of the variation in machine numbers per adult between regions. Adding venue numbers to the model provides significant additional explanatory power to the model.

The model suggests that holding the number of venues constant, a proportionate increase in machine numbers (ie an increase in the average size of venues) tends to increase player losses per adult by an even greater proportionate amount — a 10 per cent increase in the average size of venues increases player losses by about 15 per cent. On the other hand, an increase in the number of venues for a fixed number of machines (ie a reduction in the size of the average venue) decreases player losses per capita. This effect is more pronounced in the Queensland context for clubs than hotels.

The model suggests that an increase in venue numbers, by itself, need not raise player losses per adult in an area. However, the model should not be used to predict the outcomes of a policy induced change in the distribution of firm sizes because it is probable that some unobserved demand conditions (which then determine venue and machine numbers) are the key factors underlying losses per adult.

On the other hand, it cannot be assumed that *forcing* the average size of venues down through regulation would actually reduce player losses per capita by anything like the amount predicted by the model in box 15.4. That is because it is likely that areas that have bigger venues have different demand characteristics to areas with a smaller average venues. It may be that these different demand characteristics, rather

than their different venue types, are the essential determinant of different levels of player loss.[17]

Are the technologies and gambling environments different in small venues?

Another factor which may make smaller venues less hazardous for problem gambling is that their small scale alters the gambling environment. For example, their smaller scale will make it less economic to install gaming machines, to offer a large variety of machines, or to run large scale gambling promotions.[18] However, these factors provide a poor justification for a venue cap per se. If they constitute significant environmental risk factors then they should be addressed directly.

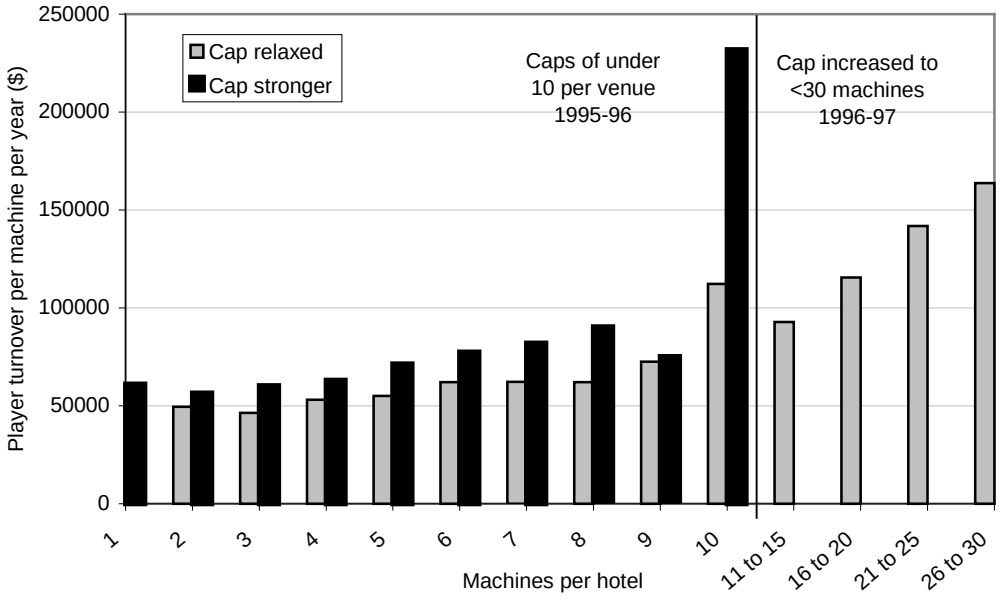
Other scale effects may also have social effects:

- Possibly reflecting higher unit costs, gaming machine payout rates in smaller venues appear to be lower than in larger ones (chapter 21). As argued throughout this chapter, lower payout rates are probably harmful for existing and incipient problem gamblers, but may be beneficial in marginally reducing the long run incidence of problem gambling by reducing exposure; and
- Machine utilisation rates are much lower in smaller venues than larger ones (figure 15.3). For example, in 1997-8, New South Wales hotels with 26 to 30 machines had a turnover per machine eleven times bigger than hotels with just one machine. From this, it might *seem* that tighter venue caps, by forcing venues to be smaller, would lower utilisation rates and make the gambling environment less risky. But this ignores the likely response by those venues that would be constrained by a tighter cap. While there is no information on what might happen to machine utilisation rates if venue caps were to be tightened, there is evidence of what has happened as a cap has been lifted. It appears that machine utilisation rates are very high in those venues that have machines installed up to the point of the cap, and that rates drop off if these venues are allowed to install new machines. Overall, the average turnover per machine in the more extreme capping regime is nearly 40 per cent higher than that in the more relaxed capping regime. As a result, while there were 34 per cent less machines under the more stringent cap on hotels, aggregate gaming machine turnover was only 2.5 per cent less.

[17] Some evidence for New South Wales, where venue caps on hotels have been relaxed, suggests that this is the case.

[18] Though joint advertising could overcome this scale effect — as in franchised businesses.

Figure 15.3 **Turnover per machine per year, gaming devices in hotels**
NSW 1995-96 (low caps) and 1996-97 (higher caps)[a]



[a] One factor that may partly confound results here is that hotels have a large number of 'approved amusement devices' as well as the more recently introduced gaming machines, and that the distribution of these two types of machines by the size of the venue will have changed as the cap was relaxed.

Data source: NSW Department of Gaming and Racing, *NSW Gaming Analysis 1996-97*.

Community acceptability?

Finally, a sixth possible argument for venue caps rests on community expectations about the nature of the gambling environment that they find acceptable. Where venue caps have been set at lower thresholds, such as Tasmania (25) and South Australia (40) they may act:

- to prevent the development of large casino-like gambling establishments in the suburbs; and
- as brakes on the pace of change in gambling — a goal which communities have clearly expressed (table 15.1) — because venue caps can limit aggregate machine numbers.

Effectively venue caps may act to institutionalise gradualism, while providing for differences in community attitudes to gambling. Where a community wished to have a rapid (slow) expansion of gambling opportunities in their area, they can adopt more (less) liberal licensing requirements for new venues. And by gradually increasing (decreasing) cap thresholds, communities can loosen (tighten) the degree of control they exercise over the gambling environment.

Whether in fact such de facto controls on venue numbers have desirable social outcomes is contested. For example, Victoria's AHHA suggested that restrictions on venue numbers, however exercised, would prove ineffective in controlling problem gambling, citing the case of alcohol:

> The evidence in respect of alcohol contradicts the proposition that increasing numbers of outlets results in an increase in problematic use of the product. In Victoria over the period to 1987 to 1997 the number of liquor licences in Victoria increased from 5212 to 8240. Over the same period the consumption of alcohol in Victoria decreased by approximately 13%. There has not been any significant increase in the short or long term ill-effects of alcohol over this period of expansion in outlet numbers (sub. 154, p. 17).

It should be recognised, however, that the alcohol and gambling markets are quite different. Alcohol is a mature product with a relatively stable market. Consumption changes are more likely to be influenced by such things as lifestyle changes, health concerns and the introduction of random breath testing, than by changes in an already extensive accessibility.

In some jurisdictions, caps are set at high thresholds. Limiting a single venue to 270 (Queensland) or 105 (Victoria) machines still results in large gambling establishments, and provides little real control over the nature of the gambling environment that communities face.

Thus, while venue caps may meet *some* community expectations for control over their local gambling environments, they do so in only a few jurisdictions. Even when cap thresholds are low, venue caps provide weak controls over either the community impacts of gambling or problem gambling hazards.

The overall verdict

Accordingly, arguments for small venues on the basis of avoiding normalisation, anonymity, better identification of problem gamblers and incidental risk factors appear to be weak. On the other hand, in jurisdictions where they are still set at relatively low levels, venue caps can meet some community expectations about controlling the rapidly changing gambling environment.

Against this, there are some arguments which suggest that *larger* venues can exert improved control over problem gambling. Large venues may be able to spread the fixed costs of a large scale harm minimisation program across their many customers. For example the Betsafe harm minimisation program in New South Wales involved about $1 million to develop a coherent program of protocols and staff training among large clubs, which would be more difficult to manage with small venues. As

well, there are economies of scale associated with monitoring larger venues for compliance with statutory or voluntary codes of conduct.

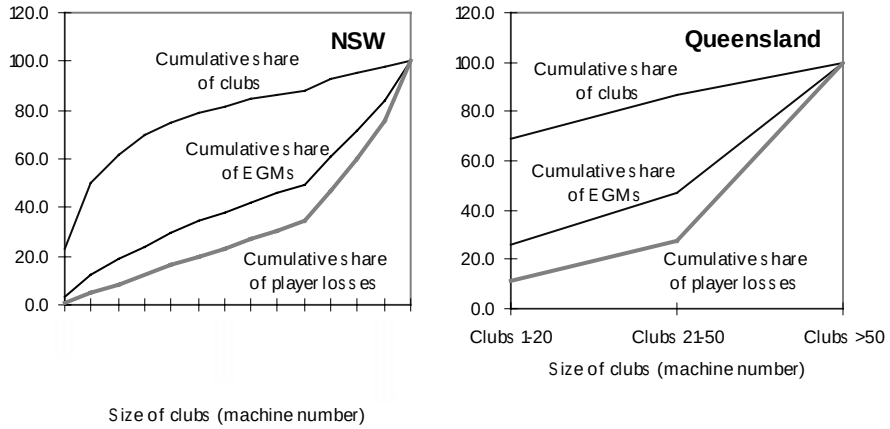
Do binding caps on some venues have worthwhile social impacts?

For those venues where the cap is binding the story is similar to that of global caps described in section 15.2. Any cap-induced price increases probably have adverse impacts on problem gambling, while cap-induced queuing probably has some modest benefits. However, there are number of important twists to the story.

First, binding venue caps are fickle control mechanisms for problem gambling. At best, they may work for those problem gamblers who frequent busy venues where the cap binds, but they miss all those who go to smaller venues. Smaller venues can still comprise a significant share of overall expenditure and, therefore, probably, of problem gamblers. For example, in Queensland, clubs with less than 50 machines account for 86.7 per cent of clubs with gaming machines, 46.7 per cent of the machines and 27.5 per cent of player losses (figure 15.4).

Second, to the extent that problem gamblers are in the 'footloose' group described above, then they may avoid the congestion (which might have moderated their gambling) of busy venues where the caps bind. However, the smaller venues to which they migrate will tend to have higher prices (if economies of scale are important), exacerbating their problems. Given that problem gamblers tend to gamble in more than one venue (Focal Research 1998), to go to a venue to gamble rather than for other reasons and to choose uncongested periods to play, it seems likely that they will be footloose, rather than habituated to a single gambling venue.

Figure 15.4 **Concentration of activity in bigger venues, 1997-98**



Data source: NSW Department of Gaming and Racing 1999, *New South Wales Gaming Analysis 1997-98*, February; and Queensland Office of Gaming Regulation 1998, *Queensland Gaming Newsletter*, 1(1), March.

15.4 Other access approaches

Regional gaming machine quotas

In the Northern Territory[19] and Victoria[20], a form of regional rationing is employed.

In Victoria, this requirement appears to be driven by a desire to increase access by non-metropolitan people to gaming machines. In the absence of regional caps, it was thought that the operation of the duopoly and the global caps would reduce the incentive to place gaming machines in some country venues if metropolitan areas generated higher profits per machine. Victoria's AHHA noted that:

> It was anticipated that, without this rule, nearly all machines would be placed in the city and suburbs. Machines in metropolitan Melbourne [generate higher net machine revenue] than machines in country venues (sub. 154, p. 10).

In fact, the cap on metropolitan gaming machines does not appear to be binding (being about 10 per cent below the threshold). Demand for machines in country areas exceeds the minimum by 37 per cent (table 15.3).

Some participants argued for other types of regional caps on the grounds that gaming machines tend to be located in poorer areas and that this leads to a disproportionate concentration of social problems in some areas. For example, the Interchurch Gambling Taskforce said that, because of the regressive effects of the current high levels of gaming machines in lower socioeconomic areas of Melbourne and Victoria:

> ... any expansion [in machine numbers] should be subject to regional caps. These caps should specify which areas have reached what a community regards as its saturation point. Guidelines as to the appropriate saturation point could profitably be discussed in a community consultation (sub. 55, p. 4).

At this micro level, regional caps amount to constraints on the location of venues with gaming machines. Since convenience of access does appear to be an important aspect in the choice of a venue for problem gamblers (Focal Research 1998 and chapter 8), limiting the average proximity of venues might reduce the prevalence of problem gambling. It would be important, however, to ensure that the scarcity of

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19 A target of 500 gaming machines is 'earmarked' for the north of the Territory and 160 for the south.

20 In Victoria, at least 20 per cent of gaming machines are to be located outside of the Melbourne statistical division. However, the Victorian Government has said that it intends to introduce regional caps on gaming machine numbers.

machines in a high demand poor area did not result in higher prices — or the arrangements might be akin to an additional tax burden on the poor.

While local rationing might have some beneficial impacts on problem gambling, it would also impose costs on recreational gamblers through congestion or greater travel time and costs to venues.

Destination venues?

An alternative way of controlling access is to have a few large venues as destination gambling sites. Access to casino table games is controlled in this way, as most states have a single venue where these games can be played. Isolating access to a few venues is an extreme form of licensing restriction, but it need not require any cap on machine numbers. By cutting the visibility and easy accessibility of gaming machines, it would be likely to reduce the incidence of problem gambling more effectively than state-wide or venue-based caps. It might also have relatively small adverse impacts on the pleasure of recreational gamblers:

- they would, on average, have to travel further to go to a gambling venue, and there might be some congestion costs associated with a few very busy sites. These costs would reduce demand.
- on the other hand, just as with cream buns, cups of coffee, or other consumption goods, the pleasure obtained from consumption falls as more is consumed. So while consumers may gamble less, the gambling they give up may be regarded as 'marginal' in value. The implication is that if the demand for gambling fell by 30 per cent, considerably less than 30 per cent of the consumer benefits of gambling would be lost.

Access restrictions of this kind also raises questions about its impact on competition. Competition may still be effective with a limited number of providers, or it may be necessary to have price controls to ensure consumers do not face higher prices.

There is, however, one substantial practical hurdle to the implementation of destination gambling for gaming machines — all jurisdictions bar Western Australia have liberalised access of the machines to many thousands of venues. Winding back that accessibility would involve large transitional costs, and any changes would have to be phased in over a very long period. Nevertheless, the concept might have application in Western Australia were they to allow the introduction of 'genuine' gaming machines.

15.5 Would other measures perform better?

Quantity constraints on gaming machines appear either to face implementation problems or lack effectiveness as measures for ameliorating problem gambling, and may sometimes intensify problems for current problem gamblers. They do, however, provide a control on the unchecked expansion of gaming machines.

In many ways, restrictions on machine numbers are akin to placing restrictions on the number of cars on the road because of safety concerns. This is not the approach taken for cars. Instead, governments have improved car safety through a range of measures, each of which could have a parallel for gaming machines:

- introducing *design measures* to lower hazards (such as safety belts in cars);
- increasing *awareness of safety issues* (which in turn has encouraged manufacturers to sell safety features as attractive elements of their products);
- improving the *safety of the environment* in which the machines are operated (better roads, signs, clearer traffic rules, prohibition of certain hazardous behaviours, like drink driving);
- *educating consumers* so that they are more likely to make sensible decisions; and
- *improving the care facilities* for those affected by an accident.

Some possible preventative and harm minimisation measures for problem gambling are discussed in chapter 16. If governments put them in place, gaming machine caps would probably be superfluous.

On the other hand, if governments do not significantly reduce the risks associated with gaming machines through effective harm minimisation strategies, there is a case for maintaining quantity restrictions where gaming machines are not yet available (as in Western Australia) or where existing venue caps are set at relatively low levels (as in Tasmania and South Australia).

And if governments maintain state-wide caps in jurisdictions in which accessibility to gaming machines is already very high, then player returns will tend to fall as demand rises for the limited machines in place. Such binding caps would need to be accompanied by a higher floor on player returns than is currently in place to limit the adverse impacts on problem gamblers.

Either way, the Commission considers that uncertainties about the way in which caps may affect problem gambling, combined with community attitudes about the prevalence of gambling, suggest that any moves to lift or tighten the restrictions in place should proceed gradually, so that their social and economic impacts can be gauged.