



AUSTRALIAN HOTELS ASSOCIATION

ACT BRANCH

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Gambling Inquiry
Productivity Commission
Locked Bag 2, Collins St. East
MELBOURNE VIC 8003
Via email: gambling@pc.gov.au

Submission on behalf of the Australian Capital Territory Branch of the Australian Hotels Association

The Australian Hotels Association – Australian Capital Territory Branch (AHA-ACT) is a branch of the federal Australian Hotels Association representing the interests of around 300 licensed hospitality venues within the ACT.

The AHA-ACT understands the national body of the Australian Hotels Association has made a submission to this review and fully supports that submission. Due to the specific circumstances that exist in the ACT, where legislation prohibits the use of Class C gaming machines outside licensed clubs, the AHA-ACT has elected to make a separate submission to specifically address the issue of access to electronic gaming machines by non-club venues in the ACT.

The current state of electronic gaming in the ACT

The *Gaming Machine Act 2004 (ACT)* allows for the use of electronic gaming machines in venues holding a liquor licence under the *Liquor Act 1975 (ACT)*. The ACT legislation places restrictions on the type of gaming machine that can be accessed by non-club venues. While clubs are able to access modern Class C gaming machines without restriction on the number of machines per venue, other venues such as hotels and taverns face the following restrictions:

- In the case of a venue holding a General Licence which also contains at least 12 rooms for accommodation by lodgers or guests – 10 Class B machines; and
- In the case of a venue holding a General Licence or an On Licence which has less than 12 rooms for accommodation by lodgers or guests – 2 Class B machines.

The *Gaming Machine Act 2004* describes Class B machines as “a gaming machine consisting of the game of draw poker, or a game derived from draw poker, that requires player interaction or intervention as part of the fundamental game operation.” While there is no cap on the number of machines that can be used in individual venues (save for those imposed on hotels and taverns listed above), there is a global cap of 5,200 machines in the ACT.

Machine distribution is inefficient and inequitable

The current distribution model for machines in the ACT means that gaming machine availability does not reflect a structured outcome for any of the interested parties. The ACT Government is not maximising its return on behalf of the ACT electorate and consumers are not given the choice of games, machine types and venue facilities that are available to players in other jurisdictions.

Gaming machines should be available in clubs, hotels and taverns at the sites and in the mix of options that will best meet consumer demand for choice. Amending ACT legislation to remove the effective monopoly on gaming machines afforded to the club sector will ensure that consumer demand is met and generate an increase in revenue for the benefit of the government.

Prior to 2004, the *Gaming Machine Act 1987* allowed for up to three Class A gaming machines to be used in addition to the allocation for Class B machines. Over time Class A machines became so commercially unviable for gaming machine manufacturers, purchasers and players that they were taken out of production. The continued development of new products and games in the Class C category is now seeing the same process occur making Class B machines obsolete.

Class B machines are unpopular due to the outdated style of game offerings. Manufacturers have now also ceased to produce Class B machines. No licensed clubs in the ACT use Class B gaming machines even though the legislation permits them to do so.

The 2007/08 report of the ACT Gambling & Racing Commission titled *Community Contributions made by Gaming Machine Licensees* states the average Gross Gaming Machine Revenue (GGMR) of Class B gaming machines is \$24.82 per day, compared with \$95.49 per day for Class C machines used in licensed clubs. The AHA submits that the difference in revenue per machine would be even greater if not for the increasing concentration of the ACT’s machine quota in some of the larger clubs.

Of the 5087 gaming machines in ACT clubs in 2007/08, 3778 were located in the 20 largest venues, according to the ACT Gambling & Racing Commission. The AHA-ACT submits that a significant number of the machines located in larger clubs are under utilised and not generating the maximum return to ACT taxpayers.

Having ceased to be manufactured, Class B machines are now becoming even less attractive to prospective players in the face of continued advances in the Class C

category. Without an easing of the restrictions on machine type, non-club venues in the ACT face the prospect of losing a vital source of income as these machines are phased out.

The AHA-ACT has expressed public concern over the monopoly on Class C gaming machines held by the club sector. In addition to holding a competitive advantage over other non-gaming venues, clubs are able to use gaming machine revenue to subsidise food and beverage costs for patrons. Previously this was a minor issue for the broader hospitality industry as most clubs were located in suburban areas close to the communities or sporting facilities to which they are associated. However, recent years have seen an increasing corporatisation in the club sector. In Canberra several licensed clubs have been established in the CBD, where subsidised food and beverage prices have forced a number of non-gaming venues out of business.

Although revenue generated by Class B machines is barely one-quarter of the revenue generated by Class C machines, gaming machine revenue is still an important source of income for the hotels and taverns which offer them to patrons. The ageing of these machines is of significant concern for operators who are prevented by legislation from upgrading in newer technology to keep pace with consumer demand.

The modern industry approach to meeting the public's demand for entertainment is to provide a changing environment that reflects the advance of technology and a willingness to reinvest in venue facilities. Machines must be re-locatable within venues or to another site; games played on the machines must be 'cutting-edge' and constantly under review and venues must reinvest to update their facilities used by their patrons.

Recommendations

It is the view of the AHA that the public demand for access to machines in convenient locations, for a choice of cutting edge machines and games, and for modern refurbished facilities for the comfort of patrons is not being met by the current model and this requires urgent review.

The AHA recommends that the Commission consider an operational model which allows non-performing club and hotel machines to be pooled for sale to other clubs and hotels that can show public demand for more machines and the likelihood of better returns from their venues.

This model would require legislative change that enabled the establishment of an 'authority' attached to every machine currently issued under the existing cap. The authority would be a permit to operate a gaming machine and would be transferable between sites on payment of a fee determined through a tender process.

Authorities that were surrendered through rationalisation of any venue's operations would then be pooled for bids by tender on a periodical basis. The revenue of the

successful sale of such authorities would then be split between the government and the vendor licensee.

The recommendation can be summarised as follows:

- Create authorities and a trading pool for the re-distribution of authorities;
- Approve new applications from licensed venues, suitable for machines, with revised guidelines including a review of venue caps;
- Approve the number of authorities as appropriate for any newly-granted application;
- Approved venues are then eligible to tender for pool authorities and may install one machine for each authority procured;
- Existing venues are permitted to rationalise machine numbers by submitting authorities to the pool – the venue and Government would split proceeds from the sale of authorities.

The AHA-ACT further submits that the Commission make the following recommendations in relation to gaming machine legislation in the ACT:

- That the restrictions on the type of gaming machines available to non-club venues be removed; and
- That the requirement for a non-club venue to have 12 or more rooms available for accommodation be removed; and
- That at least 300 machines from within the ACT machine cap (currently 5,200 machines) be reserved for use by non-club venues.

Thank you for the opportunity to contribute to the Review.

Yours sincerely



Steven Fanner
General Manager

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