

Review of the Electronic Gaming Machine, Club Keno and Wagering Licences and Funding Arrangements for the Racing Industry Post 2012

Regulatory Review Phase Statement of Outcomes

Gambling Licences Review
Office of Gaming and Racing
April 2008

DEPARTMENT
OF JUSTICE

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Gambling Licences Review

Statement of Outcomes: Regulatory Review Phase

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MESSAGE FROM THE MINISTER FOR GAMING

In 2004, the Government announced a formal review of Victoria's gambling industry. The objective of this comprehensive review was to deliver the best outcomes for future generations of Victorians, through the gambling licensing arrangements that will apply beyond 2012.

Last year, we concluded the lotteries licensing phase of the Gambling Licences Review, granting two separate Lotteries Licences, introducing competition to the Victorian lotteries market for the first time and ending the previous 54-year monopoly.

The Government has now proceeded a step further by setting a landmark new direction for the gambling industry in Victoria. Under the new arrangements:

- approved hotels and clubs will bid directly for 10 year gaming machine entitlements, which will authorise venues to possess and operate gaming machines
- keno will be offered as a single, specific 10 year licence
- a single stand-alone 12 year licence will be offered for wagering

At the end of the new licences, which commence in 2012, the Government may exercise its option to extend these licence terms for gaming and/or wagering by two years to support a smooth transition to the new licence arrangements.

Licences to operate keno and wagering will be opened up to competition for the first time in the State's history. The future licence approach for gaming also provides for greater competition, while seeking to spread the benefits of gaming more broadly.

The Victorian Racing Industry will not be able to bid for a wagering licence, as its role will be to provide ongoing advice during the licensing process and assist in the development of detailed arrangements for funding to the Racing Industry post 2012.

The Government's decision in relation to the future of gaming, wagering and keno recognises that gambling in its various forms is a well established and legitimate form of entertainment in Victoria.

It is an industry that employs thousands of people throughout the State and one that we want to ensure is sustainable, promotes responsible gambling and has positive benefits for the community in the future.

The Government continues to be committed to responsible gambling measures. To align with the 2012 gaming industry structure, we have announced a range of landmark measures that will be introduced between 2008 and 2012. These include banning ATM's from gaming venues and mandating that gaming machines contain new pre-commitment mechanisms in the future.

The Government will ensure that high standards of probity, transparency and accountability continue to be maintained under the new structures.

The new arrangements reshape the industry, offering a new competitive environment that will deliver direct benefits to the community on many levels, with the Government's new Responsible Gambling measures serving to increase protection for those in the community most vulnerable to problem gambling.

The Government will provide advice shortly to enable industry, community and other stakeholders to participate in a consultation process in relation to the implementation of these changes.

The Government encourages active participation in this process with details relating to consultation to be announced towards the middle of the year.

Under the Gambling Licences Review, the Government will now commence a process to enable competitive bidding for the new licences.



Tony Robinson MP
Minister for Gaming

1 INTRODUCTION

The Gambling Licences Review (the Review) considered, in its initial phase, options for lotteries licensing, concluding with the Government announcement in 2007 that two Lotteries Licences were to be granted from 1 July 2008. This decision brings an end to a 54 year monopoly in the Victorian lotteries industry, introducing competition to this market for the first time and providing greater choice for Victorians.

The next phase of the Review was announced in January 2006 and included the industry arrangements for electronic gaming machines, keno and wagering, plus funding for the Racing Industry beyond 2012.

The Review has provided a unique opportunity for Victoria to reflect on industry trends in order to best shape the industry for the next generation and open up Victoria's gambling industry to greater competition.

The Review was directed by a Gambling Licences Review Steering Committee, which was chaired by the Secretary of the Department of Justice and comprises membership drawn from:

- Department of Justice
- Department of Treasury and Finance
- Department of Premier and Cabinet
- an independent member.

1.1 Gambling Licences Review terms of reference

The Minister for Gaming required the regulatory review phase of the Gambling Licences Review to be carried out in accordance with the terms of reference applying to the Review and with due consideration of the State's Guiding Principles for gambling policy.

General terms of reference

The Government announced that the Review would have regard to:

- the Government's statement of principles to guide future gambling policy and legislative development
- trends and developments in the gambling sector
- the economic, social and community benefits and costs of the current and alternative licensing arrangements
- the transition and other issues involved in the implementation of new or revised licensing arrangements
- the Government's commitment to a viable and growing Racing Industry.

The Review was to provide advice on:

- the electronic gaming machine and wagering licensing arrangements post 2012 and the broad approach and timing to implementing these arrangements
- the arrangements for the provision of keno
- the funding of the Racing Industry post 2012
- the broad financial and regulatory arrangements for the proposed licensing arrangements.

State's Guiding Principles for gambling policy

The Review was required to give foremost consideration in its assessments to the Government's principles to guide future gambling policy and legislation. These were:

- developing and reinforcing the Government's commitment to responsible gambling through measures that assist and protect problem gamblers and those at risk of becoming problem gamblers, their families and the wider community
- developing and maintaining the State's commitment to the highest standards of probity for gambling service providers
- accepting gambling is a valid activity for many Victorians who are entitled to expect ongoing high standards of service, transparency, and accountability from the gambling sector
- ensure that the legitimate financial benefits of gambling (both private and public) are transparent, appropriately recognisable and fairly distributed to the Victorian community
- to the extent possible consistent with the other principles, gaming service providers operate in a competitive environment
- establishing proper consultative processes to ensure that appropriate information is given to, and input is received from, the wide variety of persons interested in gambling including stakeholders, affected parties and, to the widest extent possible the broader Victorian community.

(Source: Minister for Gaming, Second Reading Speech, Gambling Regulation Bill, Legislative Assembly, 6 November 2003)

The Review was required to report on how these principles could be translated into the new licence structures and associated arrangements.

Other considerations

In undertaking the Review of electronic gaming machine licence arrangements, the Minister for Gaming requested that the Review have regard to the:

- Government's position of 27,500 electronic gaming machines outside the casino
- Government's in principle support for a minimum of 50 per cent of electronic gaming machines within clubs.

1.2 Gambling Licences Review outcomes

The Government has now concluded its consideration of the regulatory review phase of the Gambling Licences Review, which has allowed it to determine the licensing arrangements that will apply from 2012. A description of the new licensing arrangements are presented in:

- section 4 for gaming machines
- section 5 for keno
- section 6 for wagering.

In making its decision about the post 2012 licence structure, the Government took into account the Guiding Principles and ensured they remain an integral part of the future of the gambling industry. As a result, the State has:

- reaffirmed its commitment to Responsible Gambling, with the introduction of new landmark harm minimisation initiatives that will be progressively introduced from 2008
- maintained the high probity standards that currently apply to gambling service providers by seeking to strengthen the Victorian Commission for Gambling Regulation in its vital role in monitoring and regulating the integrity and probity of companies and individuals and their conduct in regard to the gambling industry under the new licence conditions
- introduced a new monitoring system to the post 2012 gaming licensing arrangements to ensure the integrity and transparency of gaming venues
- opened up gambling licences to greater competition
- increased consumer choice and encouraged innovation with respect to products and distribution methods, through the introduction of greater competition in the market.
- reshaped the gaming industry to ensure the financial benefits from gaming are fairly and more broadly distributed to the Victorian community
- provided incentives for the development of the Racing Industry by realigning the funding for the industry with the gambling products that rely on the performance of the industry, ensuring that industry funding is derived from wagering to the greatest extent possible (in the context of the Government's commitment to ensuring that the post 2012 funding arrangements are no less favourable to the Racing Industry than those currently applying)
- committed to a process of further consultation on the next stage of the licensing process with stakeholders to ensure that proper information is given to, and input is received from, the wide variety of persons interested in gambling.

2 GAMBLING INDUSTRY OVERVIEW

2.1 The Gambling Industry

The *Gambling Industry in Victoria* comprises all legal forms of gambling operated under licences awarded by the State of Victoria, being the operation under licence of:

- lotteries
- gaming machines
- the casino
- keno
- wagering
- other minor gambling.

Over the past two decades, the industry has seen enormous change driven by new technologies, an increased focus on responsible gambling practices and new business strategies.

The gambling industry makes a significant contribution to the Victorian economy in terms of employment, investment and revenue.

2.2 Gambling regulation

The Gambling Industry in Victoria is regulated by:

- *Gambling Regulation Act 2003*
- *Casino Control Act 1991*
- *Casino (Management Agreement) Act 1993*
- *Racing Act 1958*

The *Gambling Regulation Act 2003* is central to this Review, being the legislation under which all of the licences that are subject to this Review are issued.

Powers under the Gambling Regulation Act 2003

The *Gambling Regulation Act 2003* (GRA) was established to:

- foster responsible gambling by:
 - accommodating those who gamble without harming themselves or others
 - minimising the harm caused by problem gambling
- ensure that gambling is conducted honestly, fairly and without criminal influence
- ensure that gaming is conducted for the benefit of the community and charitable organisations and to ensure that public confidence in such gambling is maintained
- promote tourism, employment and economic activity generally in Victoria.

The GRA also established the independent regulator, the Victorian Commission for Gambling Regulation (VCGR), which ensures the ongoing probity of licensees and the integrity of the industry.

Chapters 3 and 4 of GRA deal with gaming machines and wagering, while Chapter 6 deals with keno.

2.3 Structure of the current gaming machine licence arrangements

In 1992, a gaming operator's licence was issued to the Trustees of the Will and Estate of the late George Adams, now trading as Tatts Group. In 1994, the State issued a wagering and gaming licence to TABCORP Holdings Limited (TABCORP). These licences expire in 2012 and the end of licence arrangements are specified in the *Gambling Regulation Act 2003*. The licences allow the companies to distribute, maintain and operate gaming machines in approved venues.

The gaming operators are also responsible for supplying and operating a monitoring system for their operations and are accountable to the VCGR for maintaining specified standards for the monitoring system.

The current gaming operator licences expire on:

- 14 April 2012 (Tatts Group Ltd)
- 15 August 2012 (Tabcorp Holdings Ltd).

As part of its commitment to responsible gambling in Victoria, the Government has committed to:

- a maximum of 27,500 machines across Victoria (outside the Melbourne Casino)
- a minimum of 20 per cent of machines outside metropolitan Melbourne and a maximum of 80 per cent of machines in metropolitan Melbourne
- a ceiling of no more than 105 gaming machines per venue
- 50 per cent gaming machines within clubs and 50 per cent within hotels.

Regional caps on gaming machines allocation

In 2001, the Victorian Government introduced a system of regional caps on gaming machines. The objective of this policy is to identify those communities that are most vulnerable to the adverse impacts of gaming and to cap the number of gaming machines in those communities.

In late 2006, a second phase of caps extended the number of capped regions to 19 regions across the State. The cap is set at either 10 gaming machines per 1,000 adults or the density of gaming machines in the region as at 12 October 2006, whichever is the lower.

As at 18 December 2007, the Government's regional caps policy has resulted in 949 gaming machines being removed from potentially vulnerable communities in Victoria.

Density of gaming machines in Victoria

The State's policies and licence arrangements contribute to Victoria having the lowest density of gaming machines (excluding casinos) of all mainland states.

According to the latest VCGR data, there is an average of 6.86 gaming machines per thousand adults in Victoria. In total, there are 27,279 gaming machines in 522 venues across Victoria. The density of gaming machines per head of population nationally is almost double the density in Victoria.

2.4 Structure of the current keno licence arrangements

Keno was introduced to Victoria in 1994. Currently, there is no separate licence to conduct keno. Instead, an authorisation to operate keno was allocated to the holders of the gaming licences issued under the GRA, this being Tatts Group Ltd (Tatts) and Tabcorp Holdings Ltd.

Tatts and Tabcorp formed a joint venture to oversee the conduct of keno and Tatts operates the game on behalf of the joint venture.

Keno is currently offered in about 300 hotels and clubs that are approved gaming venues.

The Keno game

Keno is a rapid draw game in which 20 numbers are drawn every four minutes, via a random number generator, from a pool of numbers one to 80. The numbers are then posted electronically in venues.

To play, players select up to 15 numbers by marking them on a card, which is then fed into a terminal to generate a ticket. Unlike gaming machines, the keno terminals with which customers interact do not determine outcomes, but merely process the tickets and update a central database.

2.5 Structure of the current wagering licence arrangements

The Victorian Government established the Totalisator Agency Board (or TAB) in 1960 to provide Victorians with a reliable and legal means of betting on racing away from the racecourse. The TAB was publicly floated in 1994 and became Tabcorp, which continues to provide off-course wagering services.

There is currently a single, exclusive wagering licence in Victoria that is held by Tabcorp. Victorians can bet on horse, harness or greyhound racing, as well as sports and other events.

The current licence system is unique in that the GRA specifies that the wagering licence and a gaming licence must be held by one person, which is Tabcorp. The current licence expires on 15 August 2012. A condition of the licences required Tabcorp to enter into arrangements to provide financial support to Victoria's Racing Industry.

Tabcorp operates a wide-ranging retail network. As at 31 March 2008, there were 583 TAB outlets, of which 489 were in hotels and clubs. Victorians can also place bets via the phone and internet if they have a Tabcorp betting account. The VCGR approved account access by pay-tv in February 2008.

2.6 Racing Industry Funding

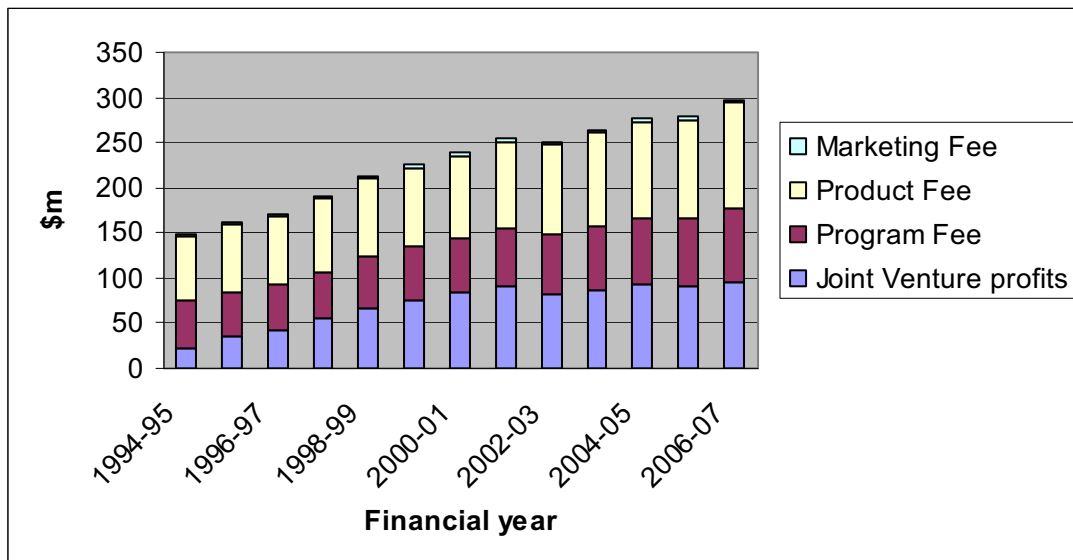
The Victorian Racing Industry is a significant contributor to the Victorian economy in terms of employment, capital investment and tourism, particularly in regional Victoria and is an important part of our cultural and sporting heritage.

The Victorian Racing Industry derives substantial funding from the operation of Tabcorp's gaming and wagering licences. The current funding arrangement is in operation until the licences end on 15 August 2012.

In 2006/07, the Racing Industry received approximately \$300 million in revenue, made up of:

- an annual program fee, which in 1998 was \$50 million (indexed from 1998 in accordance with changes in off-course net wagering revenue) and which in 2006/07 was approximately \$74 million
- a product fee of 18.8 per cent of net wagering revenue, which in 2006/07 equated to \$109.2 million
- an annual marketing fee, which in 1998 was \$2.5 million (indexed from 1998 in accordance with changes in off-course net wagering revenue) and which in 2006/07 was approximately \$3.8 million
- a fee amounting to 25 per cent of Tabcorp's net profit on each of its gaming and wagering gaming licences (including the keno authorisation), which in 2006/07 was \$90.7 million (approximately 80 per cent from gaming machines).

FIGURE 1: Funding to the Victorian Racing Industry



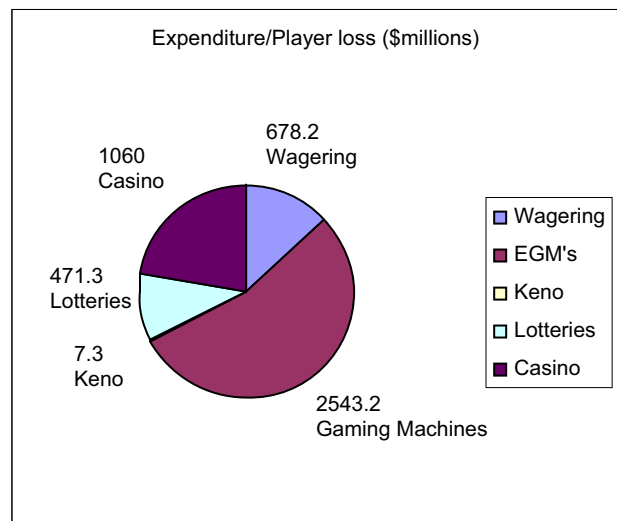
Source: VCGR data 2006/2007

The Government gave a commitment at the outset of the Review that the Racing Industry should be growing and viable and that new funding arrangements are to be 'no less favourable' to the Racing Industry than those applying at the conclusion of the current licence period.

2.7 Current gambling expenditure and revenue

In 2006/07, the total net expenditure on gambling in Victoria was \$4.76 billion. Figure 2 outlines how the net expenditure is distributed between gaming machines (\$2.54 billion), wagering (\$678.2 million), keno (\$7.3 million), lotteries (\$471.3 million) and the Melbourne Casino (\$1.06 billion).

FIGURE 2: Net expenditure on gambling in 2006/2007



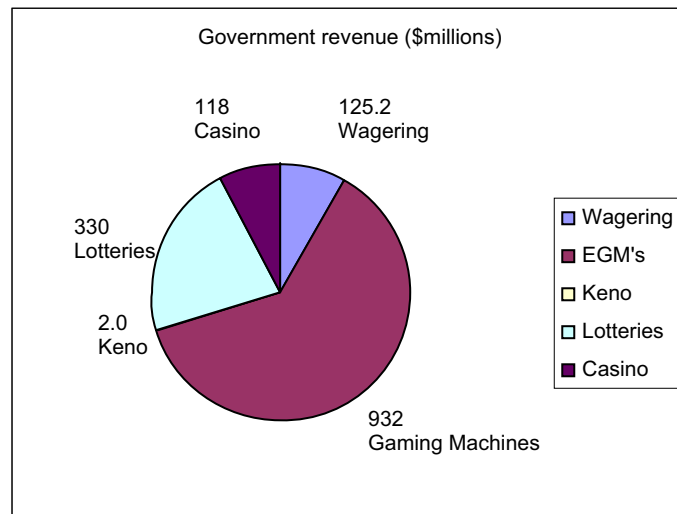
Source: VCGR data 2006/2007

Note

Net expenditure is the total amount gambled minus the amount returned to players in winnings.

The Government revenue from gambling is outlined in Figure 3 below.

FIGURE 3: Government revenue from gambling in 2006/2007



Source: VCGR data 2006/2007

Note

The gaming machine revenue of \$932 million includes the health benefit levy, which was \$3,033.33 per machine in 2006/2007, and has since been increased to \$4,333.33 per machine from 1 July 2007.

3 REVIEW PROCESS

3.1 The Role of the Gambling Licences Review Steering Committee

The Gambling Licences Review (GLR) Steering Committee was established to provide advice to the Minister for Gaming about the options for future licensing and regulatory arrangements with respect to:

- electronic gaming machines
- keno
- wagering

The GLR Steering Committee's terms of reference also extended to the provision of advice about how the Victorian Racing Industry may be funded under any new licensing arrangements.

The GLR Steering Committee undertook the following:

- to provide advice to the Minister for Gaming on the points outlined in the Terms of Reference (listed on page 2).
- project initiation and sign-off
- to identify and assess the available industry structure options plus associated regulatory and financial arrangements
- to evaluate options and make recommendations for consideration to the Minister for Gaming.

The membership of the GLR Steering Committee comprised the Department of Justice, Department of Treasury and Finance and Department of Premier and Cabinet and an independent member. The GLR Steering Committee was supported by a full time project team and commissioned expert advice on a variety of topics relevant to the review.

3.2 Project probity

The Gambling Licences Review was conducted in a way that ensured that the highest standards of probity were maintained. The Review process complied with the Government's probity principles, which state that all Government business must be fair, open and demonstrate the highest levels of integrity consistent with the public interest.

The key requirements to promote probity include:

- fairness and impartiality
- consistency and transparency of process
- security and confidentiality
- identification and resolution of conflicts of interest.

An external Probity Auditor was engaged to approve probity plans and associated documents, observe the progression of the Review process across all stages and provide advice as required.

Project probity was also monitored and reviewed by the Independent Review Panel. In this context, the Review was subject to two levels of independent monitoring and review.

3.3 Independent Review Panel

The *Gambling Regulation Amendment (Review Panel) Act 2007* established the Independent Review Panel. The provisions came into operation on 10 May 2007.

The creation of the Independent Review Panel upheld the commitment of the Government to establish a panel of appropriately qualified people to independently and publicly report on the post 2012 Gambling Licences Review.

The Independent Review Panel consists of four members, and is chaired by the Honorable Ron Merkel QC, former Judge of the Federal Court.

The Independent Review Panel has been actively and constructively engaged in reviewing the post 2012 Gambling Licences Review process, in accordance with its functions under the GRA. The Panel reported to the Minister on whether the post 2012 Gambling Licences Review met the high standards of governance and probity required by the Government.

The Independent Review Panel report will be published on the Department of Justice's website (www.justice.vic.gov.au/gamblinglicencereview) following its tabling in Parliament.

3.4 Submissions

In 2006, the Government invited community organisations, industry groups, local government and any other groups or individuals to present their views on the Review.

To assist in the preparation of submissions the Minister released four Issues Papers and invited responses to the areas highlighted in those papers.

The following Issues Papers were released in March 2006:

- *Gaming Machine Licences Arrangements Post 2012*
- *Club Keno Arrangements Post 2012*
- *Wagering Licence Arrangements Post 2012*
- *Funding Arrangements for the Racing Industry Post 2012.*

The Gambling Licences Review project team working on the gaming machine licence arrangements post 2012 received more than 100 submissions.

The Issues Papers and submissions are available on the Department of Justice website www.justice.vic.gov.au/gamblinglicencereview

3.5 Public consultations for gaming machines

Following receipt of the submissions, there was a public consultation process regarding the gaming machine licence structure post 2012.

The public consultations were held across metropolitan and regional Victoria in July and August 2006. They provided a forum for a full and transparent discussion of the submissions. The public consultations on gaming machines were led by Mr. Peter Kirby, former Secretary of the Victorian Departments of Premier and Cabinet and Education and Training.

The sessions were recorded by a court reporting service and a transcript was sent to every participant for factual corrections. The transcripts are available on the Department of Justice website www.justice.vic.gov.au/gamblinglicencereview.

The *Gaming Machine Licence Arrangements Post 2012: Report by Peter Kirby* was released in October 2006. The report on the public consultations on gaming and the submissions can be downloaded from the Department of Justice website at www.justice.vic.gov.au/gamblinglicencereview.

3.6 GLR Steering Committee Consultations – for matters other than gaming machines

Members of the GLR Steering Committee also held discussions with organisations and individuals who lodged submissions in response to the other three Issues Papers:

- keno arrangements post 2012
- wagering licence arrangements post 2012
- funding arrangements for the Racing Industry post 2012.

4 POST 2012 GAMING INDUSTRY ARRANGEMENTS

4.1 Outcomes of review

- Victoria will change from the current duopoly gaming operator system to a venue operator system.
- Following the expiry of the existing gaming operators' licences in 2012, the State will not issue any further gaming operator licences.
- Victoria will adopt arrangements similar to those that have been operating in New South Wales and Queensland for more than a decade.
- The State will allocate gaming machine entitlements to approved venue operators through a competitive bidding process.
- A gaming machine entitlement will authorise the approved venue operator to possess and operate a gaming machine.
- The Victorian Commission for Gambling Regulation (VCGR) will continue to approve and regulate venue operator licensing.
- Victoria has a high standard of probity in the gaming machine industry and this will be maintained under the new arrangements.
- Gaming machine entitlements will be granted to operate for 10 years from 2012.
- At the end of the new licences, which commence in 2012, the Government may extend these licences for up to a further two years to ensure a smooth transition.
- Venue operators will be able to transfer gaming machine entitlements to other licensed venue operators (as exists in other jurisdictions).
- In consultation with peak bodies such as Clubs Victoria, Australian Hotels Association (Victoria) and the RSL Victoria, transitional policy matters will be progressed during 2008.
- An independent monitoring function will be established to monitor gaming machine transactions in venues.

In the context of the State's Guiding Principles, these outcomes will provide:

- a venue based model that ensures that the financial benefits of gaming are fairly and more broadly distributed to the Victorian community
- continued high standards of probity through a strengthened Victorian Commission for Gambling Regulation and an independent monitoring system to ensure the integrity and transparency of gaming venues
- opportunities for venue operators to better respond to consumer demands and choice
- a consultation process so that stakeholders can contribute to the process and receive appropriate information and assurance.

The Government's commitment to Responsible Gambling has been reaffirmed, with the introduction of new landmark harm minimisation initiatives that will be progressively introduced from 2008.

4.2 The decision

The decision represents a new era for Victoria.

The gaming operator structure was appropriate for the industry at the time that gaming machines were introduced to Victoria in the early 1990s.

In 2000, the Government released the report of an independent review of gaming machine legislation commitment with its obligations under National Competition Policy. The report, *National Competition Policy: Review of Gaming Machine Legislation* (November 2000), concluded that the duopoly gaming operator structure was of a “highly anti-competitive nature” and lacked “public interest benefits, over more competitive structures”.

In response to this report, the Government committed to having regard to these findings in its review of the gaming machine licensing arrangements post 2012.

Given the developments that have occurred since the establishment of the industry, it is important that Victoria takes this opportunity to implement an industry structure that provides the best possible outcome for the future of Victoria.

The decision reshapes the gaming machine industry for the next generation to better focus electronic gaming machines at a community level. It also ensures maintenance of the economic benefits to Victorians stemming from employment and investment.

The new structure gives direct control to venues. It will empower venues to take more responsibility for their own gaming machine decisions, taking more control over their business planning and development.

Venues will be able to respond more directly to consumer preferences and will be more accountable to their community.

The high standards of probity and regulatory oversight in the Victorian gaming industry will be maintained. The VCGR will continue to approve and regulate venue operator licensing, and machine monitoring services will be provided independently of venue operators.

Responsible gambling will continue to be a priority under the new arrangements and will be further strengthened with the commencement of the new industry structure. All gaming venues will have to abide by the Responsible Gambling Codes of Conduct. Additional responsible gambling measures were announced by the Government in March 2008 (as outlined in section 8 in this report).

For more than a decade, New South Wales and Queensland have had similar gaming industry structures to the new post 2012 arrangements. Victoria has adapted a model that has been tested and proven and will redefine its gaming industry by introducing a modern version of this structure, which will position the State as a leader in the industry for future generations. In addition, the complementary responsible gambling initiatives and problem gambling responses set the national benchmark.

The decision is a significant step forward for the Victorian gaming machine industry. The State will now work with the industry to assist venues and the existing gaming operators with the transition.

4.3 What the decision means for gaming venues

Under the new gaming industry arrangements a venue operator will need to go through a similar process to the current arrangements. To operate gaming machines under the post 2012 industry arrangements, a venue will need:

- A venue operator licence, which includes a VCGR assessment of their suitability to participate in Victoria’s gaming industry.
- VCGR premises approval stating that the venue is suitable for gaming.

This approval process will be the same as currently applies and will continue to require a planning permit and involve a social and economic impact assessment.

- Bid successfully for gaming machine entitlements.

Gaming machine entitlements

Under the new industry arrangements, approved venue operators will need to purchase gaming machine entitlements so that they have the authority to own and operate gaming machines in an approved venue.

Entitlements will be allocated through a competitive bidding process.

All venues will have equal access to gaming machine entitlements through a competitive, fair and transparent bidding process.

To be permitted to purchase gaming machine entitlements bidders will need to hold a venue operator licence.

Venues that have a current licence under the existing structure will not need to re-apply and will be eligible to bid for gaming machine entitlements.

New venues will be able to seek venue operator licences and premises approval on an ongoing basis. The current Gaming Operators will also be able to apply for hotel venue operator's licences post 2012, like any other company, which is considered suitable by the VCGR. However, the existing Gaming Operators will not be permitted to operate a hotel gaming venue before their existing licences expire.

The entitlements will provide the authority for the venue operator to possess and operate gaming machines in an approved venue.

For example, if an approved venue operator has a premises approval to operate 50 gaming machines in the venue and wishes to operate 50 gaming machines post 2012, the venue operator will need to purchase 50 gaming machine entitlements.

The Government wishes to ensure the broad distribution of the benefits of gaming machines. To this end, it will place a restriction on the ownership of hotel gaming machine entitlements so that no individual or organisation will be able to own more than 35% of hotel gaming machine entitlements.

Approved venue operators will be able to obtain entitlements through the initial competitive bidding process, expected to be completed in 2010.

The design and development of the competitive bidding process will take place as part of the transition and implementation phase. This phase will also include the development of an extensive venue education and training program to assist venue operators in participating in the competitive bidding process.

Monitoring

A new independent monitoring function will be established to monitor gaming machine transactions. These arrangements will be similar to other states.

4.4 Next steps

The new arrangements represent a significant step forward. Further work will be undertaken by the State in consultation with key stakeholders including Clubs Victoria, the Australian Hotels Association (Victoria) and the RSL Victoria to ensure a smooth transition. This work will commence immediately.

Over the coming months, the State will commence work with the gaming industry's peak bodies to develop a business education package for venues. This will involve working with the industry throughout the transition period.

The State will also work with these peak bodies to finalise transition issues associated with new monitoring functions and new regulatory arrangements. This work will be progressed during 2008 and will conclude well in advance of the expiry of the current licences in 2012.

The development of the competitive bidding process for allocating gaming machine entitlements to venue operators will take place during 2008/09. Training will be provided for venue operators to assist them in participating in the bidding process.

It is intended that in 2009, the arrangements to establish an independent monitoring function will be finalised.

Allocation of gaming machine entitlements is expected to be completed in early 2010.

5 POST 2012 KENO LICENSING ARRANGEMENTS

5.1 Outcomes of review

- There is to be a single keno licence post 2012.
- The keno distribution is to be extended to those hotels, clubs (with full club liquor licences) and wagering outlets who express an interest in being involved.
- A separate licence category will be created for keno under the *Gambling Regulation Act*.
- The licence term is for ten years.
- There will be a competitive process for the keno licence post 2012.

In the context of the State's Guiding Principles, these outcomes will provide:

- increased competition through a competitive process for the awarding of a keno licence, for the first time
- increased opportunity for hotels, clubs and wagering outlets to offer the keno product to consumers to provide greater choice in a broad range of approved venues
- continued high standards of probity through a strengthened Victorian Commission for Gambling Regulation to ensure the integrity and transparency of keno operations
- a consultation process to ensure that stakeholders can contribute to the process and receive appropriate information and assurance

The Government's commitment to Responsible Gambling has been reaffirmed, with the introduction of new landmark harm minimisation initiatives that will be progressively introduced from 2008.

5.2 The decision

Keno now has the potential to be an alternative entertainment option for Victorians.

The game currently enjoys a high level of popularity in other Australian states, and has the potential to become more popular in Victoria. The new distribution arrangements will provide an opportunity for the new licensee to grow the product as a potential add-on to other entertainment options in venues.

By opening the licence up to a competitive tender process, the licensee will be able to develop the game that best suits player expectations and delivers more entertainment options for Victorians.

While the distribution for keno now has the potential to increase to hotels, clubs (with liquor licences) and wagering outlets, the new keno licensee will have to abide by the Responsible Gambling Code of Conduct and it will be their responsibility to ensure their agents comply with the code.

The licence will reinforce the commitment of the licensee to responsible gambling conditions.

5.3 Licence awarding process/next steps

The next stage of the process is to issue Registration of Interest documents this year.

Following the evaluation process, Invitations to Apply will be issued to short-listed registrants.

The Government considers the probity and integrity of the bidders paramount and the VCGR will perform its role to ensure that any bidder not considered a fit and proper person to apply will be excluded from the process.

The Independent Review Panel will continue to provide oversight and transparency to licensing processes.

6 POST 2012 WAGERING LICENSING ARRANGEMENTS AND FUNDING FOR THE RACING INDUSTRY

6.1 Outcomes of review

- The wagering and betting licence post 2012 is to be a single, exclusive pari-mutuel and fixed odds licence (retention of the existing licence model).
- The Government's view in relation to the licensing of other betting forms, such as betting exchanges, will be determined prior to the release of the Registration of Interest documentation.
- The legislation will be changed to achieve a separation of the wagering licence from the gaming licence.
- There will be a competitive process for the post 2012 wagering and betting licence.
- The licence length is 12 years.
- At the end of the new licence, which commences in 2012, the Government may extend this licence for up to a further two years to ensure a smooth transition.
- The Victorian Racing Industry will be funded from wagering operations post 2012 to the greatest extent possible (in the context of the Government's commitment to ensuring that the post 2012 funding arrangements are no less favourable to the Racing Industry than those currently applying).
- The Victorian Racing Industry cannot bid for the wagering and betting licence.
- Regulation of traditional racecourse bookmakers is not being changed as a result of this Review. Traditional racecourse bookmakers will continue to provide on-course betting in Victoria.

In the context of the State's Guiding Principles, these outcomes will provide:

- increased competition through a competitive process for the awarding of a wagering licence, for the first time
- continued high standards of probity through a strengthened Victorian Commission for Gambling Regulation to ensure the integrity and transparency in the operation of the wagering license
- stronger incentives for the development of the Racing Industry through a realignment of the funding for the Racing Industry with the gambling products that rely on the performance of the industry
- a consultation process with key representatives of the Victorian Racing Industry and other interested parties to ensure that stakeholders can contribute to the process and receive appropriate information and assurance.

The Government's commitment to Responsible Gambling has been reaffirmed, with the introduction of new landmark harm minimisation initiatives that will be progressively introduced from 2008.

6.2 The decision

The licence will be a stand-alone licence and will not be interconnected with any other gaming operations as it has been since 1994. All other jurisdictions in Australia operate with a single, unlinked wagering licence.

The retention of a single wagering licence is an advantage for Victorians as it retains the system of one large pool, which means better and more stable odds when punters place a bet.

The licence will be subject to a competitive process for the first time. This will increase competition for the licence and has the potential to provide a significant benefit to the Victorian public.

The licence will reinforce the commitment of the licensee to responsible gambling conditions.

Victoria has a vibrant world-class Racing Industry, which is internationally recognised. This decision supports the Racing Industry by giving the wagering operator and Racing Industry the opportunity to develop better arrangements, which will lead to better outcomes for racing in Victoria.

The Victorian wagering industry has the second largest wagering expenditure in Australia and is a viable and attractive licence for any potential provider of wagering services.

The Government has determined that the Victorian Racing Industry will not be permitted to bid for the wagering and betting licence as its role will be to provide ongoing advice to Government during the bidding process. It is therefore, not appropriate to be involved in both the licensing process and bid, as this would jeopardise the integrity of the process.

6.3 Further consultation with the Racing Industry

The Government has decided that the Racing Industry should be funded from wagering operations post 2012 to provide incentives for both the wagering service providers and the Industry to work towards the overall betterment of Victoria's Racing Industry.

Currently, revenues from wagering operations contribute approximately 74 percent of Racing Industry funding; the remaining revenue is from Tabcorp's gaming operations. This will no longer apply following the Government's decision to separate the licences in 2012. As part of the consultation phase with the Racing Industry the Government will consider lowering the current tax rates, to ensure that the post 2012 funding arrangements are no less favourable for providing revenue to the Racing Industry.

As part of the next phase of the Gambling Licences Review, the post 2012 environment provides an opportunity for the Racing Industry to work closely with the wagering licensee to grow both the racing and wagering product.

Commencing immediately, the Government will consult with the Racing Industry to finalise the funding model and other financial arrangements. The consultation process will consider the Racing Industry's perspectives in relation to the Government's commitment to a growing and viable Racing Industry and the requirement that the new funding arrangements will be 'no less favourable' than the ones currently in place, as well as the partnership arrangements to be established between the Racing Industry and the licensee.

The future funding arrangements will be structured to ensure that Victoria continues to have a world class Racing Industry.

6.4 Licence awarding process/next steps

The next stage of the process is to issue Registration of Interest documents this year.

Following the evaluation process, Invitations to Apply will be issued to short-listed registrants.

The preferred bidder will be required to meet the requirements stated as part of a funding agreement specified by the Victorian Racing Industry. It is expected that bidders will be provided with the terms of the Agreement outlining the minimum requirements at the Registration of Interest stage to guide them in forming their bids.

The Government considers the probity and integrity of the bidders paramount and the VCGR will perform its role to ensure that any bidder not considered as fit and proper to hold the licence will be excluded from the process.

The independent Review Panel will continue to provide oversight and transparency to licensing processes.

7 THE WAY FORWARD

Having concluded the lotteries licensing phase and this regulatory review phase of the Gambling Licences Review, the focus will now move onto the licensing phase.

The key dimensions of the licensing phase are:

- the conduct of a consultative process with key stakeholders and other interested parties
- policy and regulatory development, to support the future licensing arrangements
- market engagement and the review and assessment of licence candidates and their applications
- the awarding of post 2012 licences.

7.1 Stakeholder consultation

Before commencing the licensing phase of the Gambling Licences Review, the Government will initiate a series of stakeholder briefings.

In relation to gaming machine arrangements, the Government will shortly begin working with the gaming industry's peak bodies in consultations about transitional matters and work with them to assist and educate all venue operators in the implementation of and transition to these new arrangements.

Similarly, the Government will consult directly with the Racing Industry on funding arrangements beyond 2012.

Legislation providing for wagering and keno licences will be introduced into Parliament soon.

Further legislation detailing the electronic gaming machine transitional arrangements to the venue model will also be introduced at a later date.

The Government will invite industry, stakeholders and the community to participate in a further general consultation process in relation to these changes.

The Government encourages active participation in this process and details on the next phase of consultation and education will be announced towards the middle of the year.

7.2 Revision of the State's Guiding Principles

The Government has reviewed its guiding principles in the context of the new gambling licensing structure that will apply from 2012.

While similar in essence to the original Guiding Principles, the revised principles are a better representation of the State's future priorities for gambling in Victoria.

The Government's modern guiding principles are:

- **Consumer choice**

The Government recognises that gambling is a legitimate recreational activity for many, and Victorians are entitled to expect the highest standards of choice and service from gambling providers in a competitive and innovative marketplace.

- **Community benefit**

The Government is committed to ensuring that the legitimate financial benefits of gambling are transparent, recognisable, and fairly distributed to the community.

- **Harm reduction**

The Government is committed to reducing the harm caused to people experiencing the effects of problem gambling, and recognises that the State, the gambling industry and community partners have a shared responsibility to deliver effective solutions.

- **High standards of transparency and accountability**

The Government seeks to ensure the highest standards of transparency, probity, integrity and accountability in the development of evidence based gambling policy, and the community will be engaged on the decisions that affect them.

- **Sustainable Racing Industry**

The Racing Industry is a vital part of Victoria's economic and social fabric. The Government is committed to providing an environment that promotes a viable and sustainable future for the Racing Industry.

8 RESPONSIBLE GAMBLING

The Government has a significant record in combating the harm caused by problem gambling. The Department of Justice oversees this function separate to the Review process.

In October 2006, the Government released its *Taking Action on Problem Gambling* statement, committing over \$132 million to a broad range of initiatives. This strategy represents the biggest funding commitment for reducing the harm caused by problem gambling in Australian history.

Since 1999, the Government has introduced a range of strategies that have resulted in a more responsible gambling industry and reduced the incidence of problem gambling in Victoria. These strategies include:

- the introduction of caps on gaming machines in vulnerable areas
 - elimination of 24-hour gaming venues outside the casino
 - a ban on smoking in all Victorian clubs and hotels

 - changes to the configuration of gaming machines, for example, a ban on autoplay facilities and a freeze on spin rates
 - restrictions on gaming venue signage and a ban on gaming machine advertising
 - assessing the social and economic impact of more gaming machines and new gaming venues
 - The Think of What You're Really Gambling With media and community education campaign highlighting gambling associated risks
 - requiring winnings to be paid entirely by cheque when payout is in excess of \$1000 (except at the casino)
 - fixing maximum density limits on the number of gaming machines in local government areas.
- **Banning ATMs from all gaming venues**

The Government will further restrict access to cash by prohibiting all automatic teller machines in all gaming venues, including areas within 50 metres of an entrance to the Melbourne Casino gaming floor, from the end of 2012.

Exemptions will be available for venues in rural areas who can demonstrate that there is a real need for an ATM in their community.

Establishing pre-commitment mechanisms that allow gamblers to set time or loss limits before playing on a gaming machine.

The Government will require all new gaming machines from 2010 to have a pre-commitment mechanism that allows a gambler to pre-set time and loss limits. Gamblers will be able to limit how much they want to spend, or how long they want to spend playing, prior to commencing play. The Government will consult with technical experts and gambling researchers to determine the best method.

- **Significant increases in penalties for allowing a minor to gamble**

From a current minimum penalty of \$1,100, fines will increase to a possible maximum of over \$13,000. This will take effect later in 2008.

- **Halving the maximum bet limit on gaming machines**

The \$132 million, five-year *Taking Action on Problem Gambling* commitment contained measures to reduce the maximum gaming machine bet from \$10 to \$5 per spin. A new \$5 bet limit will be introduced from 1 July 2008 for all new machines, and from 1 January 2010 for all existing machines (except gaming machines at the Melbourne casino).

- **New powers for the Minister for Gaming and the VCGR to ban gambling products or practices**

The *Gambling Regulation Act 2003* will be amended to implement the commitment contained in *Taking Action on Problem Gambling* to give the Minister and the VCGR new powers to ban products or practices that undermine the Government's responsible gambling strategies or encourage risky behaviours.

9 FURTHER INFORMATION

More information on the post 2012 licence structure and the Review process is available on the Department of Justice website at www.justice.vic.gov.au/gamblinglicencesreview

The website includes an information page for stakeholders. Details of the briefings and consultations planned for the forthcoming months will be provided once dates are finalised.

For more information on the next stage of the licensing process, send an email to the individual email addresses written below or telephone (03) 8684 1968.

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