

WESTERN AUSTRALIAN GOVERNMENT SUBMISSION

PRODUCTIVITY COMMISSION INQUIRY: AUSTRALIA'S GAMBLING INDUSTRIES

November, 1998

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1. INTRODUCTION

The primary focus of the Western Australian Government's approach to the State's gambling industry has been on consumer protection. Successive Governments have developed a legislative regime requiring licensing and strict regulation of gaming and race betting for the public good. Unlike all other States and Territories, Western Australia has continued to resist pressure to introduce poker machines into hotels and clubs.

Nevertheless, gambling does provide an important source of State revenue, and in recent times, Commonwealth policies have increased the pressure on State revenue sources. There have been substantial cuts in Commonwealth funding to the States and a narrowing of their already limited revenue raising options. There is further concern at the current Commonwealth expectation that States will substantially reduce existing State gambling taxes to make room for the GST (a Commonwealth tax, notwithstanding the promise to return GST revenues to the States). Despite these pressures, Western Australia has the lowest level of gambling revenue amongst the States and Territories, being 31.6% below the national average in 1996/97.

The focus of the Western Australian Government on regulating gambling for the public good has given rise to some unique features of the State's gambling industry. Most notable is the prohibition of electronic gaming machines, with their high association with problem gambling. Also, a large proportion of the funds raised by the State's Lotteries Commission are hypothecated to hospitals, sports and arts funding, and also paid directly to eligible community organisations. A percentage of Burswood Casino revenue is allocated to the upkeep of the surrounding Burswood Park, and some racing taxes are now retained by the industry.

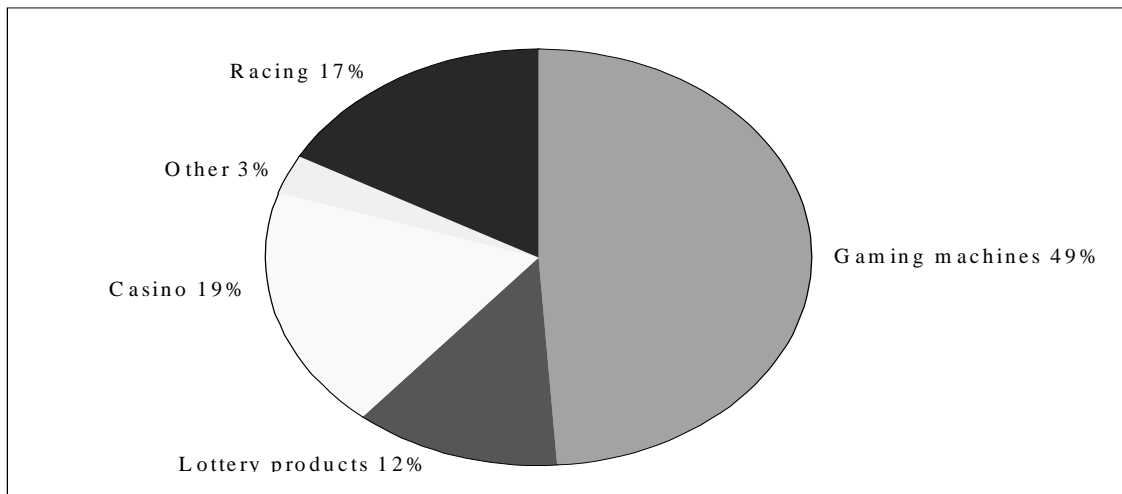
This submission represents a coordinated response to the Productivity Commission's terms of reference inquiring into Australia's gambling industries from all of the relevant Government agencies in Western Australia:

- Family and Children's Services;
- Treasury Department;
- Lotteries Commission of Western Australia;
- Ministry of Premier and Cabinet;
- Office of Racing, Gaming and Liquor;
- Totalisator Agency Board of Western Australia; and
- Tourism Commission of Western Australia.

2. PROFILE OF WA GAMBLING INDUSTRIES

Australians spend almost \$1.7 billion per annum on racing and a further \$8.4 billion on gaming. The breakdown by type of gambling activity is illustrated below.

Figure 1: Australian Expenditure by Type of Gambling

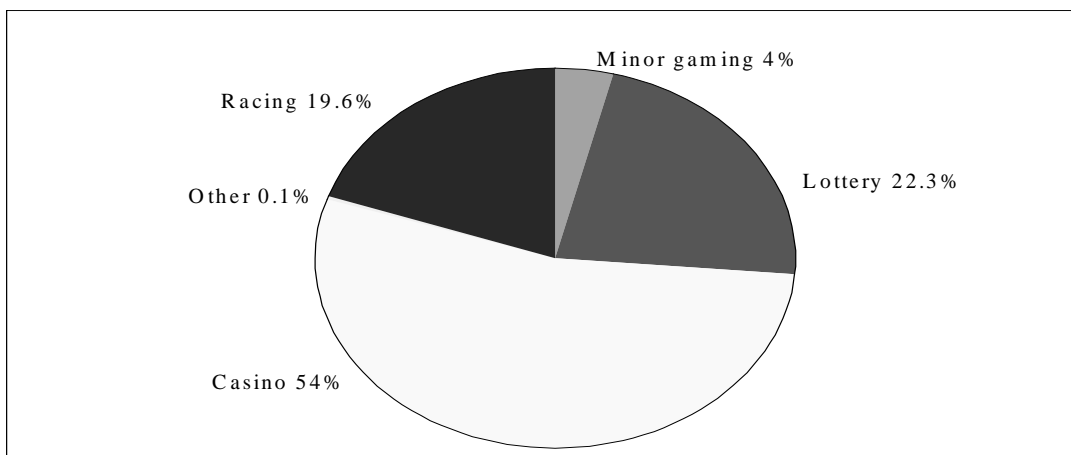


It is clear from this breakdown that gaming machines at 49% comprise by far the largest component of gambling activity. Since Western Australia is the only State without a gaming machine network, Western Australian expenditure on gaming and therefore gambling is relatively low compared with the national average.

The absence of poker machines, however, does not mean that Western Australians spend 49% less on gambling than other States, but they do spend less - around \$540 per adult per annum, compared with \$736 per capita for the national average.

Partly reflecting the more limited choice of gambling activities in Western Australia, the proportion of expenditure dedicated to the individual gambling activities in Western Australia differs from that nationally. Of the \$700 million spent on gambling in Western Australia, by far the largest proportion, 54%, is spent at the casino and a much larger proportion of expenditure is allocated to lotteries in Western Australia than nationally.

Figure 2: Composition of Gambling Expenditure in Western Australia



Over the past decade, national expenditure on gambling has increased by an annual average rate of 18.3%. This result, in part, is due to the proliferation of gaming machines. Reflecting the absence of gaming machines in Western Australia, expenditure on gambling over the last decade in this State has increased by less than the national average, at around 11.8% per annum.

2.1 Gaming

This includes lotteries, gaming machines, casino gambling, football pools and community gaming (raffles, bingo, lucky envelopes and similar activities). Policy decisions of successive Governments have shaped an industry in Western Australia where casino gaming and bookmaking is the ambit of the private sector.

Other gaming activities are the ambit of bona fide community based organisations and the Lotteries Commission, with the exception of the Kalgoorlie Two Up School which is retained in private hands, reflecting the historical and cultural development of gaming in Kalgoorlie. Other than these, gaming activities cannot be conducted by commercial organisations nor for the purpose of private gain. The specific prohibition of gaming poker machines is a unique feature of gaming in Western Australia.

2.2 Lotteries Commission

The Lotteries Commission is a subset of gaming, but is considered separately below as it occupies a unique position in Western Australia. Its primary responsibility is to raise funds for the community of Western Australia using games of chance. It also distributes a substantial proportion of the funds directly to the community. It is made up of a Board of Commissioners comprising of six representatives with commercial and community backgrounds and reports to the Minister for Racing, Gaming and Liquor.

The Lotteries Commission sells its products through a network of 600 small independent businesses, primarily newsagents, and distributes the proceeds to over 2000 eligible organisations comprised of 'not for profit' community groups and local government bodies.

2.2.1 Games Operated by the Lotteries Commission

National Games

All but two of the Lotteries Commission's games are administered as partnerships known as "Blocs", formed with the other members of the Australian Lotteries Industry. The purpose of the establishment of these arrangements is to create a sufficient prize pool to be attractive to players. The products offered and the respective Blocs are:

Table 1: National Products Offered by Bloc Partnerships

Saturday Lotto	Australian Lotto Bloc	WA, SA, and Tattersalls (Vic, ACT, NT, Tas)
Oz Lotto (Tuesday night)	National Lotto Bloc	WA, SA, Tattersalls (Vic, ACT, NT, Tas) and NSW
Powerball (Thursday night)	Powerball Lotto Bloc	WA, SA, Tattersalls (Vic, ACT, NT, Tas) and NSW
Soccer Pools (Weekend)	Soccer Pools Bloc	WA, SA, Tattersalls (Vic, ACT, NT, Tas) and NSW

State Games

In addition the Lotteries Commission offers Instant Tickets of \$1, \$2, \$3 and \$5 denominations marketed under the brand "Scratch n Win". In November a State numbers game known as Cash3 was introduced.

The \$3 Instant Ticket game is referred to as a “long play” game and provides players with a degree of entertainment due to the time it takes to complete each game. The Lotteries Commission has been more successful than other jurisdictions in its marketing and sales of this “long play” product.

Cash3 is a fixed prize game. A decision was taken to introduce this game as a result of market research that indicated there was a gap in the Lotteries Commission’s product range for a low cost, moderate prize payout game with relatively short odds. Cash3 will fill this gap - for a \$1 purchase price, a player can win a \$500 prize at odds of 1000:1. The Cash3 game will be drawn daily. The purpose of the introduction of this new product is to maintain current levels of funding to the community.

The Act also allows the Lotteries Commission to run Sports Lotteries (ie games of chance where the results are based on the outcomes of one or more specified sporting events). Currently Soccer Pools is the only sports lottery offered by the Lotteries Commission.

2.2.2 Relationship with Other Members of the Australian Lotteries Industry

The voluntary cooperation between the States in managing the existing Lotto and Soccer Pools products as well as in researching and developing new games has been an essential factor in the success of Lotteries in Australia.

Because of the somewhat different gaming legislation in each State, the differing markets, other competing products and variable political attitudes towards new forms of gaming, the development of coordinated business plans has created challenges at times.

The members of the Lotto Blocs have developed a national code of conduct to apply to all members. All members signed the code in June, 1998.

The voluntary code covers the following areas:

- a Lotteries Industry Accord which covers the objective of the code, responsible lotteries management, player information, handling of complaints and review of the code;
- a Lotteries Industry Advertising Code of Ethics;
- a Lotteries Operators Code of Practice; and
- a Lottery Retailers Code of Practice.

8.2 Race Betting

The racing industry in Western Australia encompasses thoroughbred racing, harness racing and greyhound racing. To a large extent, betting is a subset of the racing industry. Racing industry organisations for thoroughbred, harness and

greyhound racing are heavily reliant on revenue from betting activities. Similarly, the betting industry needs the racing product to conduct its business, although sports betting is increasingly becoming an important part of the betting market.

The betting industry in Western Australia comprises three types of service providers:

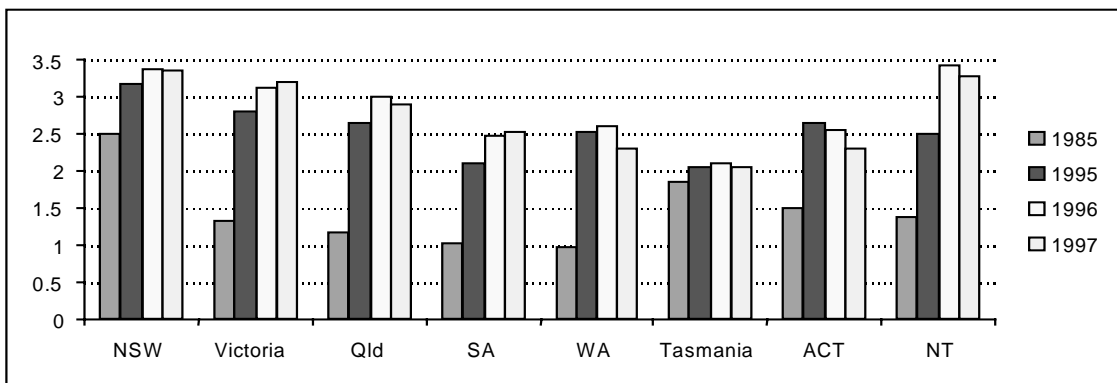
- bookmaking businesses operated by 65 licensed bookmakers (as at 31 July 1998) who offer fixed odds betting services at racecourses and sporting venues throughout the State;
- racing clubs which operate 63 parimutuel totalisators at their respective racecourses; and
- the Totalisator Agency Board (TAB) which operates an off-course parimutuel totalisator service at 287 agencies throughout the State.

8.3 *The Gambling Market in WA*

The July 1997 Australian Gambling Statistics published by the Tasmanian Gaming Commission reported that Western Australians expended \$540 per adult on gambling. This is made up of: \$107 on racing; \$122 on Lotteries Commission products; \$290 on casino gambling; and \$21 on other gaming including charitable lotteries.

As can be seen in the figure below, gambling expenditure as a percentage of household income increased considerably between 1985 and 1997 in Western Australia. However, people in other Australian States are spending considerably more of their incomes on gambling, particularly in NSW, Victoria and Queensland.

Figure 3: Gambling as a Percentage of Household Disposable Income in Australian States



The graphs below show changes in gambling and gaming turnovers and market share in WA in the six years between 1990/91 and 1996/97.

- There has been a 61% overall increase in total gambling turnover in the 6 year period from \$1.935 billion to \$3.160 billion.
- The Casino's market share has increased by 9.5% during the 6 year period but there was a noticeable flattening in sales turnover in 1995/96 and a down turn of sales in 1996/97.
- Bingo and minor gaming have retained their market share.
- Racing lost 6% of market share in this period although total racing turnover continued to grow.
- Lotteries market share fell by 4% but sales turnover has also continued to grow.

Trends in the Western Australian Gambling Market since 1991

Figure 4: Western Australian Gambling Sales Turnover – Six Year Trend

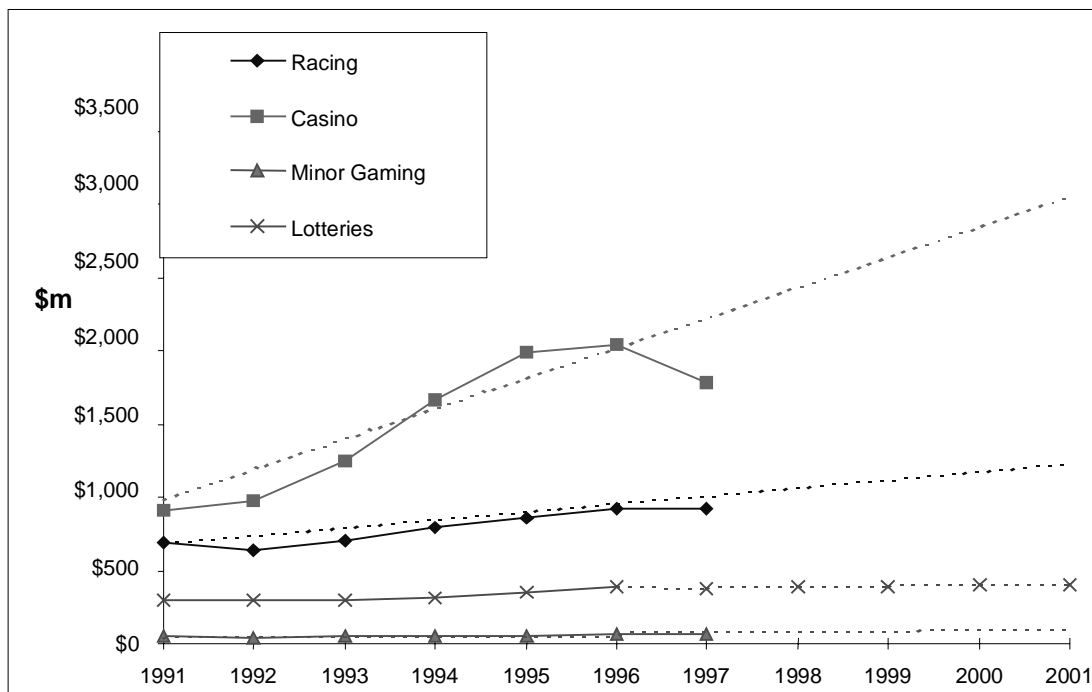


Figure 5: Western Australian Gambling Expenditure – Six Year Trend

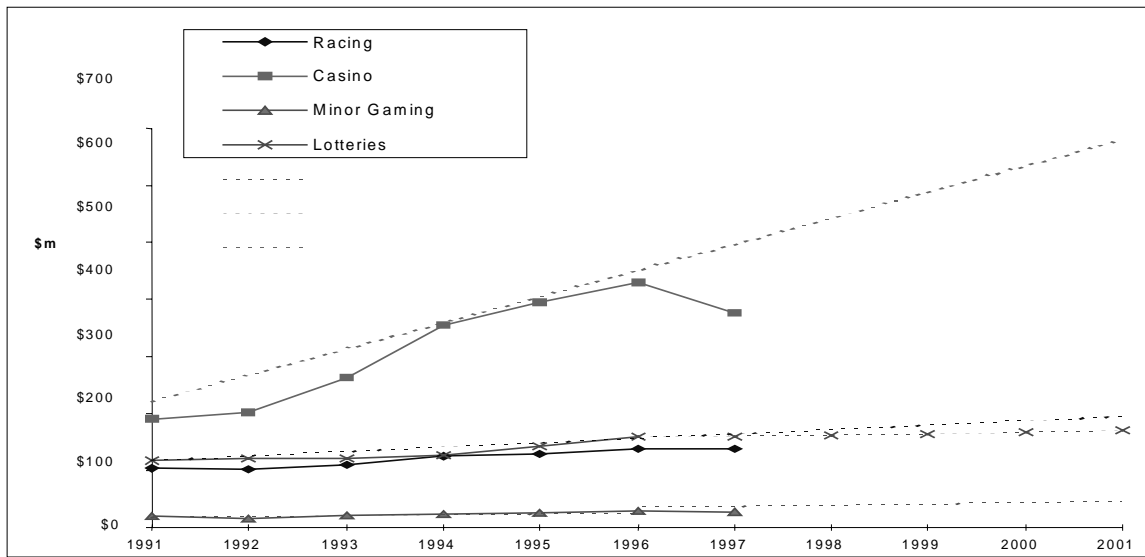


Figure 6: The West Australian Gambling Market 1991/92

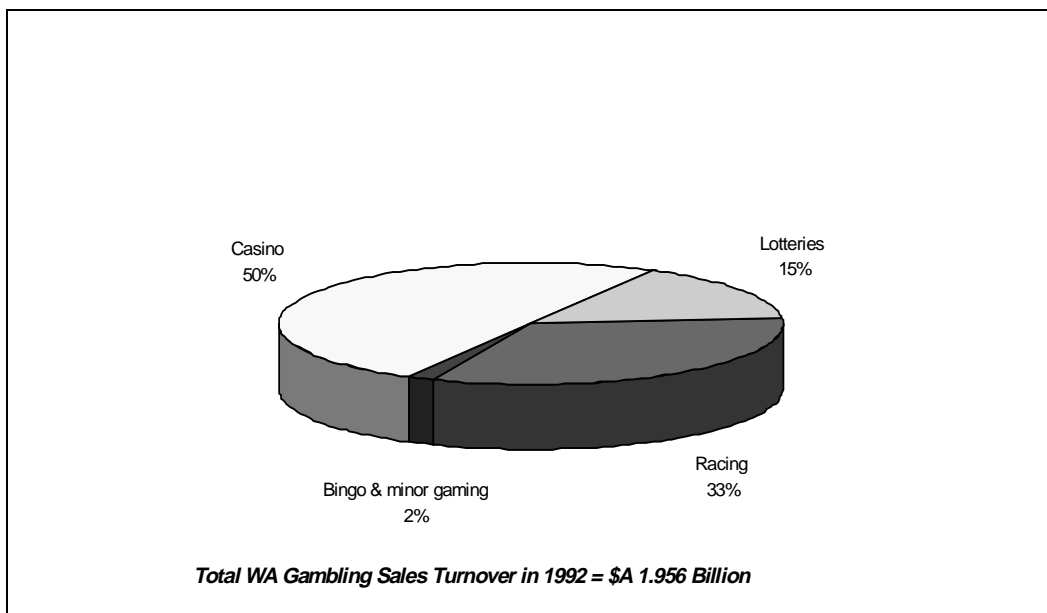
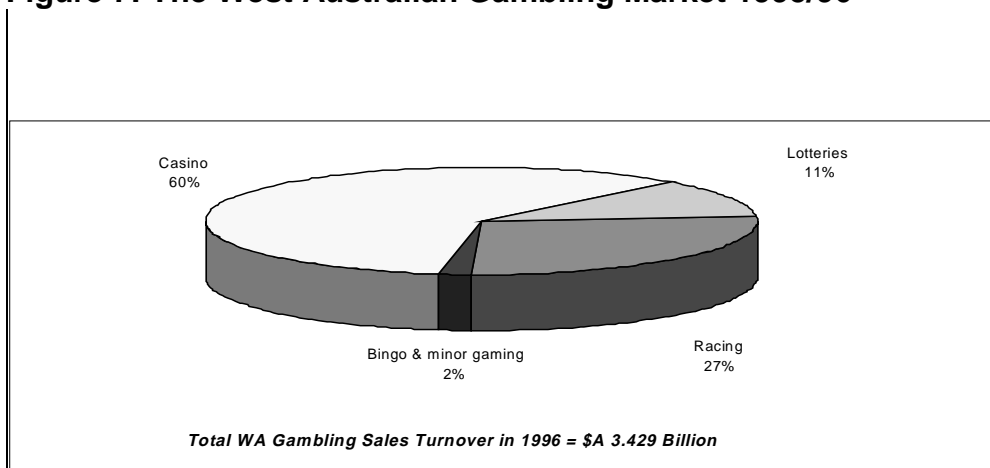


Figure 7: The West Australian Gambling Market 1995/96



“La Fleur World Lottery Almanac 1996”¹ provides relative data on a range of 182 lotteries spread throughout the United States, Canada, New Zealand and Australasia. In the 1996 and 1997 Almanacs the rankings given for the percentage of household income used to purchase lotteries in each of the Australian States was as follows.

Table 2: Percentage of Disposable Household Income Used to Purchase Lotteries in Each Australian State

	1995 ²	1996 ³	1997 ⁴
QUEENSLAND	1.43%	1.423%	1.395%
NSW	0.88%	0.920%	1.000%
SA	1.16%	1.171%	1.234%
TATTERSALLS (VIC)	1.26%	1.295%	1.234%
WESTERN AUSTRALIA	1.45%	1.642%	1.611%
AVERAGE	1.16%	1.197%	1.217%

¹ Terri La Fleur is a well known author and publisher of Lotteries statistics and regularly collects and publishes comparative Lotteries data from most of the world’s significant lottery jurisdictions.

² La Fleur 1996 World Lottery Almanac, p222

³ La Fleur 1997 World Lottery Almanac, p220

⁴ La Fleur 1998 World Lottery Almanac, p220

8.2.1

Lotteries Market

To a large extent, the comparative success of the Lotteries Commission in terms of percentage of household disposable income used to purchase lottery products can be attributed to the absence of electronic gaming machines in the market place.

Lotteries Players

Lotteries have a particular niche in the gambling market and have the distinct advantage of being perceived by players as:

- not being a form of gambling, or at least as a “hard” or serious form of gambling (such as TAB or casino);
- a normal part of life;
- contributing to the support of worthwhile causes;
- having the image of the games being fair and the prize money being distributed fairly; and
- not encouraging forms of “hard” gambling.

In addition, people playing Lotto and Instant Tickets are motivated mainly by the dream of winning while it appears that people involved in other forms of gambling (such as TAB and casino) are motivated by a complex combination of a desire for entertainment, excitement, the application of knowledge or skill, along with the dream of winning and the potential of being seen as a winner.

Lotteries players have the following spending characteristics:

- their purchases are usually planned more than impulsive; and
- the amount spent each week is usually a planned part of the overall household budget and decision making process.

Very clearly the participation rate in lotteries increases with the size of the first prize, especially with jackpot draws. For example, in WA the normal Saturday Lotto sales turnover virtually doubles with bonus draws.

Segmentation of the Lotteries Market⁵

The Lotteries Commission regularly undertakes market research to determine its player base and their attitudes. Research indicates the following:

Lotto:

⁵ Should the Review Committee require further information on market segmentation, this will be provided on the basis that the information is confidential and will not be made available to any third parties.

- 47% of adults over the age of 18 are regular players and play at least once a week;
- 29% of adults over the age of 18 are infrequent players and play at least once a month;
- 22% are non players.

Instant Tickets:

- 15% of adults over the age of 18 are regular players and play once a week;
- 48% are infrequent players;
- 35% are non players.

Lotto and Scratch n Win players are not a homogeneous group. Motivation and propensity to play varies considerably.

Advertising by the Lotteries Commission

The Lotteries Commission is very conscious of its responsibility to balance its charter to maximise revenue for the benefit of the community with the need to conduct its business in a socially responsible way and control the expansion of gambling in the State.

The Lotteries Commission's advertising campaigns are therefore very carefully positioned to depict the playing of games as lighthearted fun. The advertisements use humour and images to create possible outcomes of winning. They deliberately do not suggest that everyone will be a winner nor do they entice players with false promises. They are used to remind the public of the products, to publicise jackpots and bonus draws when these events occur and to remind the public of how the proceeds of Lotteries are used.

The Lotteries Commission and its retailers are operating in a very competitive market. There is a clear relationship between the extent of advertising and sales results. The Lotteries Commission believes it has achieved a reasonable balance in advertising which achieves revenue targets without inappropriately promoting gambling. All advertising complies with relevant codes of conduct.

3. REGULATION OF GAMBLING IN WESTERN AUSTRALIA

In essence, Western Australian Governments have legislated to provide access to the gaming activities in which the public has expressed a desire to participate. The form of this access has been influenced by the recognition that the gaming industry is an industry particularly attractive to unscrupulous operators and to organised crime. In an effort to protect the consumer from fraudulent activity, and to ensure that organised crime does not have an interest in operating or owning gaming activities, governments have determined that it is in the public interest to have a legislative regime requiring licensing and strict regulation of the gaming industry. These are long standing views which have been maintained by successive governments, and have influenced the whole approach to the regulation of gambling in Western Australia.

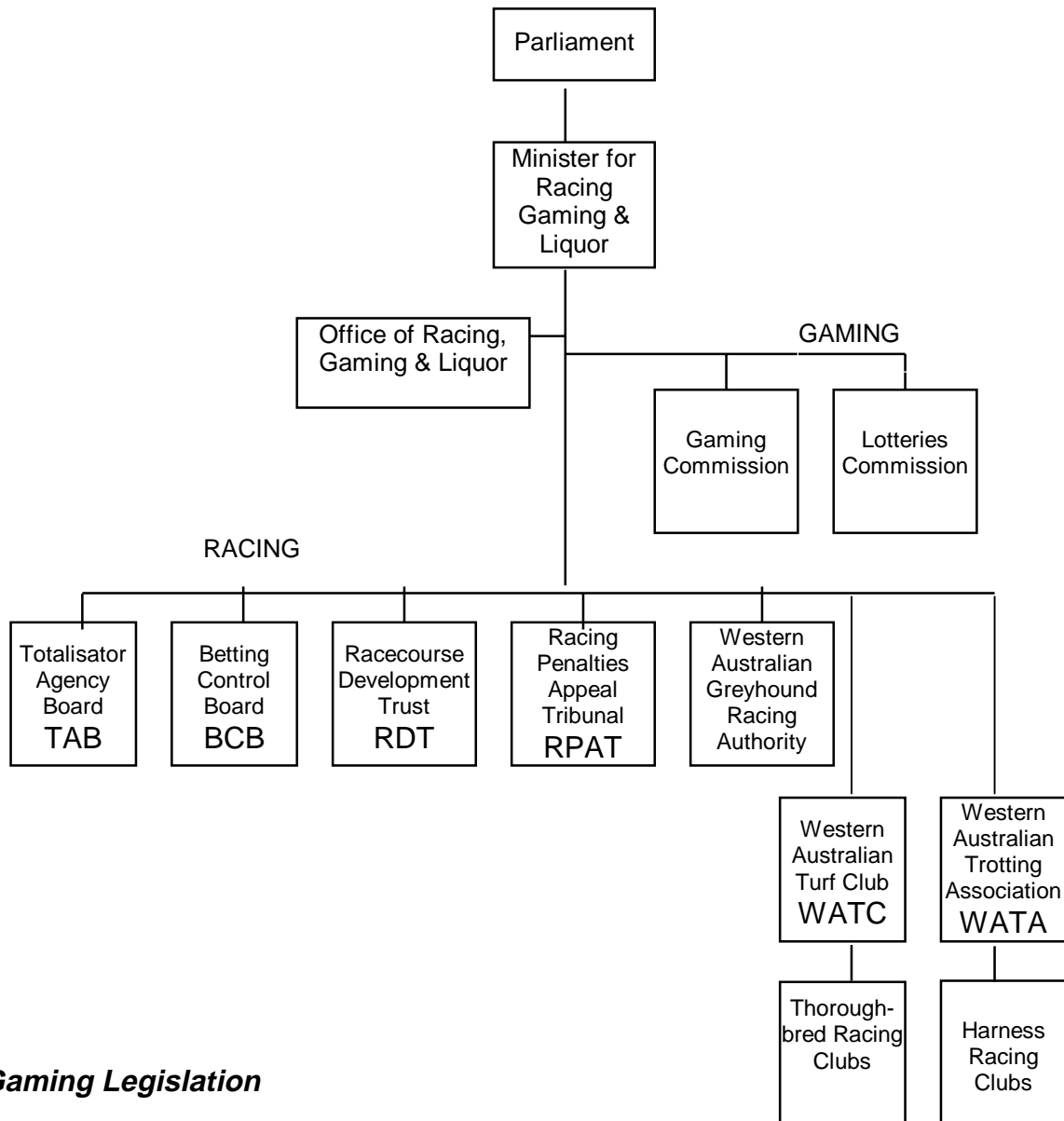
The legislative framework governing the conduct of gaming and betting in Western Australia is contained within the following legislation:

- The Betting Control Act 1954;
- The Betting Control Regulations 1954;
- The Totalisator Agency Board Betting Act 1960;
- The Totalisator Agency Board Betting Regulations 1960;
- The Casino Control Act 1984;
- The Casino (Burswood Island) Agreement Act 1985;
- The Gaming Commission Act 1987;
- The Casino Control (Burswood Island) (Licensing of Employees) Regulations 1985;
- The Gaming Commission Regulations 1988; and
- The Lotteries Commission Act 1990.

The Office of Racing, Gaming and Liquor provides administrative oversight of racing and gaming activities in Western Australia. The Office undertakes audits and inspections of the racing-related Betting Control Board, the Racecourse Development Trust, the Racing Penalties Appeal Tribunal, the Totalisator Agency Board, and for the overarching gaming body the Gaming Commission. The Lotteries Commission is not regulated by the Office, though it must obtain a permit from the Minister prior to running each lottery game, and prior to the introduction of any new lottery product. Staff of the Office of Racing, Gaming and Liquor perform game audits of lotto gaming for the Lotteries Commission under a contractual arrangement with the Gaming Commission.

This relatively minimal level of regulation of the Lotteries Commission has allowed the Office of Racing, Gaming and Liquor to concentrate on the regulation of the more complex racing and casino operations. Regulatory transfer payments between government agencies have also been minimised and enabled maximum returns from lottery products to the community.

Figure 8: Regulatory Bodies Overseeing the WA Gambling Industries



3.1 Gaming Legislation

The Lotteries Commission Act 1990; the Casino Control Act 1984; the Casino (Burswood Island) Agreement Act 1985 and the Gaming Commission Act 1987

comprise the key elements of a package of regulation covering lotteries, casinos, social and permitted gaming.

Gaming in one form or another has been part of the lifestyle of Western Australians since the commencement of colonisation. In the early stages of the development of laws relating to gaming, the thrust was to prohibit most forms of gaming as an undesirable activity. The Western Australian Police Act 1892 made it an offence to play or bet,

"at thimble rig, or at or with any table or instrument of gaming, other than a totalisator lawfully permitted to be used, or at any unlawful game, or at any game or pretended game of chance in any public place, to which the public (whether upon or without payment for admittance) have or are permitted to have access".

The gaming laws focused particular attention on common gaming houses and the prohibition of the use of premises as common gaming houses. The Western Australian Police Act 1892 provided that a premises could be considered to be a common gaming house if it could be established that it was kept for playing any unlawful game and that a bank was kept there by one or more of the players, exclusively of the others, or that the chances of any game played there were not equally favourable to all the players.

Despite the law, illegal forms of gaming flourished in the State with two-up schools and ethnic based card houses proving that there existed considerable unsatisfied demand for gaming activities. It became quite clear that prohibition was an ineffective method of controlling gaming. The development of subsequent gaming laws recognised the public's desire for access to gaming activities but attempted to strictly regulate the manner in which gaming occurred for the protection of the public interest.

In 1932 the Lotteries Control Act was proclaimed as a response to the increasing numbers of private lotteries, art unions and sweepstakes which were being promoted throughout the State. The number of cases of malpractice and fraud that were found in connection with lotteries had aroused public concern. The Act created the Lotteries Commission which was empowered (with the prior approval of the Minister) to conduct lotteries in order to raise money for charitable purposes as well as to issue permits to eligible organisations to conduct lotteries on their own behalf. Subsequent amendments to the Act granted the Commission unfettered powers to grant or refuse applications to eligible organisations without reference to the Minister. Permits for lotteries were not issued for commercial

purposes. Successive Governments have maintained this philosophy and have excluded permits being issued for lotteries that are conducted for commercial purposes or that result in private gain to individuals. Over the years the Lotteries Commission has moved into different forms of lotteries but its underlying aim is still to accumulate monies for "good" works and to provide grants to community based organisations.

In 1972 the Lotteries Commission was empowered to grant permits for bingo to religious or charitable organisations. In 1982 the definition of a charitable organisation was extended to include any organisation which in the opinion of the Commission has for any of its objects the raising of money for charitable purposes or for the promotion and advancement of social welfare including public recreation and sport.

In 1982, amendments were made to the Police Act that were designed to put an end to the illegal forms of gaming operating in the community. However, the measures failed to reduce the incidence of illegal gaming, and rather drove it "underground".

In March 1983 the Government Casino Advisory Committee (GCAC) was established to formulate guidelines and legislative procedures for the establishment and control of casino operations in Western Australia.

In 1984 the Government established a Committee to inquire and report into gaming in Western Australia. Referring to the existing legislation of the day (including the recent amendments to the Police Act) the Committee noted:

"From the submissions received and other information available to the Committee it became clear that the needs of the Western Australian community are not being satisfied by that legislation. The Committee considers that neither the perpetuation of the existing laws nor the further tightening of them would have much effect in reducing illegal gaming." (*Report of the Committee Appointed to Inquire Into and Report Upon Gaming in Western Australia*, 1984, p20)

The Committee report stated that the existing gaming laws contained many anomalies with consequential problems associated with their enforcement and identified some forms of gaming which were innocuous, widely practised and should be permitted without legal restraint. The report also identified other forms

of gaming that the Committee found were so popular that they should be permitted but regulated and controlled for the good of society.

The Casino Control Act 1984 enabled the Government to enter into negotiations with prospective developers of a casino complex. The Casino Control Act further provided for the administrative mechanisms to licence casinos, the control of gaming operations within casinos and for the regulation of casino gaming operations by a statutory authority. Originally this body was the Casino Control Committee. Upon the proclamation of the Gaming Commission Act 1987 the powers of the Casino Control Committee were merged with those of the Gaming Commission.

Part III of the Act provides the Minister with the power to enter into agreements for the construction and establishment of casinos. The Minister may also agree to a period during which further casino licences will not be granted. Part IV of the Act provides the powers of the Commission and Minister when considering applications for casino licences and outlines the procedures to be followed in the determination process. Part V of the Act details provisions for the control of gaming operations within casinos in Western Australia. Part V provides that the games played in casinos must be authorised by the Commission and that the rules of play are required to be approved by the Commission prior to the games being played in casinos. Part V further provides powers for the Commission to issue directions to casino licensees in respect of casino gaming operations, account keeping, the production of records relating to the casino gaming operations and the supervision and control of casino gaming operations.

In 1985 the Government legislated to enact the Casino (Burswood Island Agreement) Act to ratify an agreement with the developers of the planned Burswood Island casino resort complex. This Act is divided into seven parts. Part II covers the obligations of the developers to construct the whole resort complex on Burswood Island. This part also provided for the establishment of the Burswood Park Board to manage the public park on Burswood Island. Part IV provided for payment by the developer of 15% of gross revenue to the Treasurer and the annual licence fee of \$400 000 (indexed) to the Casino Control Committee (later the Gaming Commission). Provision was also made for the Burswood Park Board to be paid 1% of gross casino revenue or \$1 million per annum, whichever was the higher figure. This part also provided the machinery for the grant of a casino licence and the review of the tax rate (after the year 2 000), which could grow to a maximum of 20% and not be increased by more than 1% per year.

A number of restrictions exist in this Act. These are not related to gaming in casinos per se, but to the specific issue of securing a viable casino operation. In the latter context the then Government agreed to the developers being granted exclusive rights to casino gaming in Western Australia for a period of 15 years. The casino has the exclusive rights to certain games except the games of poker with cards and two-up. The game of two-up may be played outside a radius of 200 kilometres from the casino. After the 15 years exclusivity period the agreement provided that the State shall not grant another casino licence within a radius of 100 kilometres of Perth unless it is in a hotel and casino of comparable size and standard to the Burswood casino. Outside of the 100 kilometres a hotel and casino need only to be built to international standards. Nothing in the agreement prevented the playing of games that were currently approved under the provisions of the Lotteries (Control) Act and other Acts, including chocolate wheels and raffles.

In 1987 the Government acted upon the recommendations of the Committee appointed to inquire and report upon gaming in Western Australia. The Gaming Commission Act 1987 was enacted to amalgamate under one body all gaming with the exception of Lotto, instant lotteries and other lotteries conducted by the Lotteries Commission. The Act allows for social gaming without legal restraint and other forms of gaming under a permit system. The Act deals with gaming and betting connected with gaming but does not include betting related to horse and greyhound racing which remained under the ambit of the Betting Control Act 1954 and the Totalisator Agency Board Betting Act 1960.

The Act created the Gaming Commission. The duties of the Commission are to administer the law relating to gaming and betting; to keep under review the conduct, provision, use and location of gaming and betting facilities; to formulate and implement policies for the scrutiny, control and regulation of gaming and betting taking into consideration the requirements and interests of the community as a whole. The Commission also became responsible to administer the Casino Control Act; Casino (Burswood Island Agreement) Act and the Casino Control (Burswood Island) (Licensing of Employees) Regulations.

Part IV of the Gaming Commission Act transferred (the then) existing provisions of the Police Kalgoorlie Two-up Regulations and the Police Act dealing with unlawful gaming; common gaming houses and cheating. Part V of the Act provided for the lawful conduct of certain types of gaming by permit. This part also provided for the lawful conduct of gambling that was spontaneous (even though it may occur regularly), was not promoted for private gain and for which no charge was made to be considered to be social gambling and was lawful without a permit being required to authorise its conduct.

The Gaming Commission Act provided for the lawful conduct of two-up, bingo, lotteries and gambling functions under a permit condition provided that the gambling was conducted on behalf of a community based organisation and was not conducted for commercial purposes or for the purposes of private gain. Other types of minor fundraising activities such as chocolate wheels were made lawful without the requirement to obtain a permit.

In summary, public policy in Western Australia towards gaming is reflected in the duties of the Gaming Commission as set out in the Act. They are aimed at maintaining the integrity of gaming in the interests of the community and containing the social costs of permitted gaming.

3.2 Betting Legislation

The Betting Control Act 1954 and the Totalisator Agency Board Betting Act 1960 together provide the framework within which on and off-course betting is conducted in Western Australia. The two Acts are inextricably linked not only in the circumstances of their origins but also in the controls they lay down and the industries that they service.

When introduced in 1954 the purpose of the Betting Control Act was to legalise and regulate the conduct of betting by bookmakers both on-course and off-course, and to regulate the assessment and collection of betting tax.

The *Report of the Royal Commission on Betting* in 1959, expressed concerns in relation to the adverse impact of off-course bookmakers' premises (referred to as "betting shops") on the racing industry and community generally. The following year, in response to these findings, the Betting Control Act was amended, and Totalisator Agency Board Betting Act established, to create the Totalisator Agency Board (the TAB) and gradually replace betting shops with a totalisator network operated by the TAB.

In 1992, principally as a consolidation exercise, the Betting Control Act was amended to incorporate provisions relating to the possession and operation of on-course totalisators by racing clubs (transferred from the Totalisator Regulation Act).

In 1996 following a review of the TAB's structure, it was considered inappropriate for the TAB to have responsibility for regulating its own betting activities and

provisions relating to the regulation of off-course totalisator betting were transferred from the Totalisator Agency Board Betting Act to the Betting Control Act. Included in the provisions transferred were those effectively bestowing sole trader status on the TAB in relation to the conduct of off-course totalisator betting. The Betting Control Act establishes the Betting Control Board (the Board) with the principal duty to administer the law relating to the regulation of betting carried on under this Act or the Totalisator Agency Board Betting Act 1960.

The purpose of the Betting Control Act 1954 is:

- to ensure the integrity of betting conducted in Western Australia, and prohibit certain forms of betting, in the public interest;
- to minimise the adverse social effects of lawful betting; and
- to establish and maintain a source of revenue for the general public and the racing industry.

The purpose of the Totalisator Agency Board Betting Act 1960 is:

- to establish, in the form of a public authority, an off-course totalisator betting system to service the off-course betting requirements of the community in a manner which minimises the adverse social effects of that betting; and
- to establish and maintain a source of revenue for the general public and racing industry.

In summary, the Government's first priority in framing its betting legislation was to ensure that betting is conducted in a manner that satisfies the recreational interests of punters without establishing an adverse impact on the well being of the community in general or the racing industry.

3.3 *Legislative Reviews*

Gambling legislation in Western Australia has been shaped by successive Royal Commissions, inquiries and structural and legislative reviews. Most recently, there has been a review of the Lotteries Commission Act as required within the Act, and a series of reviews as part of the National Competition Policy (NCP) Agreement (1995).

Western Australia is on track in terms of its NCP obligations in the areas relating to the conduct of gaming and betting. Reviews of all existing legislation to remove any restrictions to competition not in the public interest, have either been completed, or are due for completion by the end of 1998. Similarly, reviews of

both the Lotteries Commission and the TAB for competitive neutrality are due for completion by the end of 1998.

4. ECONOMIC IMPACT OF GAMBLING IN WA

4.1 Multiplier Effects of the Gambling Industry

While the gambling industry accounts for only around 1.4% of the State economy directly, there are additional flow-on effects to overall State economic activity.

Output

The output multiplier⁶ quantifies the effect on the value of production from all industries of a one dollar increase in the demand for output of a given sector. This multiplier takes into account the direct, indirect and consumption-induced effects of the initial increase in demand.

In the case of the gambling industry, the total output multiplier is 2.13. This means that for every additional \$1 spent on gambling in Western Australia, another \$1.13 is generated across the economy, and vice-versa for a contraction in expenditure. As such, the \$700 million spent on the gambling industry each year in Western Australia creates an additional \$791 million in overall output.

Of the additional \$1.13 in output:

- \$0.56 is attributable to the increase in overall production in the economy required to produce the inputs into the gambling industry which go towards producing the initial \$1 of output from the gambling industry; and
- \$0.57 is attributable to the increase in consumption generated in the economy as a result of the activities of the gambling industry.

The output multiplier for the gambling industry is slightly less than the average industry multiplier of 2.3.

Employment

The employment multiplier measures the increase in total employment created as a result of additional employment in the industry in question. For the gambling industry, the employment multiplier is estimated at around 2.4, that is, for every job created in the gambling industry, an additional 1.4 jobs are created elsewhere in the economy.

The average employment multiplier across all industries is 3, significantly higher than that of the gambling industry.

⁶ The input-output table used to construct the output multiplier, is taken from the book by Nazrul Islam and Peter Johnson (1997), entitled *Agriculture and the Western Australian Economy: An Input-Output Analysis*, Vol. I and II, Agriculture Western Australia, Perth, WA.

In addition to the multiplier effects, there are significant redistribution effects associated with the gambling industry.

4.2 **Economic Value of the Lotteries Industry in Western Australia**

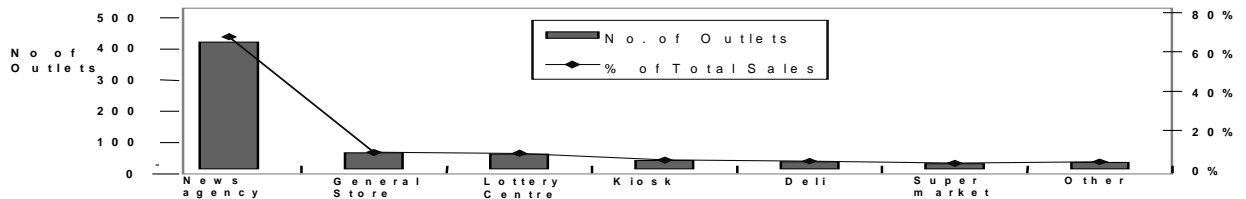
Based on 1997/98 annual report, the Lotteries Commission contributed \$126 million to the community through its direct and statutory grants program. In addition \$31 million in commissions (approximately 7.7% of sales turnover) was paid to Lotteries Retailers.

Based on 1997/98 figures, the Lotteries Commission of WA contributed directly to the State's employment by in excess of 1500 jobs, made up of:

- 130 full time equivalents within the Lotteries Commission;
- more than 1400 jobs from the State's 450 Online Retail Outlets each employing a minimum of 2 and up to 12 staff and 150 Instant Only Outlets;
- 8 jobs at the Commission's contracted advertising agency;
- 3 jobs at the Commission's internal audit supplier;
- 2 jobs at the Commission's contracted point of sale maintenance contractor; and
- at least 1 job at each of the following contracted service providers – legal services, printers, plastic fabricators, point of sale cabinet makers, signage contractors, cleaners, and building maintenance contract.

In addition there are numerous positions, both full-time and part-time, in the not for profit sector that have been created as a consequence of the Commission's direct funding programs – both in terms of direct service delivery positions and the provision of goods and services to that sector.

Figure 9: Small Retailers Employed in Lotteries Products Sales



The figure above indicates estimates of the small retailers employed in the sales of lotteries products. No definitive research has been undertaken and it appears that these estimates would be minimums based on current data available.

8.2 *Economic Value of Race Betting in Western Australia*

The Western Australian wagering market is becoming increasingly competitive as the TAB, bookmakers, and racing codes (on-course) compete for the wagering dollar resulting in a market valued in 1997/98 at \$995 million.

The following table provides details of betting-industry revenues and returns to the racing industry and the government from betting activities. In 1997/98 these three sectors generated net revenues after payment of dividends of \$148.5 million on turnover of \$995.4 million. From this revenue, a direct contribution of \$59.2 million was made to the racing industry with the State Government collecting taxation of \$36.9 million.

Table 3: WA Betting Industry Revenues and Returns 1997/98

Betting Service	Total Turnover (97/98 \$m)	Net Revenue After Payment of Dividends (97/98 \$m)	Direct Revenue to Racing Industry (97/98 \$m)	Taxation Revenue to Government (97/98 \$m)
TAB	735.4	126.7	43.2	36.8
Racing Club Totalisators	70.4	12.3 ⁷	12.3	0
Bookmakers	189.6	9.5 ⁸	3.7	0.1
TOTAL	995.4	148.5	59.2	36.9

Other indirect contributions occurred through bookmakers paying stand fees to operate at racecourses and the TAB contributing to the promotion of the racing industry through the promotion of its betting activities.

In terms of employment it is estimated that: the TAB⁹ and its 287 outlets; the 65 bookmaking operations; and the 63 race club totalisator operations, directly provide between 1500 and 2000 full and part-time jobs. However, given that the betting

⁷ Estimate based on 17.5 % commission rate

⁸ Estimate based on 5 % margin

⁹ Of the TAB's sales outlets, 55% are in the metropolitan area, with the remaining 45% in country areas. 65% of all TAB outlets operate in a hotel environment.

industry is the largest provider of racing industry revenue, and particularly stake money, the contribution to indirect employment is significantly higher.

The WA TAB increased its turnover by 8.4% in 1997/98 to \$735 million. The level of competition is increasing, as the TAB is now competing more with its larger eastern states TAB counterparts, particularly for the electronic betting dollar via the phone or internet.

The TAB contribution to the WA economy over the last decade has been determined by the WA TAB to be worth approximately:

- \$359 million distributed to the three racing codes and industry as a whole;
- \$1.3 million distributed to the Department of Sport and Recreation;
- \$323 million distributed to the State Government; and
- \$322 million of operating costs injected into the State.

Table 4: TAB Turnover and Distributions 1988/89 -97/98

The table above details the TAB turnover and distributions made since 1988/89. This table and contains information for \$5.6 billion since 1988/89.

Another example of the State deriving benefit from the racing industry is the sale of blood stock to South-east Asian and Hong Kong buyers. In the past four years, these have totalled over \$7 million.

Year Ended 30 Jun	Turnover	Government Taxes	Distributions Made
1989	441,600	26,496	32,527
1990	479,021	28,741	33,661
1991	461,097	27,666	30,722
1992	459,669	27,580	29,030
1993	519,822	31,189	31,058
1994	584,713	35,083	34,218
1995	620,677	37,241	37,844
1996	659,672	39,009	39,225
1997	678,454	33,923	45,153
1998	735,427	36,769	45,758
	\$5,640,152	\$323,697	\$359,196

8.2 *Economic Value of Tourism-related Gambling in Western Australia*

In 1996, international visitors to Australia spent \$216m¹⁰ on 'horse racing and gambling'. The figure for Western Australia was \$28m, or 13% of the Australian total. This is consistent with Western Australia's 13% market share of international visitors to Australia.

There is often a very mixed reaction to the introduction of gambling or casino developments in tourism locations. However there seems to be a general consensus regarding the advantages and disadvantages of gambling. Much of the available literature concentrates on the development of casinos. In tourism terms these provide the most obvious linkage between gambling and tourism.

The tourism-related advantages of gambling include:

- Tourism is a labour intensive industry and employs significant numbers of semiskilled and unskilled workers. Casinos often have hotels or resorts attached which will also have a significant demand for semiskilled and unskilled labour.
- The provision of international standard casino and resort facilities benefits not only the tourist but also the local population with increased access to restaurant and entertainment facilities. This adds to the perception of an increase in standards of living.
- The tourism experience is made up of a number of separate elements including accommodation, retail, catering and attractions. Casinos and gambling is viewed as being an added attraction to a destination and therefore gives the destination a marketing advantage.

The tourism-related disadvantages of gambling include:

- Impacts on the quality of life of local residents can result from increased traffic congestion, parking conflicts and increased pressure on local facilities and amenities.
- There is a perception that gambling attracts increased levels of crime both in terms of petty theft and violence and also in the possibility of the introduction of organised crime. The result of this increase can be two fold. Firstly the quality of life is diminished due to fears regarding security and safety, and secondly there is an increased demand on the law and order and justice facilities of the community.

¹⁰ *International Visitor Survey 1996*, Bureau of Tourism Research

- Money spent on gambling by the local community and visitors is not spent on other items such as entertainment, retail items, buying of goods and services and holidays to regional destinations.

In Perth the main gambling activity is centred around the Burswood Resort Casino. In 1996, 27% of international visitors to Western Australia visited Burswood casino.¹¹ Some of the negative aspects of gambling such as congestion and conflict with locals are substantially reduced in Perth as Burswood is located away from the main city centre. In addition the complex offers many facilities which are used extensively by locals such as the Burswood Entertainment Dome.

In the financial year to 30 June 1998, the company recorded an operating profit after tax of \$41 million, generated from an operating revenue of \$338 million. Asia is one of the major tourism-related gambling markets for Western Australia. The current financial downturn in Asia has affected the numbers using the casino, the revenues being generated and the taxes being paid to the State.

4.5 State Budget Impact

The gambling industry impacts on both the revenue and expenditure sides of the Budget.

On the revenue side, the direct impact is the gambling taxes paid into the Consolidated Fund, amounting to \$171.5 million in 1997/98. These are sourced from Lotteries Commission surpluses, casino tax, TAB betting tax, video lottery terminals and continuous lotteries. Around half of these revenues is available to fund the Government's general spending commitments, while the other half is directed to a number of specific expenditure areas.

A further direct revenue impact is the payroll tax collection and stamp duty receipts associated with the direct employment and business activity generated by the gambling industry.

In this regard, the State Revenue Department has determined that \$1.7 million in payroll tax collections was paid into the Consolidated Fund in 1997/98 from businesses and agencies directly involved in the gambling industry. These entities included the Burswood Casino, Lotteries Commission, Gaming

¹¹ *International Visitor Survey 1996*, Bureau of Tourism Research, p75

Commission, Totalisator Agency Board, Western Australian Turf Club, Western Australian Trotting Association and Western Australian Greyhound Racing Association.

There are also indirect impacts on the revenue side of the Budget, associated with the flow-on or multiplier benefits of the gambling industry. These include, for example, additional payroll tax receipts and stamp duty collections from businesses servicing the gambling industry. However, these indirect impacts are very difficult to quantify.

On the expenditure side, the major impact on the Consolidated Fund would appear to be the costs incurred by a range of government agencies, such as the Police Department and Department of Family and Children's Services, in meeting the social costs of gambling. However, it has not been possible to quantify the expenditure impact as these agencies do not separately identify the impact of gambling on their activities.

The overall net impact of gambling on Western Australia's Budget would depend on all of the above factors and would, therefore, be very difficult to quantify. However, it would appear that there is a significant net positive impact on the Consolidated Fund from the State's gambling industry.

5. SOCIAL IMPACT OF GAMBLING IN WESTERN AUSTRALIA

5.1 Prohibition of Gaming Machines in Western Australia

The playing of games by the use of spinning reel poker machines, or mechanical devices in the nature of or similar to a machine of that kind, is prohibited in Western Australia. This has been a long-standing policy aimed at minimising the social costs of gaming. Successive Governments have maintained this philosophy with poker machines remaining illegal and prohibited as a matter of public policy.

Gaming machines are permitted in licensed casinos in Western Australia. Such gaming machines are electronic video machines that offer games with player interaction requiring the player to make decisions in the playing of the game. The casino is not permitted to offer poker machines.

A number of benefits are associated with the restriction on gaming machines, including the banning of poker machines. These are:

- by restricting the conduct of gambling on gaming machines to licensed casinos, it is less costly and more feasible to maintain the integrity of this particular gaming product. Inspection, audit and surveillance can be conducted more effectively;
- the cost of the government monitoring of gaming machines is lower because of the smaller number of venues operating gaming machines; and
- 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.

Containing the social costs of gambling is potentially the most significant benefit. The wide spread use of gaming (including poker) machines although allowed in some jurisdictions (eg. NSW) is relatively recent. However, evidence is beginning to emerge from research on the consequences. A study prepared for the Casino Community Benefit Fund Trustees in New South Wales by the University of Western Sydney in 1995 found that the incidence of problem gambling was highest amongst those persons favouring "continuous" forms of gambling such as

gaming machines. The study concluded¹² that the incidence of problem gambling was three and half times as prevalent in New South Wales compared to Western Australia where gaming machines were prohibited.

Another study by the University of Western Sydney in 1991 quantified the incidence of problem gambling amongst the adult population of various capital cities in Australia. The study estimated the percentage of problem gambling amongst the adult population of selected cities was as follows¹³:

Table 5: Problem Gambling in selected Australian Capital Cities

SYDNEY	1.09%
PERTH	0.32%
MELBOURNE	2.33%
BRISBANE	1.43%

Sydney, Melbourne and Brisbane are all cities where gaming machines are available at a wide number of venues. The incidence is lowest amongst the Perth population where the limitation on the use of gaming machines is strictest.

There is little information available concerning the economic costs of problem gambling in Western Australia. The study conducted by the University of Western Sydney in 1995 estimated the annual cost in New South Wales at \$48.1 million. Given the much greater access to electronic gaming machines in New South Wales combined with the higher incidence of problem gambling associated with that form of gambling it is reasonable to assume that the economic costs associated with problem gambling would currently be lower in Western Australia.

5.2 Problem Gambling and Support Services

¹²A *Framework for National Competition Policy Reviews of Gaming Legislation*, Centre for International Economics, Sydney May 1997, p81

¹³ *Estimating the Extent and Degree of Gambling-related Problems in the Australian Population; a National Survey*, University of Western Sydney, 1991

Five years ago a report¹⁴ was commissioned by members of the gaming industry including the Gaming Commission to examine the extent of problem gambling in Western Australia. The cost of this report was covered by a voluntary contribution from the members of the gambling industry in Western Australia: Burswood Resort Casino; the TAB; the WA Bookmakers Association; and the Lotteries Commission. A small committee of industry representatives, coordinated by the Gaming Commission, oversaw the development of the report. This report showed a relatively low level of problem gambling in Western Australia at 0.32%.

Following this report, a more permanent committee known as the *Problem Gaming Support Committee* was established. The terms of reference of the committee are to:

- determine how the Government should recognise problem gaming as a social issue in the community;
- determine action to be taken on the:
 - provision of ongoing advice to Government;
 - the means of providing this advice;
 - the types of support activities that could be provided by Government;
 - arrangements for financial support for support facilities;
 - arrangements for administration of the financial support programs; and
 - arrangements for the monitoring and evaluation of programs receiving financial support; and
- the long term role for the Gaming Commission with respect to issues associated with gambling in the community.

A voluntary agreement was entered into by the members of the industry to provide funding for a service to assist problem gamblers and their families, a major initiative of the committee. Tenders were called to provide the service and a number of prominent Western Australian welfare services submitted tenders. The successful applicant was Centrecare, a well known multi-purpose welfare agency originally established, although quite separate from, the Catholic Church. Centrecare established a problem gamblers' support service, *Break Even*, which has been operating for the last three years.

¹⁴ *An Assessment of the Extent and Degree of Gambling-related Problems in the Population of Western Australia*, Roy Morgan Research, WA Gaming Commission, 1994

The voluntary committee has continued to meet and develop its role. It has funded *Gline*, an eastern states-based 24 hour crisis telephone service, and is currently negotiating to provide an additional grant to Centrecare to provide for more widespread publicity about the provision of gambling services. It has undertaken additional research into problem gambling in the ethnic community largely as a result of *Break Even* experience that people of non English speaking background seem not to use their services. This report has just been completed, and is currently with the committee.

The committee is currently repeating the original study on the extent of problem gambling in Western Australia, and will also be evaluating the effectiveness of the *Break Even* service. Since its establishment, a total of \$382,675 has been provided for problem gambling support services on an entirely voluntary basis by the gaming industry. The management of the funding program and the administration of the committee is coordinated by the Lotteries Commission on the committee's behalf.

While there is little evidence to suggest that Lotteries products create problem gambling behaviour, the Lotteries Commission has a unique funding role in supporting a wide range of community services. As the infrastructure and resources already existed, the Lotteries Commission agreed to undertake this role. Each member of the industry provides their contribution to the Lotteries Commission, which then administers the grants program to *Gline* and Centrecare, and payment of the costs of research projects.

This voluntary agreement by the gaming industry in Western Australia to contribute to problem gambling support services appears to be unique in Australia. It has worked extraordinarily well, and is a clear demonstration of the industry's willingness to accept its responsibility to support services to the relatively small number in the community for whom control of their gaming behaviour is a problem.

Department of Family and Children's Services Responses

Family and Children's Services offers a range of generic services which can provide assistance to people experiencing financial difficulties. However, the Department has no specific information about the extent to which individuals and families accessing these services are experiencing problems associated with gambling. The Department's family crisis service helped 14,510 people in financial crisis during 1997/98. Families received money to meet basic needs such as food, clothing, essential services and accommodation.

The Department also provides funds for 52 financial counselling services across Western Australia. The services emphasise knowledge and skill development to enable clients to make informed choices about financial problems and to help them renegotiate their debts. Non government financial counselling services recorded a small increase, from 253 to 259, in the number of individuals receiving assistance in the two reporting periods, January to June 1997 and July to December 1997. This figure is based on information provided by most services. During this period, women accounted for 63 per cent of demand. Aboriginal people were 24 per cent of people seeking assistance and 50 per cent were families with children.

Crisis Care, Family and Children's Services 24 hour crisis telephone counselling and referral service, is available to anyone in need. Counselling and support services are also available through local Family and Children's Services offices and through purchased services provided by the non-government sector throughout Western Australia.

8.2 Positive Community Contribution of the Industry

5.3.1 Lotteries Commission Grants

Community Services Use of Lotteries Commission Grants

Lotteries Commission funding for community services complements other government funding. In States and Territories where similar funding is not available, government funds are used to purchase capital items and pay for once off initiatives. This results in less Consolidated Fund (CF) money being available for direct service delivery.

CF money is used to purchase recurrent services ensuring ongoing family and children's service delivery throughout the State. Resources are always less than community expectations. By using CF money to purchase recurrent services, and not purchase capital items, the funds can be managed to ensure maximum service delivery within budgetary constraints.

Lotteries funds are used by non-government organisations to purchase capital items such as motor vehicles, furniture, whitegoods, office equipment and undertake essential property maintenance. Additionally, Lotteries funds are used by organisations to buy-in expertise to assist with planning and management.

This source of funding enables Western Australian non-government organisations to provide quality services. It has enabled essential services such as women's refuges, meal services, financial counselling services and youth accommodation and support services to be fully outfitted.

Social and Economic Impact Study of Lotteries Commission Grants

Due to the significant level of direct grants distributed in the community the Lotteries Commission undertakes regular evaluations of its grant programs. In 1995 important research was undertaken to critically evaluate the impact of the Lotteries Commission's grants program in the Western Australian community. A further reason for commissioning the research was to assess how the changes identified above in both the external and internal environment were influencing the impact of the grants in the community.

Independent research¹⁵ was undertaken to determine the social and economic impact of the Lotteries Commission on the community. The researchers found that:

- the Lotteries Commission is unique as a funding body in Australia;
- the social impacts of the funding are more significant than the economic impacts; and
- the Lotteries Commission was perceived as being highly responsive to community needs.

The research identifies how important this contribution has become to the well-being of the community sector and how it differs from other government activities funding purchase of service to support a variety of government programs. The first two findings of the study clearly point to the value of the grants:

- the role of the Lotteries Commission of WA is unique in Australia. The funding it provides covers the broadest range of not-for-profit organisations and provides funds to essential services; and
- the beneficial impacts of Lotteries Commission of WA discretionary funding are felt across the entire community of WA. The benefits go to individuals, families, organisations and communities.

¹⁵ DAA, 1996, p25-26

The Bingo Centre

The Bingo Centre is an example of community benefit from permitted community gaming. The centre is a bingo house owned and operated by the Royal Western Australian Institute for the Blind. It operates six days per week and conducts bingo on behalf of four organisations affiliated with the Institute and two non-affiliated organisations (Palmerston Drug and Rehabilitation Centre and Swan Districts Football Club).

The centre employs 5 full time staff and 64 casual staff. Patron attendance for 1997 was 350 000 people, with an average of 6 000 per week. The centre can hold 2 100 patrons in one session.

The centre provides access and facilities for disabled persons. The centre charges patrons \$2.50 per bingo book, a price that has not risen in over ten years. The centre provides a subsidised creche service (patrons pay a nominal fee of \$1). In 1997 the creche provided services for 10 000 children. A subsidised bus service is also operated for patrons within a 50-kilometre radius of the centre. Four charter bus companies provide the service. Patrons pay a fee of \$2.50 (direct to the bus driver) for a return service that picks them up and returns them to their own residence. In 1997 the centre paid an additional \$500,000 to local bus companies for the service.

The centre purchases all products from local businesses. In 1997 the centre purchased food products for its canteen to the value of \$216 000, and electrical products as raffle prizes to the value of \$362 000.

TAB Beneficiaries

The social impact of the distribution of funds to the TAB beneficiaries, including State government, racing codes, associated reliant industries and the Ministry of Sport and Recreation, is difficult to quantify. However qualitative data indicates that:

- TAB distributions to the racing industry, particularly in country and regional areas, are important to the social fabric of the State. Weekend race meetings are extremely popular social events and play a major role in the social integration of farming communities. This has an additional flow on effect of maintaining community interest in horses .
- Nulsen Haven Association (NHA) is a significant beneficiary: the TAB over many years has supported annual NHA. fund raising, in particular the Horse Raffle.

This raffle has been in operation since 1978 and TAB, its agents and staff are proud to be associated with NH. NH provide support for the intellectually disabled and has in recent times focused on the relocation of its services from hostel to community based accommodation.

- Sports Development: TAB sports betting turnover directly benefits the community via the allocation of funds to a sports development account which is used for the development of sports throughout the State. In the past 10 years the TAB has made available some \$1.3 million with funds distributed to a variety of activities ranging from the WACA junior coaching to the Artificial Reef Study to the Avon Descent.
- The TAB itself was primarily established to stop illegal betting by bookmakers in the State during the 1950's, and therefore has played a major role in legitimising off-course wagering by making it more socially acceptable and also reducing the incidence of illegal wagering.

Table 6: Distributions to TAB Beneficiaries

Year Ended 30 Jun (\$'000)	DISTRIBUTION					UNCOLLECTED DIVIDENDS				Total Distribution (\$'000)
	WATC (\$'000)	WATA (\$'000)	WAGRA (\$'000)	Min. Sport & Recreation (\$'000)	Total Distribution from Events (\$'000)	Racecourse Development Trust (\$'000)	WAGRA (\$'000)	Min. Sport & Recreation (\$'000)	Total Uncollected Dividends (\$'000)	
	<p>TAB Betting Act 1960. Uncollected dividends of almost \$20 million have also been directly distributed back to the industry.</p>									
1990	17,614	11,081	3,388	53	32,136	1,332	191	2	1,525	33,661
1991	16,349	9,751	3,026	70	29,197	1,314	208	3	1,525	30,722
1992	15,825	8,625	2,999	70	27,519	1,307	201	3	1,511	29,030
1993	16,412	8,712	3,810	114	29,048	1,747	260	3	2,010	31,058
1994	18,418	9,212	4,442	111	32,183	1,718	314	3	2,035	34,218
1995	20,340	9,866	5,180	159	35,545	1,956	339	4	2,299	37,844
1996	21,090	10,064	5,479	190	36,822	1,999	393	11	2,403	39,225
1997	23,462	12,633	6,339	238	42,673	2,075	395	10	2,480	45,153
1998	23,277	12,534	7,114	239	43,163	2,140	448	7	2,595	45,758
	\$190,150	\$103,387	\$44,692	\$1,297	\$339,527	\$16,681	\$2,940	\$48	\$19,669	\$359,196

Table 7: Distributions of 1997/98 TAB Revenue

1997/98 Financial Year	(\$m)	Key Percentages	Note
Turnover	\$735,427		
Margin	\$126,670	17.22 % of <i>turnover</i>	TAB pays out 82.78% of investments back to customers as winnings.
Tax (5%)	\$36,769	29.03% of margin	Tax based on turnover not profit. This means that TAB has to operate its business and distribute funds to its beneficiaries on 12% of its revenue.
Operating Expenses	\$44,740	6.07% of turnover	Operating costs are only 6% of turnover.
Amount Distributed	\$43,163	34.08% of margin	

The above table highlights that the TAB distributes over 63% of its actual revenue directly to its beneficiaries and the government.

6. TAXATION OF GAMBLING IN WA

6.1 Gambling Taxes and Commonwealth/State Financial Relations

The origin of legalised gambling in WA and Australia lies more in the need to regulate that activity for the public good, rather than to raise revenue. Accordingly, in examining the social and other costs of legalised gambling, the Productivity Commission needs to have regard for the costs that would still be incurred under the alternative policy of prohibition.

Nevertheless, it seems certain that the revenue motive would have played a bigger role in the more recent rapid expansion of legalised gambling in most parts of Australia (in the last 10 - 20 years), due to:

- the States' excessive reliance on Commonwealth grants (commonly known as Vertical Fiscal Imbalance or VFI) and substantial cuts in those grants; and
- very limited own source revenue raising options for the States.

In this regard:

- the States rely on Commonwealth grants for about 50% of their total revenues;
- 20 years ago the Commonwealth returned 34% of its taxes as grants to the States. By 1988/89 this had fallen to 24% and this year it is expected to be only 21%. This has placed considerable pressure on State budgets;
- due to constraints imposed by the Australian Constitution and the Commonwealth Government, the States are currently excluded from imposing broad based consumption or income taxes. Following a High Court decision in August last year the States were also forced to abandon their substantial taxes on tobacco, fuel and liquor; and
- increased gambling opportunities and associated taxes are a relatively "easy" option (to the extent that gambling is "voluntary") to fill the funding gap for growth in demand for essential services.

The figures overleaf further illustrate the current extent of VFI in Australia:

- how the Commonwealth has reduced its grants to the States as a means of funding increases in its own-purpose outlays in the last 20 years; and
-
- how this has forced the States to increase their own revenue raising effort (including in the gambling tax area) to compensate.

Figure 10: Vertical Fiscal Imbalance – Ratio of Own Source Revenues to Own Purpose Outlays

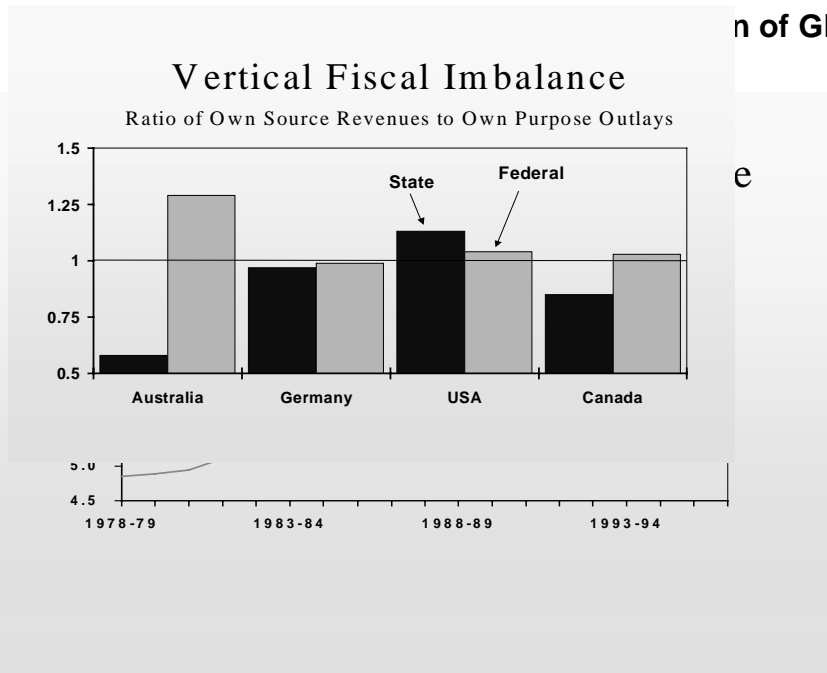
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There is no specific tax rate per se for the Commission's products. However, the legislation provides for the following allocations from net subscriptions (sales less prize liability) of all the Commission's products:

- 40% of net subscriptions is paid to the Hospital Fund;
- 5% is paid into the Sports Lotteries Account;
- 5% is paid into the Arts Lotteries Account;
- 12.5% is paid to such eligible organisations as the Commission thinks fit and the Minister approves;
- up to 5% is used to support the Festival of Perth and the WA film industry; and
- any surplus from the Commission's operations is also available for distribution as direct grants to community organisations.

The 40% allocation to the Hospital Fund, and the 5% allocation to both the Sports Lotteries Account and the Arts Lotteries Account are credited to the Consolidated Fund, with an equal amount appropriated and credited to the respective Trust Fund Account. In 1997/98, these allocations amounted to \$79 million. The other

allocations are made directly by the Lotteries Commission to community organisations. In 1997/98, these direct grants totalled \$46.7 million (including grants to the Festival of Perth and the WA film industry).

Casino Tax

Casino tax is payable by the casino licence holder, at the rate of 15% of the gross revenue (total bets placed less winnings paid out) generated by the casino. The casino tax revenue is paid into the Consolidated Fund. A further 1% of the casino's gross revenue is paid to the Burswood Park Board for upkeep of the Park.

In addition, an annual licence fee (approximately \$1.72 million in 1997/98) is payable to the Gaming Commission to defray its running costs. The annual licence fee is inflation adjusted each year.

The existing legislation provides that no other casinos will be built in Western Australia before the year 2000. Also, the 15% tax rate cannot be increased before the year 2000. These conditions were made in return for the \$20.6 million paid by the casino to secure the licence.

In 1997/98, casino tax collections were \$54.8 million.

Continuing Lottery Tickets and Video Lottery Terminals

Continuing lottery tickets are sold by organisations such as charitable and sporting bodies. There is a 5% stamp duty on sales of continuing lottery tickets. The revenue collected from this duty (which is paid into the Consolidated Fund) was about \$0.8 million in 1997/98. This revenue is classified under "other stamp duty" in the budget papers, rather than as gambling revenue.

Video Lottery Terminals are an electronic representation of the hand held continuing lottery tickets. The tax rate is 5% of turnover, consistent with the 5% stamp duty on continuing lottery tickets. The revenue from Video Lottery Terminals (which is also paid into the Consolidated Fund) was \$0.6 million in 1997/98.

6.3 Race Betting Taxes

Betting taxes in the racing industry comprise Totalisator Agency Board (TAB) Betting Tax (for off-course betting) and the Bookmakers' Betting Levy. The Totalisator Duty (for on-course betting) was abolished in 1996.

The TAB Betting Tax rate is 5% of betting turnover. In 1997/98, the revenue collected was \$36.8 million. All of the revenue from this tax is paid into the

Consolidated Fund. The profits from TAB betting are principally distributed to the racing industry. The distribution to industry totalled \$43.2 million in 1997/98.

The Bookmakers' Betting Levy is 2% in respect of race betting turnover and 0.5% in respect of sports betting turnover at a racecourse. The levy is collected by the racing clubs and the revenue is retained by the industry, except for sports betting, where the Government receives 50% of the collections. In 1997/98, the levy raised an estimated \$3.8 million for the industry, and \$62,000 for the Consolidated Fund (in respect of sports betting).

From 30 June 1998, the revenue from the Bookmakers' Betting Levy on sports betting will be retained by the Betting Control Board. From 1 August 1998, a 2% Bookmakers' Betting Levy was introduced for sports betting at a sporting venue. The revenue from this levy will be collected by the Betting Control Board and distributed to sporting organisations at the discretion of the Minister for Sports and Recreation.

6.4 Taxation of Alternative Gambling Products

The following table shows Western Australia's tax rates for different forms of gambling expressed as a proportion of a common base – gross profits (ie. total bets less winnings paid out). It should be noted that the figures indicate only the gambling revenue paid into the Consolidated Fund. They do not include, for example, the direct distribution of the Lotteries Commission's revenue to community organisations, or the distribution of the TAB's profits to the racing codes.

Table 8: Consolidated Fund – Gambling Revenue

	1997 – 98 \$m	As a % of Gross Profits*
Lotteries Commission	79.0	50.0%
Casino Tax	54.8	15.0%
TAB Betting Tax	36.8	29.0%
*Gross profits = turnover less winnings paid out		

There are substantial differences in tax rates when they are expressed on a common base (ie. gross profits). This would appear to be due, at least in part, to the fact that these gambling activities developed independently of each other, and that there are fundamental differences in the various gambling activities.

Lotteries, for example, were traditionally conducted for charitable purposes. Hence there was a good justification for the high "house take". The high "tax rate" on the Lotteries Commission's products is therefore largely historical, and acceptance of this would appear to be due primarily to the hypothecation of revenue to worthy causes (as well as the attractiveness of big prizes).

The casino, on the other hand, is a private enterprise operating on a profit motive. The casino tax rate was arrived at by a process of negotiation between the Government and the private enterprise, with due consideration for the commercial viability of the project. Other explanations for the relatively low tax rate may include the substantial upfront payment made to secure the casino licence, price sensitivity of the casino's products and interstate/international competition faced by the casino operators.

The TAB betting tax rate is broadly comparable to the other States. However, Western Australia has reduced its overall level of taxation on the racing industry over the last decade or so, largely as an assistance measure to the industry. Unlike other States, the Totalisator Duty (for on-course betting) in Western Australia has been abolished and the revenue from the Bookmakers' Betting Levy on race betting is now retained by the industry.

6.5 Total Gambling Tax Revenue

The Consolidated Fund revenue from the above gambling taxes totalled \$171.5 million in 1997/98, about 6.4% of total revenue from taxes. The national average is 11.2%.

According to the Commonwealth Grants Commission, Western Australia has the lowest gambling taxation of all jurisdictions, with our revenue raising effort about 31.6% below the national average in 1996/97 (the latest year for which data are available).

Table 9: Interstate Comparison Of Gambling Taxes, 1996/97

	Revenue from Gambling Taxes as a % of Total Taxes	Gambling Taxes Revenue Raising Effort (100 = National Average)
	(a)	(b)
New South Wales	10.3%	100.3
Victoria	13.0%	124.5
Queensland	12.8%	87.0
South Australia	13.0%	94.1
Western Australia	6.4%	68.4
Tasmania	9.9%	83.9
Northern Territory	9.3%	79.5
Australian Capital Territory	8.7%	74.4
All States and Territories	11.2%	100.0
(a) Based on revenue data from Government Finance Statistics. (b) Based on Commonwealth Grants Commission's 1998 Update.		

6.6 Potential Threats and Opportunities

Western Australia is the only State not to have introduced electronic gaming machines in hotels and clubs. In other States, the introduction of these machines and opening of new casinos has contributed to rapid growth in the gambling industry, and provided windfall revenues for governments. The net untapped revenue potential in Western Australia (based on the experience of the other States) is estimated to exceed \$100 million per annum. However, successive governments in Western Australia have chosen not to exploit this potential.

The emergence of broad-band interactive technologies such as the Internet and Pay TV could see interstate and international gambling operators selling their products directly into homes. While this is a potential new revenue source for the State, it is not clear how these activities would be taxed. One option may be for the operators to track the State of origin of each bet and distribute tax revenue accordingly.

However, these activities also pose a number of potential threats to existing State gambling taxes, for example:

- racing betting through interactive Pay TV competing with the TAB;
- lotteries sold directly into homes by international agencies competing with the Lotteries Commission; and
- on-line casinos established on the Internet and domiciled offshore competing with Burswood Casino.

An on-going threat to the State's gambling taxes is interstate competition for the gambling dollar. For example, the New South Wales government recently agreed to lower the tax rate, to 10%, on Star City Casino's international premium players. It is understood that Victoria is considering matching NSW's reduced tax rate on 'high rollers'. Burswood Casino currently faces a tax rate of 15% on this market, but reports indicate it will be seeking a similar reduction.

The Commonwealth tax reform proposals will further exacerbate the State's lack of control over its revenue base, with the Commonwealth imposed GST replacing a number of State taxes.

While most of the State taxes to be replaced are the slower growing, more distortionary financial taxes, a significant cut in State gambling taxes will also be required to accommodate the GST.

In this regard, the GST will apply to the 'operator margin' or 'player loss', which is effectively the same revenue base as that to which State gambling taxes apply. If State taxes were not reduced, the winning odds and associated viability of the game could be eroded.

In Western Australia, it is estimated that State gambling taxes will have to be reduced by up to \$60 million per annum, or a third of total gambling tax revenues.

7. HOW STATE GAMBLING REVENUES ARE EXPENDED IN WESTERN AUSTRALIA

7.1 *Hypothecation of Gambling Revenue*

Around half of the gambling revenues paid to the Consolidated Fund are directed to a number of specific expenditure areas. These relate primarily to the Hospital Fund, Sports Lotteries Account and Arts Lotteries Account.

Additional Lotteries Commission funds are also paid directly to eligible community organisations, and to support the Festival of Perth and the Western Australian film industry.

In addition to these contributions, the 2% Bookmakers' Betting Levy is retained by the racing industry, 1% of Burswood Casino's gross revenue is paid to the Burswood Park Board for upkeep of the Park and an annual licence fee is payable to the Gaming Commission to defray its running costs, and the TAB provides significant contributions to the racing industry from its profits.

These forms of revenue hypothecation are often justified on the basis that they increase gambling's acceptability to the community, making it easier for agencies such as the Lotteries Commission to market their products, while at the same time negating opposition from socially concerned groups over gambling's social costs.

On the other hand, the hypothecation of State revenues such as these can be criticised on the grounds that it affords a privileged budgetary position to specified functions (ie. these functions are not subject to the scrutiny of the annual budget process). Revenue hypothecation can also reduce budgetary flexibility and may, over time, result in a distortion of priorities and allocation of resources.

Apart from the hypothecated revenues, it is not possible to determine how gambling tax revenues paid into the Consolidated Fund (eg. Casino tax and TAB betting tax) are expended, as there is no direct link between the amounts received and the expenditure made.

7.2 Lotteries Revenues

The financial returns made by the Lotteries Commission to government and the community since 1990 have been significant with the rate of return nearing 30% of sales turnover each financial year, or 99% of profits.

The following table shows the relative returns to the WA state government from other forms of gambling and lotteries in the 1994/95, 1995/96 and 1996/97 financial years. The Lotteries Commission returns are significant relative to returns from other sources in the Racing and Gaming portfolio. As shown in the table, the direct returns to government (excluding the funds distributed in the community) exceeded all other sources of gaming/gambling revenue in the 1994/95, 1995/96 and 1996/97 financial years.

Table 10: Comparative Returns to Government from Gambling, Liquor and Lotteries in Western Australia 1994/95, 1995/96 & 1996/97¹⁶

AGENCY	1994/95 \$m	1995/96 \$m	1996/97 \$m	TOTAL \$m
Office of Racing, Gaming and Liquor				
• Casino	\$58.9	\$64.4	\$56.3	\$179.6
• Liquor taxes	\$64.6	\$71.9	\$79.9	\$216.4
TAB				
• Govt Betting Taxes	\$37.2	\$39.0	\$33.9	\$110.1
• Distribution to codes	\$35.5	\$36.8	\$42.7	\$115.0
Lotteries Commission				
• Govt Stat Distrib'n	\$69.1	\$75.4	\$79.4	\$223.9
• Community Distrib'n	\$34.8	\$45.1	\$46.8	\$126.7
	\$300.10	\$332.60	\$339.00	\$917.7

¹⁶ Figures were taken from the Annual Reports of the Office of Racing, Gaming and Liquor, the TAB and the Lotteries Commission

Revenues and returns to government and the community have increased on a regular basis as indicated below.

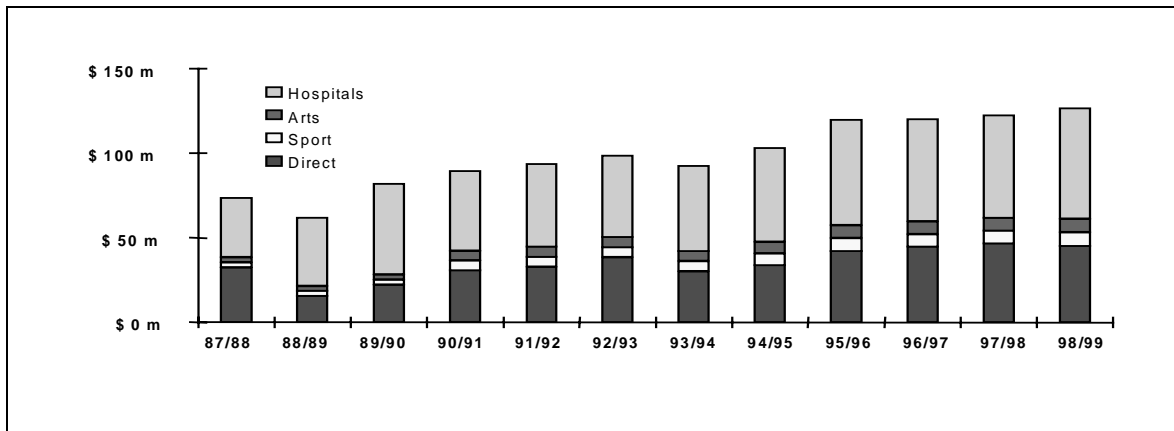
**Table 11: Gross Sales and Returns to Government and Community
1988/89 to 1997/98**

Financial year	1 Gross Sales Turnover	2 Total Funds made available (3+4)	3 Total Statutory Funding	4 Total Funding Distributed by LCWA (5+6)	5 Films & FOP	6 Direct Grants
	\$m	\$m	\$m	\$m	\$m	\$m
1988/89	189.1	73.8	67.9	5.9	0	5.9
1989/90	281.5	81.9	67.5	14.4	0	14.4
new legislation introduced						
1990/91	293.6	89.6	65.0	24.6	0	24.6
1991/92	302.9	93.5	60.9	32.6	0	32.6
1992/93	298.5	98.5	60.1	38.4	3.2	35.2
1993/94	313.5	92.7	62.6	30.1	1.3	28.8
1994/95	347.7	103.9	69.1	34.8	5.4	29.4
1995/96	391.5	120.3	78.0	42.3	4.3	38.0
1996/97	383.3	120.0	75.4	44.6	4.3	40.3
1997/98	403.6	126.2	79.4	46.8	6.5	40.3
	3205.2	1000.4	685.9	314.5	25	289.5

Distribution of the proceeds of Lotteries

The Lotteries Commission Act makes specific directions regarding how the proceeds of lotteries are distributed. Funds returned to Treasury for further distribution to health, sports and arts are referred to as statutory distributions. Funds distributed by the Commission directly into the community are referred to as direct grants.

Figure 13: Proceeds from Lotteries 1987/88-1998/99



There have been significant contributions made by the LCWA to both government and the community since the LCWA was first established in 1933 as identified in the table above.

While the 1954 Act identified that the proceeds from the conduct of Lotteries could be distributed to any charitable purpose with the approval and consent of the Minister, the legislation did not require a specific statutory distribution of proceeds. Charitable purposes included areas as diverse as public hospitals, “orphanages or founding homes” and “the relief of former servicemen and women”.

An amendment in 1982 when instant tickets were introduced provided Arts and Sports with \$3m each from what was then called the Instant Lottery Account at Treasury. This was the first time that arts and sports were mentioned as beneficiaries in lotteries legislation. The funds were paid into specific accounts at Treasury and then distributed to the relevant government agencies as a part of the annual budget cycle.

The 1990 Act makes no mention of specific classes of beneficiaries in the sections related to Lotteries direct distribution of funds. It also expanded the criteria for eligibility to include both charitable and benevolent purposes. Government departments and instrumentalities were specifically excluded from the Commission’s direct grants program. Local government authorities were included for activities classed as charitable and/or benevolent.

Statutory Requirements

The Lotteries Commission Act 1990 (as amended) prescribes that;

- **12.5% of net subscriptions¹⁷**: To such eligible organisations for approved purposes as the Commission thinks fit and the Minister approves; and the Commission must also distribute the balance of moneys remaining after

¹⁷ **Net subscriptions** are the subscriptions received for that game less the prize fund or prize liability for that game.

all expenses (capital and running cost) have been met (including the allocation to statutory recipients), to such eligible organisations, for approved purposes, as the Commission thinks fit and the Minister approves.

- **40% of net subscriptions:** To the Special Account kept at State Treasury under section 3(2) of the Hospital Fund act 1930.

- **10% of net subscriptions:** To the arts (5%) and sports (5%). The 1990 legislation sets up a Sports Lotteries Account and an Arts Lotteries Account at Treasury both of which are distributed by or on behalf of, the relevant Ministers, in the form of grants to sports and arts organisations. The beneficiaries of these funds are listed in the Annual Reports of the Ministry of Sport and Recreation and ArtsWA.
- **Up to 5% of net subscriptions:** To the Festival of Perth and the Film Incentive Scheme. The specific amounts paid each year are at the discretion of the Board with the Minister's approval.
- FID and Pay roll tax are paid to the State government. FBT is paid to the Commonwealth government.

The monies for hospitals, art and sports are part of the general government processes for funds distribution via the Consolidated Fund.

The Festival of Perth

In 1992 the Lotteries Commission Act was amended to include the Festival of Perth as a named beneficiary of Lotteries funds. The same amendment also included the Commercial Film Industry.

The Lotteries Commission is the sole government source of funds to the Festival of Perth. As a result of the Lotteries Commission assuming this funding responsibility, the former Arts Department of WA (now known as ArtsWA) was able to redirect the grant previously for the Festival of Perth to other activities within its portfolio.

The funding provided by the Lotteries Commission for the arts in WA is thus very substantial but not well recognised.

The Film Incentive Scheme

The funding of the Commercial Film Industry designed to stimulate employment in the WA film industry has involved a somewhat complicated series of incentive programs which are administered by ScreenWest (the statutory body responsible for the development of the film industry within WA) under a contractual arrangement with the Lotteries Commission.

Grants of around \$2 million per annum have been made since 1992. There is ample evidence that this has resulted in the creation of a viable, and growing film industry in WA.

Distribution of Direct Grants in the Community

12.5% of net subscriptions plus the balance of monies left after all operational requirements have been met, are distributed directly by the Lotteries Commission with the approval of the Minister.

Over the last 10 years the Lotteries Commission has developed a professional and well managed grants program based on the submission model for grant applications. During this period over 7,000 different community organisations have received grants. As a result the Lotteries Commission has now developed an extensive data base on the non-government sector in Western Australia and arguably now has the most comprehensive overview in Western Australia of the activities of that sector.

In 1996 the Lotteries Commission celebrated the raising and distribution of \$1 billion. It took the Lotteries Commission 60 years to raise the first half billion and only just over 4 years to raise the second.

Around 2500 applications are received each year of which 93% are successful. Grants can range from values in excess of \$1 million for major building projects to \$200 for play-group equipment. This is documented in the Lotteries Commission's Annual Report, attached.

There are now 15 different program areas, namely:

- Recreation Arts and Culture;
- Community Services;
- Lotteries Houses;
- Disability Services;
- Community Development;
- Emergency Services;
- Youth;
- Aboriginal Services;
- Promoting Excellence and New Initiatives;
- Medical Research;
- Employment Training and Enterprise;
- Family and Children's Services;
- Heritage;
- Emergency relief; and
- Conservation.

As with statutory requirements, the amounts available for direct distribution have grown progressively as sales turnover has increased from Lotto and Instant Tickets.

Each financial year since the 1990 Act was introduced the Lotteries Commission has had residual funds available for distribution under s24 in addition to the 12.5% distributed under s22. This has been due to tight management of operational and capital expenditure. In 1997/98 a total of 29.4% of net subscriptions was distributed via the direct grants program.

There has been significant development in the way in which the Lotteries Commission has met its responsibilities to distribute the funds under s22 and s24 as the community's needs have changed and the Lotteries Commission has increased the funds available for distribution. The Act gives the Lotteries Commission discretion in how the funds are distributed and to whom.

Funding recommendations are made by professional grants staff and specialised advisory committees to the Board of Commissioners who meet monthly, their recommendations are then forwarded to the Minister for Racing and Gaming for final approval.

During the last seven years:

- the amount of money available for direct distribution has increased from \$25m in 1990/91 to \$47m in 1997/98 (in the same period statutory distributions have increased from \$65m to \$79m);
- the number of grants programs has broadened to fill identified gaps by the community including heritage, conservation, volunteer emergency services and most recently to provide management and organisational development grants to the not for profit sector;
- the size of some grants has increased significantly but by far the greatest proportion of grants approved remain under \$20,000;
- eligibility policy has been broadened to reflect an approach that enables as many groups as possible to access the funds;
- with increased expertise in the Lotteries Commission, the processes of grant assessment and approval have improved;
- the Lotteries Commission has sent its officers to regional and isolated communities to improve equity in access to the funds through a program of community visits;
- the Lotteries Commission has continued to meet with government instrumentalities, community groups and organisations both separately and together to discuss issues for the aged, the disabled and other groups to ensure programs meet community needs and complement government policies; and

- significant policy development has occurred in the grant programs to reflect demand from the broad range of community interests.

In 1996 following a detailed assessment of the accountability processes used by the Lotteries Commission and other government agencies distributing funding in the community, the Auditor General commended the Lotteries Commission for the processes it had put in place to meet accountability requirements for the management of public monies¹⁸.

Changes to Commonwealth and State Governments' Funding Policies

In the past three to four years there have also been significant changes in the funding policies of both the Commonwealth and State governments which have increasingly impacted on the Lotteries Commission's grant programs and policies.

- Instead of directly funding organisations providing services that may or may not have been a priority to government, the focus is now to purchase services through a tendering process.
- The private sector is competing for and winning some of these contracts such as in employment and disability services.
- Governments (Commonwealth and State) are increasingly withdrawing from the funding of capital grants (eg the aged, family support programs) leaving a very significant gap which is putting pressure on the Commission's discretionary budget.
- As women have continued to join the workforce in ever increasing numbers their capacity to act as volunteers or carers for the aged and disabled has been much reduced. The community sector is therefore being asked to provide more services while its volunteer base is shrinking.

The Lotteries Commission maintains an extensive consultation network into government and the not for profit sector to ensure its funding programs remain relevant to community needs.

¹⁸ *Office of the Auditor General*, 1st General Report, 1996

Summary

The significance of Lotteries funding to the beneficiaries of the Act is as follows:

- in the 1997/98 financial year the proceeds from Lotteries contributed 3.9% of the total funds of the health budget;
- the funds paid into the Arts Lotteries Account make up approximately 65% of the funds in the ArtsWA 1997/98 budget; and
- the funds paid into the Sports Lotteries Account make up approximately 31% of the funds in the Ministry of Sport and Recreation's 1997/98 budget.

8. IMPLICATIONS OF NEW TECHNOLOGIES FOR GAMBLING IN WESTERN AUSTRALIA

The emergence of broadband interactive technologies such as the Internet and Pay TV has a number of far-reaching implications for gambling in Western Australia. These include both new market opportunities for existing industries in the State and new sources of competition; with associated threats and opportunities for tax revenue. However, the potential for interstate and international gambling operators to sell their products directly into Western Australian homes also poses a particular dilemma in that it directly challenges the State's firm policy stand prohibiting access (outside of the casino) to electronic gaming.

8.1 Use of New Technologies By the Existing State Gambling Industry

The existing gambling industry already makes some use of the opportunities afforded by the new technologies. For example, the TAB has 287 agencies networked to its central site processing 112 million transactions per year.

Even though it is in the embryonic state, the TAB expects to market products on the internet. These are bets where the account holder opens a debit account prior to gambling and funds take 24 hours to move into the account.

One of the side effects of the digital electronic sales industry is the amount of information generated by participants. Electronic gambling is no exception in that electronic trails are left by design and as part of the process. From the TAB's viewpoint, this form of betting has the potential to generate more market intelligence as well as additional safeguarding controls.

The Lotteries Commission relies significantly on technology for its operations. It has a state-wide digital data telecommunications network to its 450 online retailers and has specialised gaming terminals and gaming software to allow it to register wagers, identify winners and account for the sales transactions.

Like the TAB, the Lotteries Commission also expects to market its product on the Internet. To date the Lotteries Commission only uses its Home Page as a Player information service.

There are also approaches which promote to players the safeguards and value of 'legitimate' (licensed) gaming providers and highlight the risks associated with non-licensed providers. Jurisdictions can also create obstacles to the advertising and marketing of illegal products. The National Regulatory Model for Interactive Home Gambling (Sept, 1997), prepared under the auspices of the Australian Ministers for Racing and Gaming, is an effort to combine the latter approaches for the Australian context. Participation is voluntary and once a service is licensed in one Australian jurisdiction, there is mutual recognition in all other participating jurisdictions. It would appear that Queensland and NSW are in the process of enacting licensing legislation and regulation.

Regulation and control of interactive home gaming may also be possible through avenues such as bank credit controls on gaming transactions, telecommunications controls, bilateral Government agreements to prevent Internet gaming activities that have not been licensed domestically, and the creation of national 'non-poaching' agreements on gaming in world trade negotiations.

Each of the above approaches has its drawbacks and difficulties, and various hybrid approaches which draw on several of the options appear to be emerging. The approach to be pursued in Western Australia is still the subject of discussion within Government. No decision has yet been made.

9. AREAS REQUIRING FURTHER INVESTIGATION

There are several areas relating to Australia's gambling industries about which there is very little definitive or comprehensive national data, and which might usefully be pursued by the Productivity Commission as areas for further study. The first area relates to the real extent of problem gambling in Australia, and the real social costs. Whilst this submission has drawn on the available Western Australian data, it is somewhat limited, making rigorous comparison with other jurisdictions difficult. A clearer national picture would better inform Government policy on gambling in Western Australia.

Similarly, there appears to be little available definitive Australian data on the economic costs of spending which has been forgone in other sectors (eg. retail and tourism) in favour of gambling. More detailed analysis in this area may provide a useful further dimension to assessments about the economic impact of gambling.

The third suggested area for further investigation relates to the social and economic costs of the alternatives to the current approaches. In Western Australia's case, the costs of a strictly controlled industry with moderate expansion (eg. low social costs and higher level of forgone tax revenues) would have to be considered against the costs of alternatives such as prohibition (eg. no tax revenues, high social costs and high costs of compliance and policing), or a more liberal and accelerated expansion (eg. higher social costs and higher levels of tax revenue).

10. CONCLUSION

The Western Australian Government approach to the expansion of its gambling industry has been moderate and responsible. As a consequence, the industry has developed some unique features which set it apart from the other States, and which offer a potential 'control' or 'benchmark' against which to measure the impacts of the more expansionary developments in other jurisdictions. Such features include Western Australia's continued resistance to the introduction of poker machines in hotels and clubs, its comparatively low level of gambling tax revenue and its hypothecation of Lotteries Commission profits to health, cultural and sports activities with additional direct grants to community organisations.

In view of its balanced and responsible approach to its gambling industry, and the strong community support for its position, Western Australia would be very concerned at any suggestion emerging from this Inquiry with the potential to incur Commonwealth funding penalties for not maximising its access to gambling revenues. Western Australia would also be concerned at any moves to alter its firm policy position on gambling, or for any Commonwealth intrusion into the State's responsibility for its gambling industry. Indeed, many of the issues relating to gambling are symptomatic of broader concerns about tax reform and Commonwealth/State financial relations.

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APPENDIX 3: A STATISTICAL SNAPSHOT OF WESTERN AUSTRALIA

The Western Australian economy, with a Gross State Product of \$53.9 billion, accounts for 11.6% of the national economy.

Western Australia's per capita income of \$30,541 per annum is 9% higher than the national average of \$28,026.

Western Australia has a population of around 1.8 million, representing 9.7% of the total Australian population. Around 1.3 million, or 72% of the population, live in Perth.

Over the past decade, Western Australia's population grew at an average annual rate of 1.9%, the second fastest rate of growth of any State – after Queensland. The national average rate of population growth was 1.3% over the same period.

The Australian Bureau of Statistics forecasts that Western Australia's population will grow by 1.6% per annum over the next five years. This compares with estimated national population growth of 1.1% per annum.

Although both Australia and Western Australia have ageing populations, Western Australia has a smaller proportion of the population aged 65+ (9.8%) than the national average (11.4%).

The resources sector is the largest contributor to the State's private sector economy – contributing around 17%. Wholesale and retail trade contributes 12.4%, manufacturing 9.8%, construction 8.1%, tourism 5.2% and agriculture 5.1%.

The Government sector contributes around 17.4%.

Western Australia accounts for around 26% of the nation's exports.

APPENDIX 4: OTHER SUGGESTED SOURCES

An Assessment of the Extent and Degree of Gambling Related Problems in the Population of Western Australia, 1994. (Dickerson, Baron and O'Connor)

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Office of Racing and Gaming Annual Reports 1986-1997

Reports of Chairman and Members to the Cabinet Sub Committee of the Government Casino Advisory Committee, 1983. (Shimmon)

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