

Submission to the Joint Select Committee from the Tasmanian Hospitality Association and Federal Group

EXECUTIVE SUMMARY

The Tasmanian Hospitality Association and Federal Group have agreed on a proposed model for the future of gaming from 2023 that:

- Changes from the current single licensed gaming operator (Network Gaming) to direct licensing of hotels and clubs with gaming;
- Ends the monopoly gaming licence currently held by Network Gaming;
- Moves Tasmania's gaming machine licensing and taxation to more closely resemble other states and territories (especially regional areas);
- Significantly increases financial returns from gaming for hotels and clubs;
- Significantly increases capital values for hotels and clubs – allowing them to further invest and employ;
- Delivers a maintained or improved return to the Tasmanian community through taxes, fees and levies;
- Is consistent with the Hodgman Government's Gaming Structural Framework;
- Retains and strengthens Tasmania's player protection and harm minimisation framework; and
- Provides a path for Federal Group to remain a significant investor, employer and operator in the Tasmanian gaming, tourism and hospitality industries.

1. INTRODUCTION

The Tasmanian Hospitality Association (THA) and Federal Group have developed a proposed model for the future of Tasmania's gaming markets. The proposal takes into consideration the State Government's position on the future of the sector, the work undertaken to-date by the Joint Select Committee and the views of the industry and community.

The proposed model is an individual venue ownership model with a common network platform. Its implementation would shift gaming returns away from Network Gaming, to Tasmanian hotels and clubs, while maintaining returns to the Tasmanian Government. Strengthening the hotel sector will deliver a range of community benefits including increased employment, investment and development. It will also deliver strong player protection and harm minimisation measures.

The proposed model would bring Tasmania's gaming industry into line with other jurisdictions around Australia. It would take effect from 2023, at the expiry of the current licencing arrangements, and deliver long-term certainty to stakeholders.

It would see a move to a market-based mechanism that has the support of both the existing licensed operator and the hotel and club industry.

2. RATIONALE

The Joint Select Committee process has highlighted community, industry and government preference for a change to the current gaming licence arrangements. Recognising this, the THA and Federal Group have worked together to identify a way forward for the industry which demonstrates a commitment to the long-term stability and responsible management of gaming in Tasmania.

Given their significant roles in Tasmania's gaming industry, it was appropriate for these two organisations to consider their shared views on the future of the sector. Federal Group has been operating gaming in Tasmania for more than 40 years and successive State Governments have entrusted the company with exclusive gaming licences throughout this period. Federal Group is Tasmania's largest private sector employer and is a significant contributor to the economy. It operates the state's two casinos and is responsible for the 2380 electronic gaming machines (EGM) in hotels and clubs.

The THA is the peak industry body for hospitality in Tasmania. It has an MOU with the current State Government that recognises the association as the representative body for industry-related issues such as gaming. The THA is the only representative body in the state that actively engages in the gaming sector and, of the 96 venues in Tasmania which currently operate EGMs, 74 of these are members of the THA.

Federal Group and the THA recognise that there are a number of complex and important issues that must be considered in determining the future of Tasmania's gaming industry. This submission lays out a proactive and progressive approach, which provides long-term certainty for Federal Group, THA members and people employed in the sector, as well as other key stakeholders including the State Government. The proposed model would unlock significant investment and development in venues and regions across the state (further detail provided on **page 7**).

The State Government established its expectations for the future of gaming in Tasmania in March 2016, when it outlined guiding principles to determine a policy position (see http://www.parliament.tas.gov.au/ctee/Joint/TermsOfReference/FGM%20additional%20ToR_a.pdf). The THA and Federal Group strongly believe the proposed model addresses these guiding principles (further detail provided on **pages 8-12**).

The proposed model recognises Tasmania is currently the only state or territory in which there is a single licenced operator of gaming machines, and seeks to bring the state into line with other jurisdictions. In doing so, Federal Group and the THA are committed to maintaining the high levels of player protection which apply in Tasmania. As identified in the report by Owen Gaming Research, which formed part of the THA's original submission to the Joint Select Committee, moving to a model that allows for direct licencing of venues will not increase the incidence of problem gambling.

Under the current arrangements, venue operators have been able to amass the knowledge and skills necessary to fulfil their responsibilities under a direct licencing model, which will ensure they continue to responsibly manage gaming activity in accordance with Tasmania's strict regulations. Venue operators have also been responsible for harm minimisation (such as monitoring self-exclusions) for many years and under this proposed model they would continue to place a major focus on harm minimisation.

3. PROCESS UNDERTAKEN

Participation in the Joint Select Committee process stimulated discussions between Federal Group and the THA about their shared views on the future of gaming in Tasmania. Both parties provided comprehensive submissions to the Committee in December 2016; which outlined their respective views. The THA's submission called for a direct licencing model for venues with EGMs, to provide operators with greater control and improved returns, which would in turn underpin investment and employment in the sector.

Federal Group considered a range of options for the future of gaming in Tasmania, outlining the opportunities and challenges of each. The company made clear it recognised pub and club operators were seeking a change to the current arrangements and alternative models would need to be considered. Federal Group also acknowledged its monopoly would not continue beyond the expiry of its current licence in 2023, given plans to grant two additional high-rollers casino licences to new operators, including MONA.

The respective positions of Federal Group and the THA were further outlined during their individual hearings before the JSC in February this year. Both the THA and Federal Group referenced interstate models with alternative licencing and taxation arrangements. Subsequently, members of the Joint Select Committee visited a number of interstate jurisdictions in July, including Cairns, Townsville and Victoria. This provided the THA and Federal Group with confidence to bring forward a proposed model.

Federal Group is a long-term member of the THA and the two parties regularly meet to discuss a range of industry events and issues. As such, the identification of a shared view on future opportunities for Tasmania's gaming industry stemmed from informal discussions between the two groups. The parties recognised that in working together they were able to demonstrate a strong commitment to the long-term future of Tasmania's gaming industry.

The THA and Federal Group established a set of shared principles to guide their discussions, which included increased returns from EGMs for hotels and clubs and new EGM tax rates for Tasmania's casinos and hotels and clubs. A series of discussions took place between Federal Group's Corporate Executive and THA General Manager Steve Old, and subsequently the THA Gaming Subcommittee. The Gaming Subcommittee is made up of nine individuals, who represent 74 members of the THA with gaming venues. The THA Gaming Subcommittee is appointed to represent the interests of gaming members and to inform THA policy on gaming matters.

The THA and Federal Group worked together to determine their proposed model and then sought verification of the identified financial outcomes from an independent expert. Results of the independent expert modelling confirmed hotel and club operators would receive improved financial returns under the proposed model.

Federal Group and the THA determined their preference to present detail of their proposed model during a joint appearance before the Joint Select Committee. In doing so, the THA and Federal Group seek to further demonstrate their partnership in identifying this proposed model and their commitment to securing a sustainable way forward for Tasmania's gaming industry.

4. PROPOSED ARRANGEMENT

The proposed model would apply from 2023 and would see a major shift in the licensing of EGMs in Tasmanian hotels and clubs. The model is aimed at achieving a balanced position that provides:

- Improved returns from EGMs to Tasmanian hotels and clubs,
- Greater control over EGM business decisions by Tasmanian hotels and clubs,
- Certainty and stability for Federal Group,
- Maintenance of returns to Government,
- A strong player protection outcome, and
- A model that aligns Tasmania more closely with the administration and licensing of EGMs in other states and territories.

The most significant shift from the current model is that hotels and clubs would be directly licensed as EGM operators by the Tasmanian Liquor and Gaming Commission. The current role of Network Gaming as the sole licence holder, owner and operator of all EGMs would cease. Network Gaming would only undertake the base monitoring functions that are required to ensure that the Tasmanian Government can have sufficient confidence in the integrity of the system and the correct flow of taxation to Government.

Network Gaming would continue to undertake monitoring functions on a fee for service basis. This would include the sweeping of accounts for payment of gaming taxes, licence fees and the Community Support Levy to the Tasmanian Government. Network Gaming would also offer other services to hotels and clubs, on a non-exclusive and fee for service basis. Hotels and clubs could also elect to have the company finance and maintain their EGM fleet.

Under this proposed model, gaming in Tasmania would operate in a similar way to other Australian states and territories, where there is no third party owner and licence holder of EGMs in licensed hotels and clubs. From 2023, this would end the exclusive EGM licence that Federal Group has held in Tasmania since 1993.

In recognition of the removal of exclusive licences for gaming and the arrangements that apply in other regional Australian jurisdictions, a new regime of taxes, fees and levies would be required that would include the following:

- Table gaming taxes remain unchanged at 10%;
- Keno taxes remain unchanged at 15%;
- Electronic gaming machine taxes applying to Tasmanian casinos changed to be consistent with Australian regional casino rates at 20%;
- Electronic gaming machine taxes applying to Tasmanian hotels and clubs changed to be consistent with other Australian states and territories at 45%;
- The Community Support Levy would remain unchanged at 4%; and
- A new regime of annual licence fees for EGM venues (casinos, hotels and clubs) of \$1,000 per EGM per year (CPI indexed).

The implementation of this model would shift the returns from gaming to Tasmanian hotels and clubs. Currently, hotels and clubs receive around 30% of gaming revenue. Under the proposed model this would increase to over 50%.

The proposed model would increase the financial returns from EGMs for hotel and club venues, and also significantly increase the value of hotels and clubs with EGMs. These tax rates and licence fees would also ensure that returns to the Tasmanian Government are no less than current levels.

This model is only sustainable if EGM tax rates in casinos are aligned to those that apply to regional casinos in other Australian states and territories.

Federal Group would continue to be licensed:

- To operate EGMs and table gaming at both Wrest Point and Country Club;
- To operate the game of keno in Tasmania;
- As the monitoring operator for EGMs in Tasmanian hotels and clubs; and
- As a fee for service provider of value added and technical services to Tasmanian hotels and clubs (eg EGM maintenance, EGM financing, business analytics, marketing).

The proposed model is consistent with the submissions provided to the Joint Select Committee by both the THA and Federal Group. This model closely resembles the model for the licensing of gaming in other states and territories of Australia.

5. FINANCIAL OUTCOMES OF THE PROPOSED ARRANGEMENT

The THA and Federal Group had an independent expert third party model the outcomes that would have occurred had the proposed model been in place during the 2016/17 financial year. Using the data from the 2016/17 financial year, these were compared with the actual 2016/17 outcomes. For the purposes of this assessment, the following inputs and assumptions were used:

Table 1 – current Tasmanian EGM taxes, levies, fees and commissions

Inputs and Assumptions	Amount/Rate
Hotel and Club EGM Tax Rate (GST inc.)	35.0%
Casino EGM Tax Rate (GST inc.)	35.0%
Hotel CSL Rate	4.0%
Club CSL Rate	2.0%
Hotel Venue Commission	30.0%
Club Venue Commission	32.0%
Federal Group Licence Fees pa	\$3,108,358

Table 2 – proposed Tasmanian EGM taxes, levies, fees and commissions

Inputs and Assumptions	Amount/Rate
Hotel and Club EGM Tax Rate (GST inc.)	45.0%
Casino EGM Tax Rate (GST inc.)	20.0%
Hotel CSL Rate	4.0%
Club CSL Rate	2.0%
Hotel Venue Commission	51.0%
Club Venue Commission	53.0%
Federal Group Licence Fees (per EGM p/a)	\$1,000.00
Hotel and Club Licence Fees (per EGM p/a)	\$1,000.00
Hotel and Club Monitoring Fees (per EGM per day)	\$2.00

The proposed inputs and assumptions outlined in tables 1 and 2 will deliver different outcomes from gaming for hotels, clubs and Federal Group. The most significant outcomes from the proposed model are that:

- Hotels and clubs with EGMs will get a significantly greater share of the revenue from EGM activity than under the current model (actual numbers can be provided in-confidence). The average increase in revenue for hotels and clubs is 57.4%.
- Federal Group, through Network Gaming, will receive a significantly reduced share of the revenue from EGM activity than under the current model (actual numbers can be provided in-confidence)
- The Tasmanian Government will receive no less taxation/fee/levy revenue than under the current model (actual numbers can be provided in-confidence)

Hotels and clubs with EGMs will all significantly increase the share of EGM revenue that they receive. This will apply to large, medium and small hotels and clubs; and both suburban and regional hotels and clubs. Case studies of three different sized and located venues have been used to demonstrate the increase to all types of venues (actual examples can be provided in-confidence).

The greater share of EGM revenue received by hotels and clubs will also have a significant positive impact on the valuation of these venues. This increase in valuation will allow hotels and clubs to get better access to finance and this will allow them to make further investments in their businesses. These investments would have a positive impact on the communities in which these hotels and clubs operate, especially in regional areas that badly need new investments, increased economic activity and jobs. Hotels and clubs with EGMs will also have far greater control over the operations of their gaming business under the proposed model.

Federal Group, through Network Gaming, will decrease its share of EGM revenue as a result of the proposed model. However, the proposed model will provide certainty going forward for its keno and casino businesses.

The Tasmanian Government will receive no less revenue than under the current model. The regulatory approach will shift to one that more closely resembles that in place in other states and territories, although the proposed model retains Network Gaming as the licensed monitoring operator and this will ensure consistent reporting and linkages between the Tasmanian Government and EGM hotel and club venues – using the existing monitoring system that has worked effectively over many years. Maintaining Network Gaming as the monitoring operator minimises the costs to hotels and clubs of the transition to the new model.

The proposed model will deliver a similar (or possibly better) outcome in terms of player protection and harm minimisation. Hotels and clubs have shown a strong focus on both regulatory compliance and harm minimisation over the last 20 years, and are well placed to continue to ensure that Tasmania has a low incidence of problem gambling.

Tasmania already has one of the strongest and strictest EGM regulatory regimes in Australia. The system has high levels of player protection and harm minimisation built into the legislation and rules that apply to gaming venues – including the Mandatory Code of Practice – as demonstrated by the low rates of problem gambling compared to other states and territories in Australia. All gaming venues will continue to be required to comply with these controls under the proposed model.

6. RELEVANCE TO THE STATE GOVERNMENT’S POLICY POSITION AND JSC TERMS OF REFERENCE

The proposed model is consistent with the guiding principles and proposed policy position outlined in the document provided to the Committee by the Tasmanian Government (*Hodgman Liberal Government post-2023 Gaming Structural Framework*).

With specific reference to each of the guiding principles, the proposed model is consistent in the following respects:

- *Gambling is a lawful form of entertainment and there should be a range of products that are fair and provide acceptable returns to players*

The proposed model will ensure that there is a range of different gaming products available to Tasmanians. The proposed model should extend this range with the introduction of new licensed entities (hotels, clubs and casinos) that will all bring a different business philosophy built around a differentiated player experience. All licensed operators and products will continue to operate within the tightly controlled and regulated Tasmanian gaming environment that currently exists.

- *Regulation of gaming should create a sustainable industry whilst minimising the harm from problem gambling*

The proposed model will further promote a sustainable gaming, hotel and club sector. Hotels and clubs with EGMs will receive a greater share of EGM revenue and this will support them to further invest in their venues and people. The proposed model will operate within the strict regulatory controls in place in Tasmania.

- *The financial rewards from gaming should be shared appropriately among the industry, players and the Tasmanian Government*

The proposed model replaces Network Gaming as the sole licensee for EGMs in hotels and clubs, and would mirror the venue ownership model that applies in most states and territories. The current return to player arrangements would remain under this model. The returns to Government are maintained.

- *The placement of EGMs in hotels and clubs should not be solely determined by the industry and should incorporate the public interest*

As previously advised, both the THA and Federal Group support the introduction of a Community Interest Test for the determination of the appropriateness of new EGM venues.

- *The duration of gaming licences should be commensurate with the level of investment required to underpin the gaming operation*

The THA and Federal Group strongly advocate for long-term certainty for each licensed entity to allow them security around their investments. Similar to the arrangements in many other states and territories in Australia, both parties strongly believe that perpetual licences should be granted to existing venues that have EGMs on 30 June 2023. These venues would be licensed from 1 July 2023 for the same number of EGMs that they operated on 30 June 2023.

The THA and Federal Group believe that the proposed tax, levy and fee arrangements should be locked in place for a long period. While tax rates cannot be perpetual, both parties believe that a minimum 20 year period of tax certainty would be appropriate and necessary for the industry.

With specific reference to each of the proposed policy positions, the proposed model is consistent in the following respects:

- *The rights to conduct keno in Tasmania and to conduct gaming in the two existing casinos, including table gaming and EGMs, are to remain with the Federal Group, subject to standard probity and regulatory performance, and satisfactory negotiations regarding term as well as taxation and licence fee arrangements*

The THA and Federal Group agree that the rights to conduct keno in Tasmania and gaming at Wrest Point and Country Club should remain with the Federal Group.

- *The tax rates and licence fees for casinos (including table gaming and EGMs) and Keno are to be reviewed against the broader Australian market*

The THA and Federal Group agree to an amended arrangement for EGM taxation under the proposed model that is in line with that in place in other states and territories, and that delivers strong returns to licensed entities and appropriate returns to players and the community. The proposed model achieves this.

- *Limited new “high-roller, non-residential” casino licences should be available in addition to Federal Groups’ two casinos:*
 - *The opportunity to apply for such a licence should be afforded to Mr Walsh in respect of financially supporting MONA*
 - *If that licence were taken up, then an additional licence should be made available in the north of Tasmania, should there be market demand*

The THA and Federal Group support the potential licensing of “high roller, non-residential” table gaming only casinos at MONA and potentially in the north of the state.

- *The Government has no fixed view for the ownership of EGMs in hotels and clubs post 2023 – the current single network model could continue, with the rights to own and operate that network put to the market, or alternative models such as individual venue ownership under a common network control platform could also be considered*

The THA and Federal Group have agreed a proposed model that would support the second option outlined by the Tasmanian Government in the Framework. The proposed model is an individual venue ownership model with a common network platform.

- *The state-wide EGM cap will be reduced to 3,530 from 2023*

The THA and Federal Group support the reduction in the state-wide EGM cap from 2023.

- *The tax rates and licence fees for hotel and club EGMs are to be reviewed with a view to ensuring that returns for all parties are appropriate and reflective of the broader Australian market*

The THA and Federal Group support an amended schedule of taxes and licence fees, as set out in this submission. The proposed model is strongly in line with the arrangements in other states and territories that incorporate differentiated tax rates for regional casinos and hotels, annual licence fees, and daily fees for monitoring. The returns to the Tasmanian Government from the proposed model are no less than under the current model.

- *The CSL, which is applied to EGM activity in hotels and clubs, will be reviewed to ensure that it is set at an appropriate level delivering outcomes that are in the best interest and meeting the requirements of the community*

The THA and Federal Group support the continuation of the current arrangements for the Community Support Levy in Tasmania. However, both parties agree that the recommendations made by the Auditor General to make the system more effective and efficient should be put in place. In particular, the current funding of the Neighbourhood House Program should be reviewed and be funded from an existing departmental budget, freeing up more of the CSL funds for problem gambling mitigation, charitable grants and sport and recreation groups. Local government should also have an increased role in determining where the funds from the Levy are spent in the future.

The THA and Federal Group would urge the Committee to consider some CSL funding being set aside for an industry responsible gambling program, to be administered by the THA. This arrangement is in place in other states and would ensure that there are strong player protection activities in place under an individual venue ownership model from 2023.

In addition to being consistent with the Hodgman Government Framework, the proposed model is also in line with the Committee's Terms of Reference and some of the evidence provided to the Committee to this point.

This proposed model is relevant to all of the Terms of Reference, but particularly to sections (c), (d), (e), and (g).

The proposed model also provides an option for the Committee under section **d**. This is a move to a market-based mechanism that has the support of both the existing licensed operator and the hotel and club industry. The proposed model is consistent with market based approaches to licensing EGMs in other Australian states and territories.

The proposed model provides a strong option for future taxation and licensing arrangements for EGMs and EGM venues in Tasmania post 2023 (Term of Reference **e**). The proposed taxation arrangements for EGMs would shift to be in line with other jurisdictions where regional casinos and gaming hotels and clubs operate, such as North Queensland. The proposed model would ensure that the Tasmanian Government receives at least the same amount of taxes, fees and levies as under the current model. The proposed licensing arrangements would also resemble those in place in other states and territories with wide area gaming networks.

The proposed model provides an option for the duration and term of EGM licences in Tasmania (Term of Reference **g**). Federal Group and the THA both consider long-term licence certainty to be important and propose perpetual licences with a long-term period (20 years) during which the applicable taxes, fees and levies are fixed. Under the proposed model, all EGM venues on 30 June 2023 would transition to a direct licence with the Tasmanian Government for the relevant number of EGMs.

Federal Group and the THA consider the proposed model to be reflective and supportive of the evidence provided in submissions and hearings of the Committee.

7. BENEFITS OF THE PROPOSED ARRANGEMENT

There are a number of significant outcomes and benefits from the proposed model put forward by the THA and Federal Group. Fundamentally, the proposed model addresses the considerable community and industry concern about the monopoly gaming licences which have been in place in Tasmania for more than 40 years. Shifting to a direct licencing model for individual venue operators will bring Tasmania's gaming industry in line with other states and territories.

The proposed model would redistribute EGM revenue from Network Gaming to hotels and clubs. This would result in a significant increase in the capital value of hotels and clubs by an average of over \$1.5 million and deliver increased: investment, employment opportunities, and services for locals and visitors.

The proposed model would also bring the EGM tax rates paid by Wrest Point and Country Club into line with those in place in other regional casinos in Australia, such as Cairns and Townsville. This would make Wrest Point and Country Club competitive nationally and allow greater certainty to undertake future investments.

In Victoria, the move to direct venue ownership saw a significant increase in investment in hospitality infrastructure. The transition to a venue-owner model in Victoria from August 2012 led to a considerable increase in the construction of short-term accommodation and entertainment and recreation facilities at hotels and clubs (as indicated on page 7 of the Owen Report, included in the THA original submission to the Joint Select Committee).

The potential impact of this cannot be underestimated, especially for the regional communities in which many gaming venues operate. Hotels and pubs play a vital role in the state's growing tourism industry, particularly in regional areas. Tasmania's economy relies heavily on the tourism market and under the proposed model hotels and pubs would be able to undertake significant investments and redevelopments.

8. TRANSITION

Under the proposed model there would need to be a transition process to move from the current single operator model to direct venue licensing and ownership arrangements. Federal Group and the THA both recognise that the transition will need to provide certainty and protections for all of the relevant stakeholders, including: hotels, clubs, the Tasmanian Government and Federal Group.

Specific details of a transition process would be a matter for further discussion between the THA, Federal Group and State Government. This would include the THA and Federal Group establishing an agreement on transition matters such as the prices and arrangements for the transfer of existing EGM assets in the network.

Although full details of the transition are still to be determined, it must be acknowledged that the proposed model provides far greater certainty to stakeholders than the alternatives. For example, the proposed model avoids the need for a tender process, which would be very costly and generate considerable uncertainty and massive disruption for all stakeholders. Providing the industry with certainty about the future operation of gaming allows stakeholders to make confident decisions and investments in their businesses, both in the short-term and into the future.

The proposed model also avoids risks for the State Government and the community, in regards to the collection of taxes and monitoring of the state's gaming system, which would result from a transition to a new monitoring provider. Licencing the existing operator, Network Gaming, to deliver base monitoring functions, ensures the integrity of the system remains intact, minimises the cost of the transition for hotels and clubs, negates disruptions to the collection of taxes, and importantly retains jobs in Tasmania.

9. CONCLUSION

In working together, the THA and Federal Group have developed a model for Tasmania's future gaming markets that will deliver significant outcomes for stakeholders, including venue operators, the State Government and the broader community.

Applied from 2023, the proposed model would see hotels and clubs directly licenced by the Tasmanian Liquor and Gaming Commission. It would end the monopoly held by Federal Group for more than 40 years.

Gaming in Tasmania would operate in a similar way to other Australian states and territories, and the returns from gaming would be more appropriately distributed to increase revenue and the value of Tasmanian hotels and clubs. This will have a highly positive impact on small and regional hotels and clubs, and the communities in which they operate.

The State Government will receive no less revenue than under the current model. The State Government would also retain confidence in the integrity of the gaming system with Network Gaming being licensed to provide base monitoring functions.

Despite seeing a considerable reduction in revenue from Network Gaming under the proposed model, Federal Group would retain its commitment to being a significant long-term player in the Tasmanian gaming, hospitality and tourism sectors.

The THA and Federal Group are proud to have worked in partnership to identify a future operating model that provides for a sustainable gaming industry and positive outcomes for the Tasmanian community.