Julie Thompson

JSC/FGM114

From: John Lawrence <lawspence79@gmail.com>
Sent: Tuesday, 6 December 2016 8:05 AM
To: fgm
Subject: submission
Attachments: gambling inquiry final draft updated again.pdf

The Secretary
Joint Select Committee on Future Gaming Markets

Please find attached submission to your inquiry.
Thank you for the opportunity.

Sincerely
John Lawrence

JSC/FGM/114

Joint Select Committee on Future Gaming Markets

Submission

John Lawrence

1st December 2016

The author is an economist and accountant by profession and has worked in both fields. Currently a public policy researcher and writer. Has a financial interest in a regional accommodation business operating both EGMs and Keno. This submission reflects the private views of the author.

Contents

Executive summary

One of the key terms of reference of this inquiry is to report on the potential structural features of the Tasmanian gaming markets from 2023 onwards. As a prerequisite, it is incumbent to fully understand the current arrangements, the size of the pie and how it is distributed. The primary focus of this submission is to cover the financial aspects of current arrangements.

All government licences and permits by their nature regulate and restrict participation thereby affecting the size and distribution of profits.

The current gaming model in Tasmania centres on the sole licence holder Federal Hotels. Its licence was awarded without competitive tender in 1993, as was the agreed extension in 2003. The government passed up the opportunity to maximize its return from granting the exclusive licence, preferring instead to impose a few conditions. The less than onerous conditions and the tax regime adopted have allowed a private operator to generate substantial, profits in excess of normal rates of return in the hospitality industry.

In thirteen years since 2003 Federal Hotel shareholders have received $199 million in dividends (up to 30th June 2016). These were fully franked or tax paid dividends, equivalent to $284 million before tax, or $22 million per year.

It is likely that the amounts paid as dividends which represent 64% of earning after tax, comprise the profits from gaming. No other capital intensive tourism business can afford to pay dividends as Federal Hotels does.

One advantage of the system is that there is a sunset clause where the rights and obligations of all parties can be extinguished at the discretion of the Treasurer, the earliest end date being 2023.

Resetting the gaming landscape, even limiting EGMs to casinos, won't be traumatic as there are no obligations beyond 2023 that licence holders and other participants can use to invoke sovereign risk and demand compensation or quid pro quos to offset any effects of policy changes.

The government is contemplating a market based tender for allocating licence(s) beyond 2023. Any such solution first requires the government to determine what the parameters are, the number of venues and gaming machines, locations, the house percentage, taxes and levies, the speed of gaming machine, betting limits etc. Only then will it be possible to determine what level of profits will exist, if at all, and then whether to sell the right to future profits for a lump sum up front payment or to increase taxes and levies to divert super profits as they are earned.

For Federal Hotels, the period since 2004 has seen:

- A downward trend in profits.
- A constant pattern of dividends averaging 64% of profits after tax.
- A fourfold increase in borrowings from $56 million in 2003 to $200 million in 2011 needed to fund the business.
- Further pressure on cash flows with repayment of borrowings since 2011.
- Abandonment of the regional tourism strategy, the walkout from the West Coast Wilderness railway and the sale of accommodation properties at Strahan, Cradle Mountain and Freycinet.
- A fall in casino gambling.
- Continued acquisition of pubs with lucrative EGM patronage
- Expansion of bottleshops with the acquisition and expansion of the 9/11 chain.
- The building of Saffire at Coles Bay as mandated by the 2003 Deed as the only new piece of tourism infrastructure. Remaining capital spending used to acquire existing assets.
- Its demise as the undisputed tourism leader in Tasmania which in the past arguably led to spill over benefits for the whole industry.

After watching all profits either paid to shareholders or spent acquiring existing land, buildings, brand names and goodwill of bottleshops and pokie pubs, in 2015 we were treated to the most extraordinary display of chutzpah when Federal Hotels requested an extension of its sole licence so that it could fund $100 million of capital upgrades to its casinos and a new venue at Port Arthur that's been on the drawing board for years. With memories of the 2003 extension/Saffire deal it was a déjà vu moment.

If funds are needed to upgrade existing facilities they should be sourced from retained earnings, borrowings or shareholder contributions just like every other business. The same applies to new infrastructure at Port Arthur. It shouldn't require another special deal. This is not a start-up company that may require encouragement. This is a major player in a mature industry competing with many others who aren't given the same advantages.

Linking licence arrangements for EGMs and Keno with supporting the tourism industry should be resisted.

It is clear that excess profits are also accruing to third party operators in pubs and clubs. The concentration of groups with multiple sites with above average EGM losses is unlikely to be a coincidence. If EGM gaming is to continue in pubs and clubs post 2023 it should be in full knowledge of the spoils and how they are to be divided. Any move to market based solutions to allocate licences should be resisted as it will only create a another interest group whose needs over the term of the licenses will inevitably be prioritised as licence holders seek to achieve the necessary returns to justify the cost of the acquired licences. Oligopolies won't necessarily deliver better outcomes than a monopoly.

Arguably it will be better public policy for excess profits, if any, to flow back to the government/ community. The government should regularly tweak the parameters so that consumers aren't exploited and operators make normal rather than usurious returns. In the case of EGMs and Keno further investment is not required so there is no need for the government to pander to anyone by allowing above normal rates of return.

One significant feature of gambling operations, at both the venue and network level, is the split between fixed and variable costs. Variable costs, including taxes, are lower than bars and much lower than for bottleshops. Gambling operators are always involved in the three areas. Once fixed costs are covered the amount added to the bottom line is more than for bars and significantly more than bottleshops. Yet lower marginal returns haven't discouraged activity in those areas.

If it's the non-problem and low risk gamblers who help operators cover fixed costs and make normal profits, it's probably the moderate risk/problem gamblers who make the bottom line as profitable as it is.

Given the split up of costs faced by operators and the license holder, gaming provides significant economies of scale. In other words costs as a percentage of turnover falls as turnover/losses increase. In an area of public policy with heightened social risk, the current gaming system is perversely structured. Once fixed costs are covered tax removes only part of the bountiful booty.

Accordingly if tweaking existing parameters doesn't remove the excess profits then a system of stepped rates based on EGM revenue per machine will do so. Stepped tax rates are not new in gaming. A simple three step system could remove a further $13 million from the $114 million of EGM revenue in pubs and clubs in 2015/16. Only the network operator and venues with above average EGM turnovers would be affected.

Whatever is decided for gambling in pubs and clubs should also apply to casinos.

There is no prima facie reason why Keno commissions and tax rates should be so much less than for EGMs. Nor is there any reason why different licencing arrangements shouldn't apply to EGMs and Keno, should that be considered to be in the public interest.

With the expiry of current arrangement few if any will be able to argue they haven't achieved an adequate return on their investment.

It may be better to continue with the current arrangement of one licencee, whether or not that is Federal Hotels if gambling is to continue outside casino walls. Two or more licencees may offer competition, but because of the heavily regulated nature of the industry, such competition would largely be a charade. The sole licence system has had advantages. The sole licencee finances, reports and monitors all EGMs which arguably suits below average, average and single venue operators. If there was a move away from the current sole licence there would be transitional problems particularly with the ownership and financing of EGMs. At any time a 30 EGM venue would have approximately $300,000 owing on its EGMs. Currently these are Federal Hotels' liabilities, but in a revised arrangement they might need to be shifted to the venue level. A reshuffling of this nature may well increase the further encroachment of a few well resourced groups into areas where smaller owner operators now operate. It is difficult to see how this would improve the system.

Returns to gaming don't have to be higher than other areas of hospitality. There is no chance that lowering returns to gaming will cause an interstate flight of capital.

Why should Tasmania adopt the practices of other State unless there was a fit and proper reason for it? Why shouldn't Tasmanians decide the size and split up of the gambling pie without the need to follow other States?

A unique chance to reform the landscape beckons.

1. Introduction

"The processes that led to the development of the earlier Deeds caused concern in the community and cast a shadow over the appropriateness of structural arrangements".

These words from the Treasurer's Ministerial statement on 17Th March 2016 are a succinct and accurate reflection on the state of play of Tasmania's gaming industry.

The arrangements established by the Gaming Control Act 1993 were originally due to expire in December 2008.

The government at the time initiated an early review and extension of the Act. A new arrangement between Federal Hotel and the State was agreed to by Deed which was then incorporated into the Act via amendments.

Federal Hotels were in a sound negotiating position at that time as it still had another five years of a very favourable arrangement.

Both parties did a bit of chest thumping about what a sound arrangement had been agreed. The State for its part claimed:

"*.....a net increase to the State of approximately $2 million per annum.*

Over the period 1 July 2003 to 31 December 2008 this represents an estimated additional $12 million dollars to the State."

Federal Hotels achieved a longer term arrangement and agreed to harm minimisation measures which they claim came at a cost of $45 million.[1]

The new arrangement extended the sole licence out to 2023 but as the Joint Parliamentary Standing Committee of Public Accounts[2] found at the time *"any comparisons post 31 December 2008 would be little more than speculation given that on this date the rights and obligations conferred on the parties in the 1993 Deed cease to exist. The result of this is that there are no reliable figures against which the estimated financial returns under the 2003 Deed, post 31 December 2008, can be compared."*

The 2003 inquiry didn't bother to understand the level of profits being split between parties, instead simply assessed the changes to costs and benefits for each party over the remaining five years of the term of the original 1993 agreement due to expire in 2008. It wasn't interested in absolute numbers; merely what changes might eventuate over the remaining five years of the original term. What might happen after 2008 was of no concern. It was an abdication of responsibility by the parliament, maybe not a committee failing per se due to the restrictive terms of reference, but a failure of public policy.

It appears the rights and obligations of the parties as set out in the 2003 Deed will cease to exist five years after the Treasurer decides not to renew the agreement which gives an earliest end date of 2023.

As the Committee is required *"to inquire into and report upon potential structural features of the Tasmanian casino, keno and electronic gaming markets from 2023 onwards"*, it is incumbent to thoroughly understand how player losses under current arrangements have been split amongst the various participants.

2. Gaming losses 2004 to 2016

Gaming losses across the State over the 13 years period have been over $3 billion. Player losses are, needless to say, gambling revenue to the sole licence holder Federal Hotels, some of which is then paid as taxes to the state government. Venues operated by third parties, in pubs and clubs featuring EGMs and Keno, are paid a commission by the licence holder. The split between gambling types is shown below[3]:

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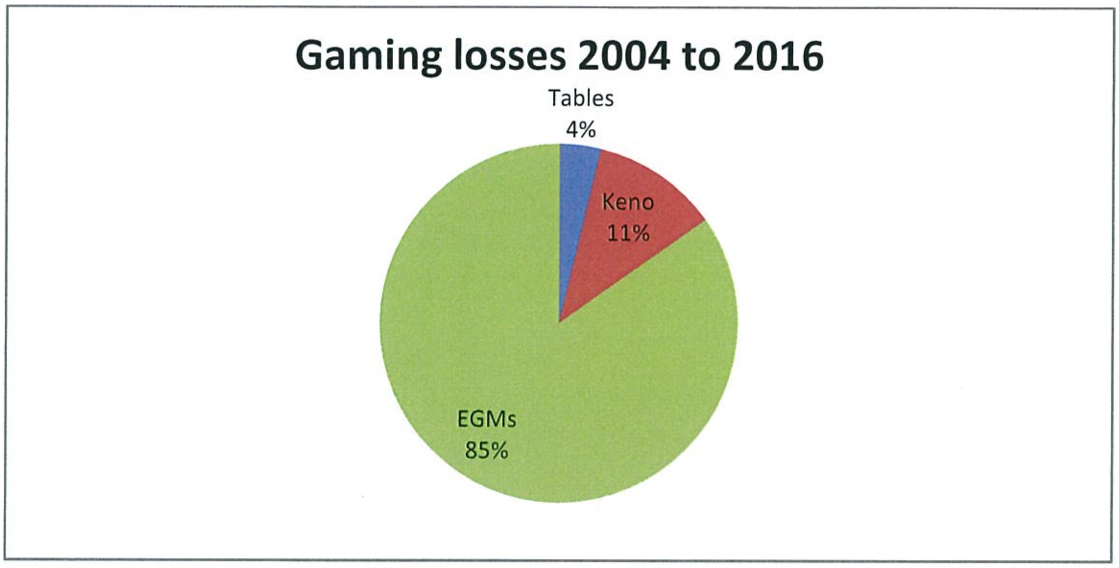
[1] See speech by Federal Hotels' CEO 1st December 2015 http://www.examiner.com.au/story/3531879/casino-boss-denies-government-held-to-ransom/?cs=95

[2] http://www.parliament.tas.gov.au/Ctee/REPORTS/FederalHotelsAgreement.pdf

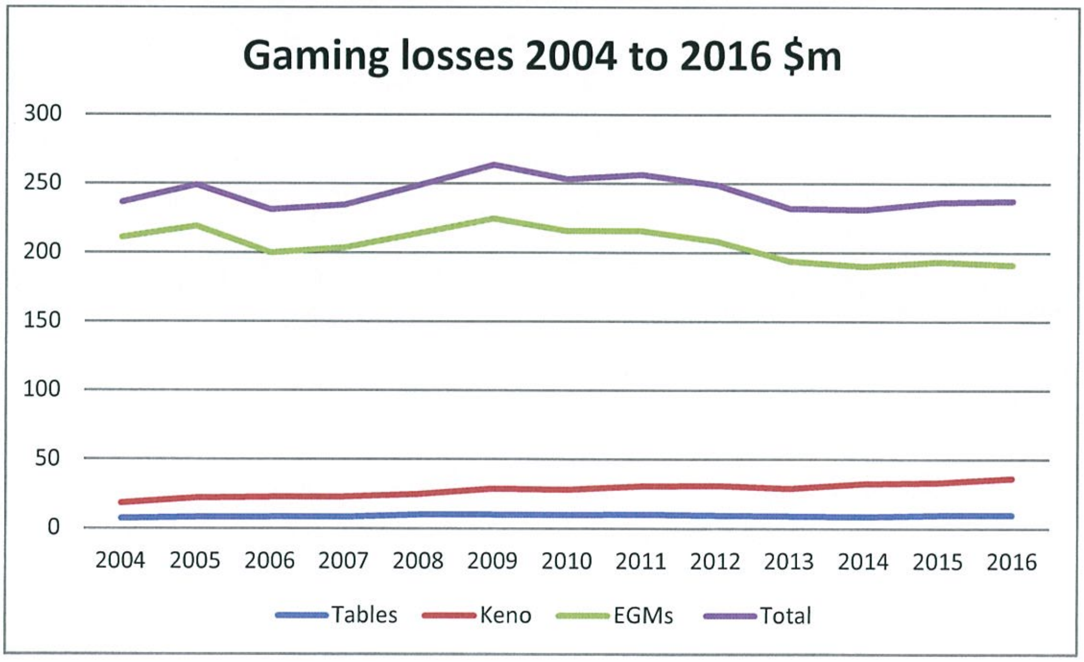
The Report gives a good overview of the 1993 gaming arrangements and the subsequent changes in 2003.

[3] Sourced from Tasmanian Liquor and Gaming Commission (previously the Tasmanian Gaming Commission).



On average, yearly losses have been $243 million, taxes $57 million leaving gross income of $186 million to be split[4].

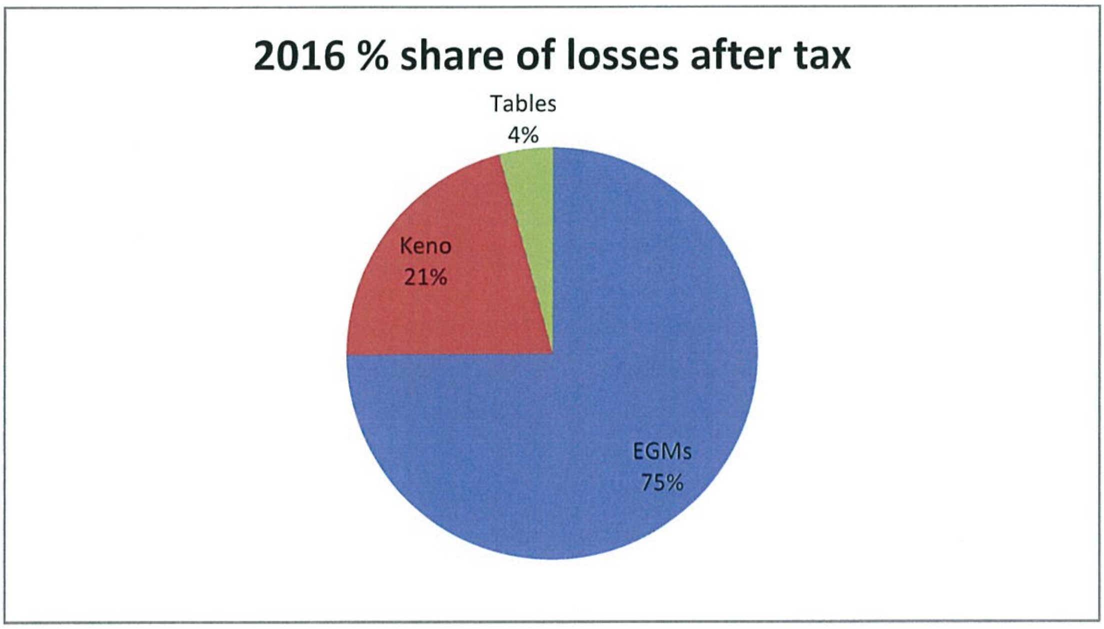
Total player losses from gaming in nominal terms are, in 2016, the same as 2004, $237 million. The 2016 year was similar to 2015. Player exuberance peaked in 2008 with losses of $264 million. The low year was 2014 with $231 million of losses.The following figure shows the detail:



[4] Figures are from the Tasmanian Liquor and Gaming Commission. Taxes include casino licence fees but not community service levies. Appendix D has the details.

Revenue from table gaming at casinos is reasonably stable. Income from Keno has actually doubled, albeit from a low base. The increase has helped offset the reduced income from EGMs.

The tax percentage from Keno revenue is much less than from EGMs[5]. Keno therefore makes up an increasing share of gambling gross income after State taxes. Keno's share of gaming gross income has doubled from 10% to 21% since 2004. The increased share has come at the expense of EGMs which in 2016 accounted for 75% of losses after State taxes, down from a peak of 88%. The 2016 split is shown below:

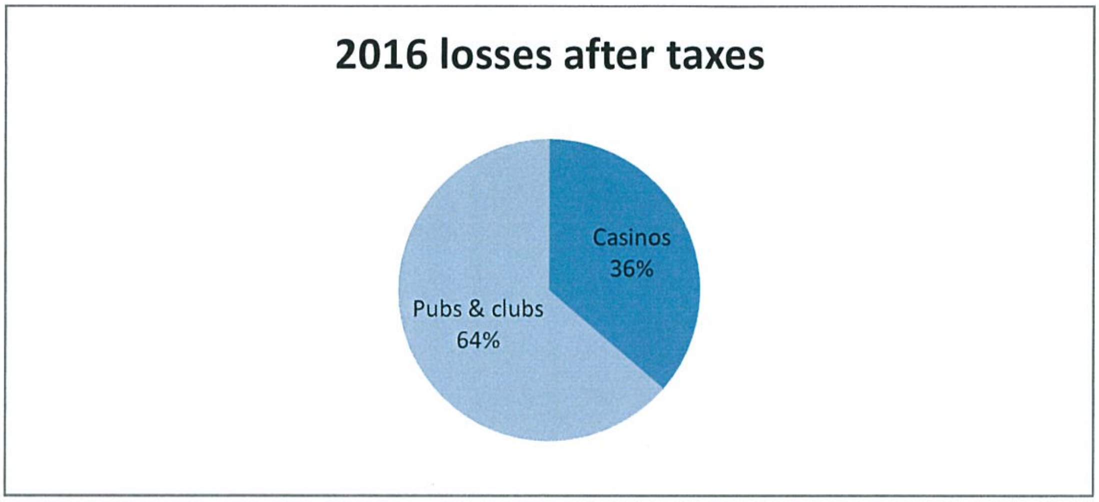


Despite Keno's increased share it only accounts for 4% of the total tax take from gaming. Overall the State received 23% of gambling losses in 2016[6]. The latest trend is for this percentage to fall slightly because of the increasing share of lower taxed Keno losses.

The other significant change is a 23% fall in EGM losses at casinos since the peak in 2009, Maybe the casinos really do need an upgrade?

The share of gaming losses in pubs and clubs as a percentage of total gaming losses has shown a steady increase from 57% in 2008 to 64% in 2015. The following chart captures the 2016 split.

[5] Keno tax rate 6%. EGM tax rate 26% plus 4% community service levy CSL which applies to losses in pubs and clubs only.
[6] Overall tax % is 25% if community service levy (CSL) applying to EGM losses in pubs and clubs is included.



The above figure shows where losses first occur. At this point all losses belong to the sole licence holder. Third party pubs and clubs only receive a commission which is further diminished when machine hire and promotions levies are paid to Federal Hotels.

In short:

- Overall gaming revenue has been declining since 2009, and is back to 2004 levels.
- The share of revenue in pubs & clubs has increased relative to casinos.
- EGMs in 2016 accounted for 75% of gambling revenue.
- Keno is up in absolute $ terms and even more in relative terms.
- Keno commissions are lower than EGM commission.
- Keno tax rate is one quarter of EGM tax rate.
- State taxes as a percentage of gambling revenue is starting to decline due to the increasing share of lower taxed Keno

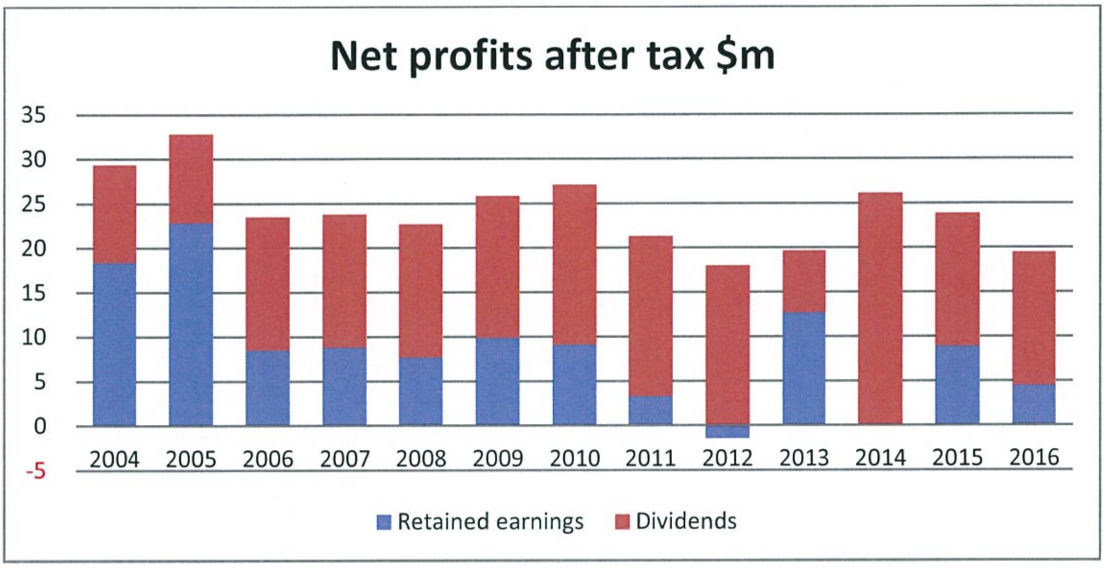
3. Federal Hotels operations 2004 to 2016

Federal Hotels lodges financial statements with ASIC each year[7]. They're consolidated statements which includes Federals Hotels' freight business, Cope Transport. The last time separate figures for the latter were shown was in 2005 when revenue from the freight arm comprised $58.6 million out of total group revenue of $395 million or about 15%. The bottom line contribution to the group in that year was about the same at 15%. Recent group revenue has hovered around $500 million per annum. It was $512 million in 2015/16. Almost half is from gambling. The next

[7] See Appendices A and B for Cash Flow and Income statements sourced from ASIC returns for the parent company Mulawa Holdings Pty Limited

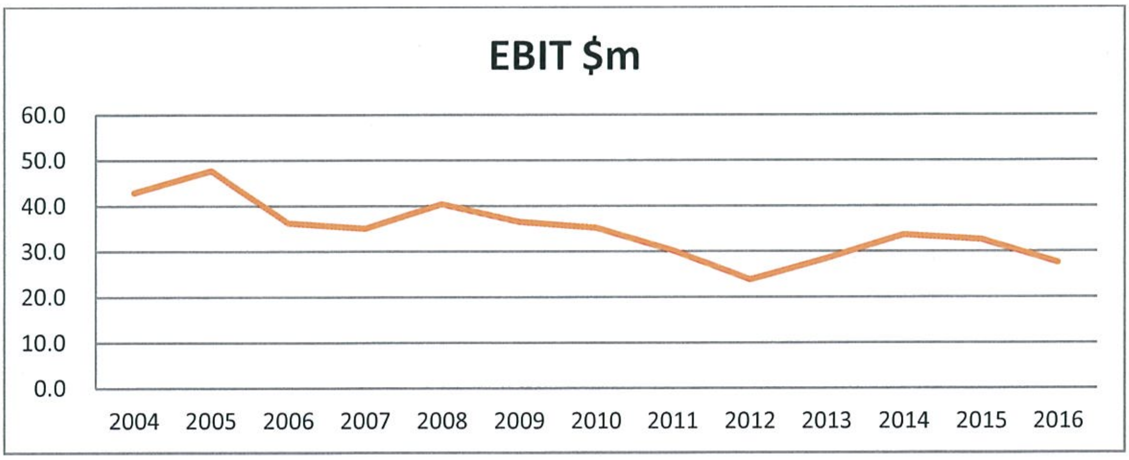
biggest source of revenue is bottleshop sales, followed by other hospitality income and the freight business. The exact breakup is not known.

Federal Hotels' net profit after tax peaked at $32.8 million in 2005. Profits declined until 2012, recovered a little before once again heading downwards. In the latest year 2016 net profit after tax was $19.5 million. Only the 2012 figure of $16.5 million was lower.



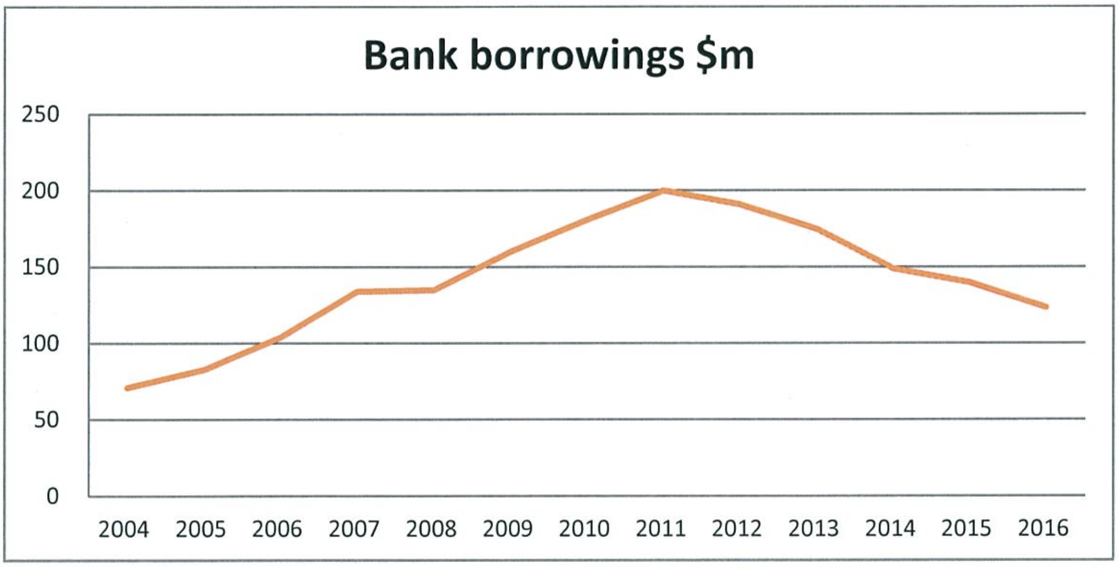
The above chart displays net profits after tax split between retained earnings and amounts paid as dividends to shareholders each year. The dominant colour is red, highlighting that most earnings are paid as dividends. The dividend payout ratio is extraordinarily high for a capital hungry tourism business particularly one which committed itself to a significant tourism investment strategy in 2003.

Sometimes net profit comparisons over time are dubious if finance costs vary. Earnings before interest and tax (EBIT) provide a better snapshot.



The EBIT trajectory is downwards. Needless to say these are based on nominal figures. The real trajectory, adjusted for CPI, would show a more pronounced downwards movement.

The shareholders' voracious appetites which have seen them extract $199 million in dividends[8] since the 2003 sole licence extension left the company with no option but to borrow funds for its capital investment program. Borrowings increased almost fourfold from $56 million at June 2003 to $200 million in June 2011[9]. With both gambling turnover and net profits falling, it was only a matter of time before the punchbowl was removed. From 2011 Federal Hotels was required to start paying back its borrowings.

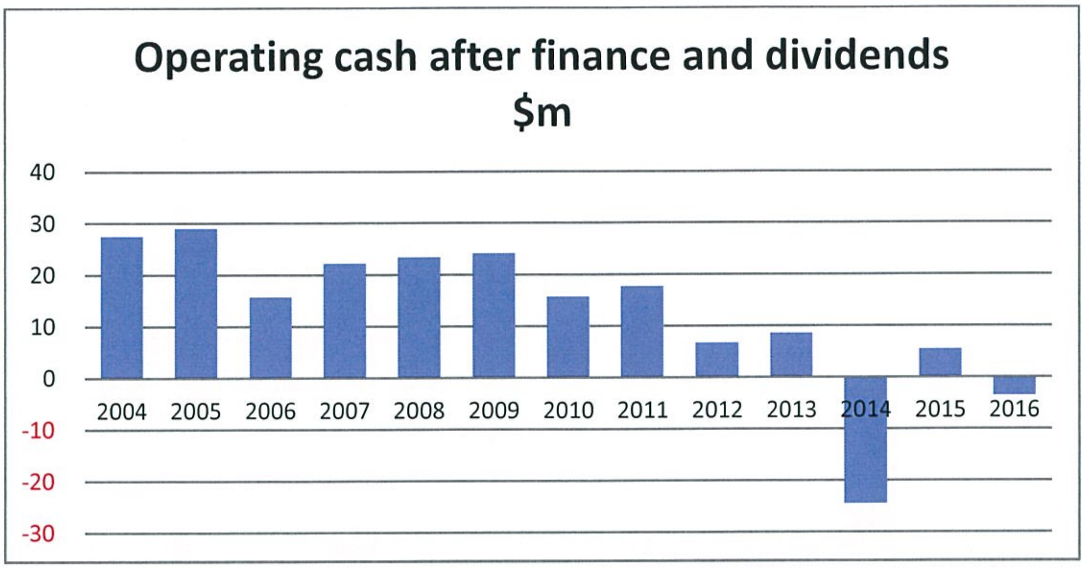


Retained earnings understate the cash generated by operations because the profit calculation contains a large non cash deduction for depreciation. Even so borrowings were required to help fund capex as the cash tin was continually drained by shareholders. Operating cash +/- net finance outlays (which include dividends, net bank borrowings and finance service costs) gives the funds available for capital spending, as shown below[10]:

[8] The shareholders also receive benefits as employees. The last time the financials were required to divulge directors' remuneration was in 2005 when the figure was $5.22 million. Since then disclosure requires details of key management remuneration which includes persons other than director/shareholders. This figure peaked at $6.8 million in 2011. It was $4.8 million in 2015 after post 2011 belt tightening.

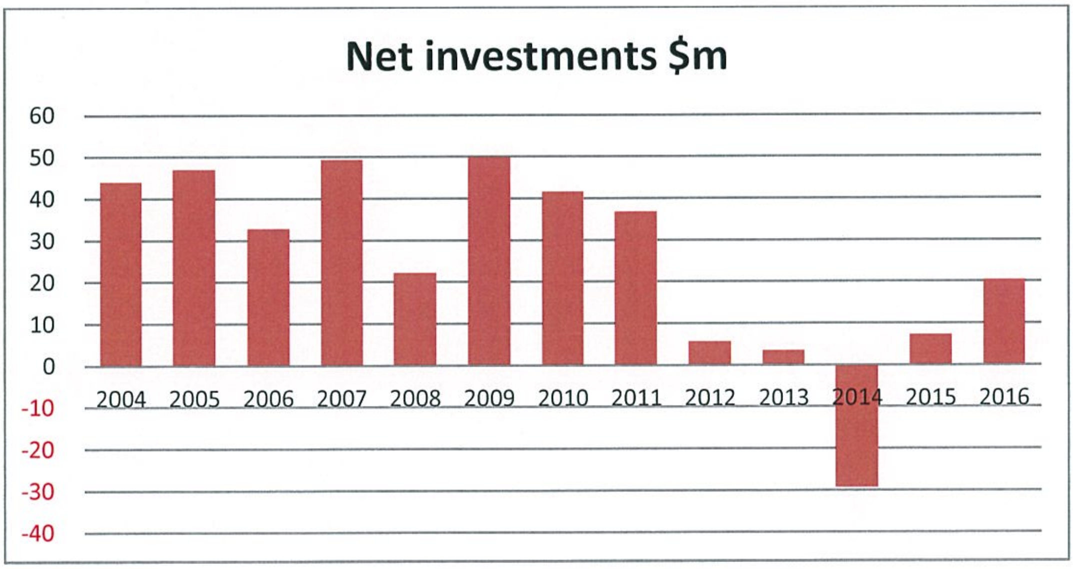
[9] ibid

[10] ibid



Loan repayments resulted in lower funds available for capex after 2011. In fact funds were negative in 2014 and 2016.

The source of funds mirrors the other side of the ledger, the net amount spent on capital (land buildings, plant and equipment). The following chart shows this[11].



This chart starkly reveals the lack of investment since 2011. The pickup in 2016 was largely due to the purchase of the Newstead pub which notably was principally funded by a third party loan rather than bank loans. The asset sell off in 2014 accounts for the large negative figure in that year. Those assets comprised tourist venues at Strahan (bought prior to 2003), Cradle Mountain and Freycinet following

[11] ibid

the walk out from the West Coast Wilderness Railway and the abandonment of the regional tourism strategy.

The pattern of investing from 2004 to 2011 averaged about $35 million per year. About $10 million was required for basic capital maintenance and replacements of existing assets. The balance was used to acquire additional assets. However the only new tourism asset was the belated $32 million Saffire complex at Coles Bay as mandated by the 2003 Deed. Existing tourism assets at Cradle Mountain and Freycinet were purchased, found to be very capital hungry and subsequently sold in 2014 when the cash tin ran dry. The other assets bought were pubs cherry picked because of high EGM losses and the 9/11 chain of bottleshops. The latter cost $40 million in 2007. EGM pubs added to the portfolio were the profitable EGM pubs Furners at Ulverstone and Mackey's Royal Hotel at Latrobe, both bought from the Goodstone Group in 2011 for a combined $33 million. The top performing Newstead pub was added to the stable in 2016. The 9/11 chain continued to expand in 2016 at the Hotel Federal, Wynyard with a new bottle dispensary.

That is how funds, other than those appropriated by shareholders, were dispersed.

4. Dividing the gaming spoils

The 2003 Joint House Public Accounts Committee (PAC) hearing into the arrangement with Federal Hotels was little more than a formality. The agreement with Federal Hotels, incorporated into changes to the Gaming Control Act 1993 had already been approved by the House of Assembly (but not the Upper House) and the committee was convened to ask a few soft questions about the fait accompli. Opposition leader Hidding raised concerns about the level of profits expected to accrue to Federal Hotels, *"well in excess of $1 billion"* were Mr Hidding's words, but it was a back-of-a-table-napkin figure, which he didn't pursue and everyone else was remarkably disinterested.

There is now much more publicly available information about how player losses are divided amongst the licence holder, venue operators and the government.

Losses from Keno and EGMs in pubs and clubs for 2016 are shown in the following table[12].

[12] Revenue from Tasmanian Liquor and Gaming Commission (Appendix D). Expenses from Federal Hotels Income Statements (Appendix B) and Tasmanian Liquor and Gaming Commission.(Appendix D)

Network gaming 2016

	EGMs $ m	Keno $ m	TOTAL $ m
Revenue			
Gross player losses	114.2	33.3	147.5
less GST	10.4	3.0	13.4
Net player losses	103.8	30.3	134.1
Expenses			
Commission	26.3	4.9	31.2
Taxation	29.6	1.9	31.5
Community service levy	4.5		4.5
Total expenses	60.4	6.8	67.2
Gross profit	43.4	23.5	66.9

Commission is the gross amount paid to third party owners (NB excluding pubs owned by Federal Hotels).This is before machine hire fees and promotions levies are paid back to Federal Hotels. The latter apply to both EGMs and Keno although the Keno fees are much less. The gross profit amount is what's left as Federal Hotels' share before its own wages and overheads (including the network running costs).

EGM player losses in 2016 were $114.2 million of which $36 million went to the government as taxes and CSL. The tax rate was 26% and the CSL 4%.

Keno losses in pubs and clubs in 2016 were $33.3 million, a quite remarkable 10% increase on the previous year. Government taxes are 6% of player losses, in this case only $1.9 m. This compares to EGM taxes and levies of 30%. Commission to Keno operators is also lower, 21% of losses compared to a 30% for EGMs.

There are approximately 60 Keno venues, mostly smaller pubs and clubs without EGMs, in addition to the 100 or so venues with EGMs.

The situation in casinos[13] is more straightforward:

[13] ibid

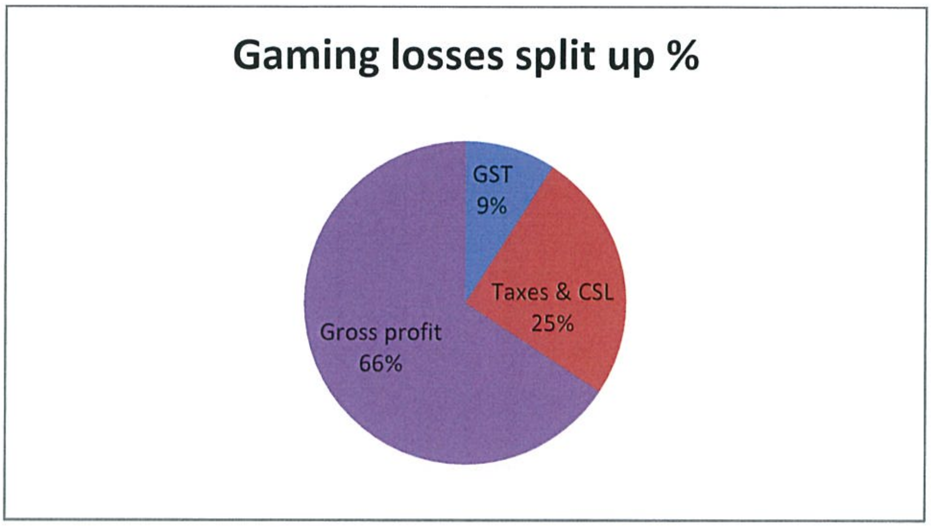
Casinos 2016	EGMs $ m	Keno $ m	Tables $ m	TOTAL $ m
Revenue				
Gross player losses	76.9	3.1	9.8	89.8
less GST	7.0	0.3	0.9	8.2
Net player losses	69.9	2.8	8.9	81.6
Expenses				
Taxation	19.8	0.2	3.7	23.7
Total expenses	19.8	0.2	3.7	23.7
Gross profit (before wages & o'heads)	50.1	2.6	5.2	57.9

Keno losses in casinos only account for 9% of State wide Keno losses. Casinos' share of EGM losses were 40%, $76.9 million compared to $114.2 million in pubs and clubs.EGM losses per machine in casinos are higher than the State wide average. The geographic spread of losses is covered in more detail in 5 below.

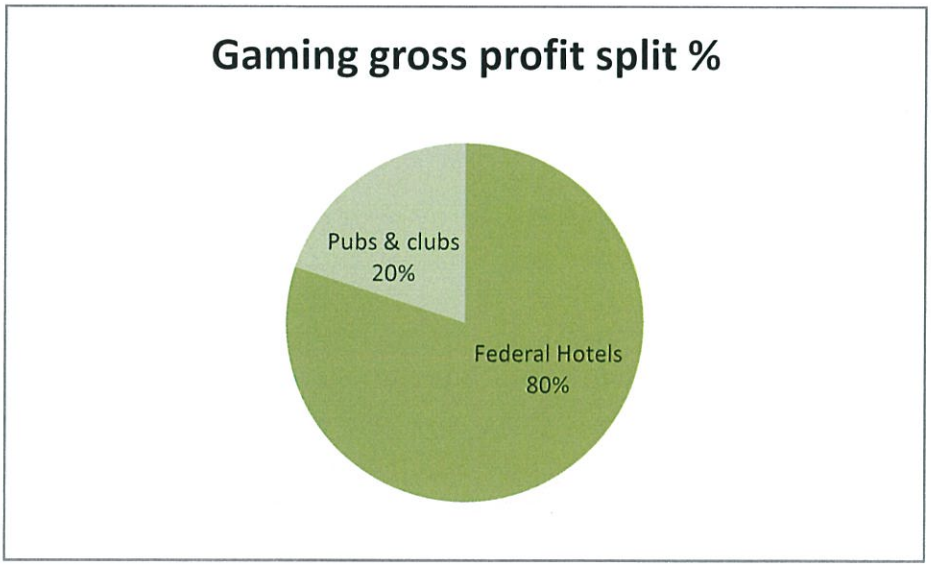
A summary of losses from the last two charts, showing the overall split for 2016 gaming losses between third party pubs and clubs, the government and Federal Hotels is as follows:

Player losses 2016 $m	
Total gambling revenue/player losses	237.3
Less disbursements	
GST	21.6
Gambling taxes	55.2
Community Service levy	4.5
Total disbursements	81.3
Gross profit	156.0

The split up is best shown here:

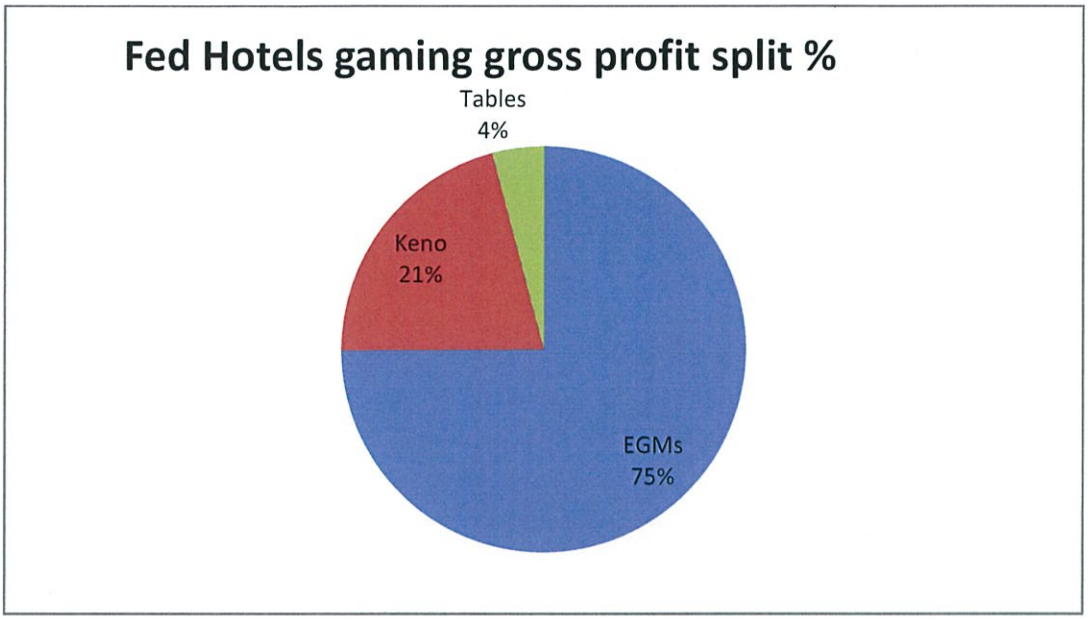


After direct costs taxes and levies, 66% or $156 million in 2016, was left to cover wages overheads and profits to Federal Hotels and other operators. The split between Federal Hotels and other venues looks like this:



Federal Hotels grabbed four times as much as third party pubs and clubs from the total gross profit pool.

The same split of gross profit between gaming types looks like this:



Keno surprisingly contributes 21% of Federal Hotels' gross profits from gaming. As we saw in section 3 above, Keno's historical average share of gambling losses is only 11%. Its relative share is increasing, commissions to venue operators are lower and the tax rate is one quarter of the EGM tax rate with no community service levy (CSL). Keno has thus become an important contributor to Federal Hotel's bottom line

5. Losses by geographic location

The Tasmanian Liquor and Gaming Commission TLGC publishes figures showing losses by venue grouped by local government area (LGA)[14], provided there are more than two venues in an area. LGAs with two or fewer venues are grouped and reported as 'other LGAs'[15]. The TLGC also provides an up to date list of the number of EGMs in each venue. An estimated ranking of venues by player losses on a decile basis is also included. The 10% of venues with the most EGM tragics is given a 1 rating, the next 10% a 2 rating and so on.

The following graph displays the losses per EGM per LGA. Hobart and Launceston losses exclude the two casinos. Casino losses ($61,568 per EGM) grouped together, are third largest after Glenorchy ($79,193) and Burnie ($66,455). The venues grouped in 'other LGAs' are listed in Appendix A.

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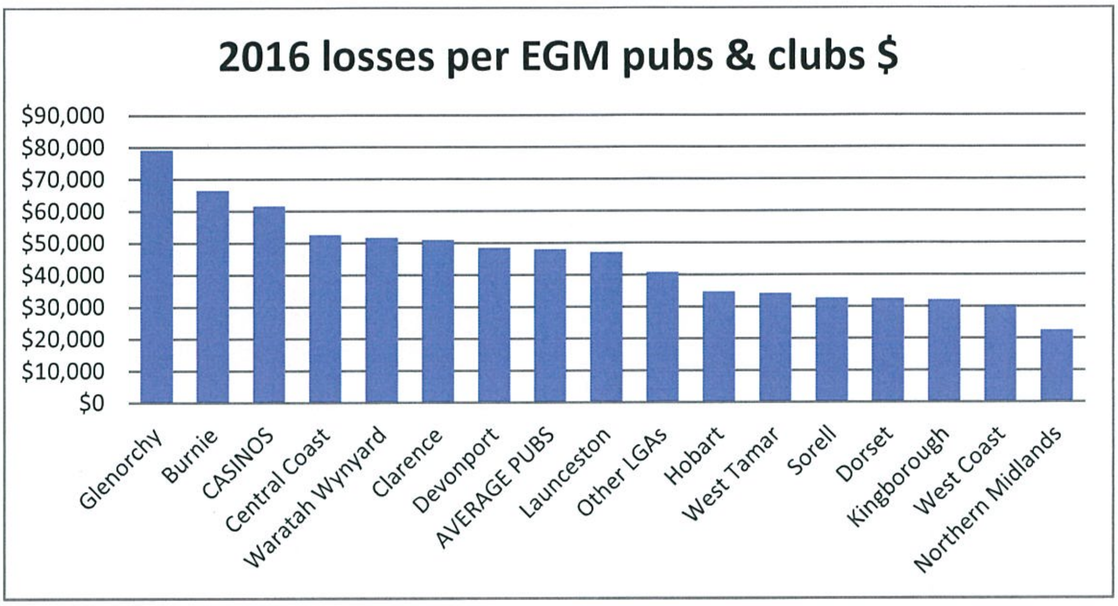
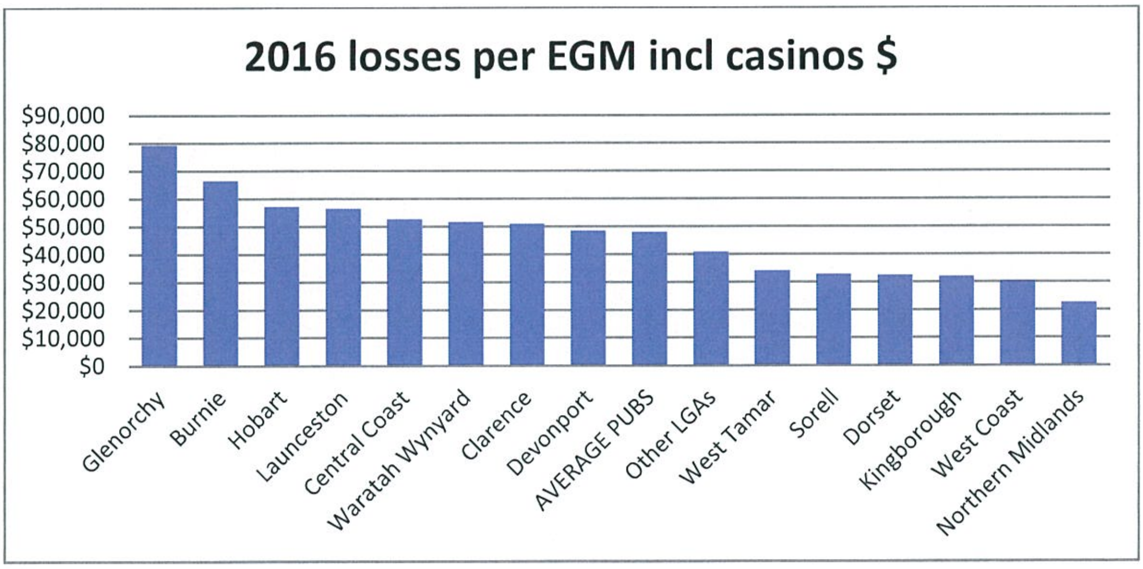
[14] See Appendix A.

[15] Appendix A has a list of venues grouped in 'other LGAs'.



If EGM losses from casinos are reallocated to Hobart and Launceston based on the EGM numbers in each venue, Hobart makes its way onto the podium just ahead of Launceston, both with losses of over $50,000 per EGM, behind the irrepressible punters in Glenorchy and the perennial silver medalist Burnie. The following chart shows the details:



The average losses per EGM machine across all pubs and clubs for 2016 was $47,956. The most ardent punters are in Glenorchy where losses per machine were $79,193. Northern Midlands brought up the rear with losses of only $22,583 per machine.

Glenorchy highlights the excesses of current arrangements. The $ figures are for 2016.

EGMs in Glenorchy LGA 2016

Venue	Group	Decile rank	No machines
Elwick Hotel	Federal	1	30
Claremont Hotel Motel	Federal	1	30
Club Hotel Glenorchy	Prescott	1	30
Hotel Valern	Federal	1	30
Granada Tavern	ALH	1	30
Brooker Inn	Federal	3	30
Carlyle Hotel	ALH	4	30
Cooleys Hotel	Kalis	5	30
Glenorchy RSL		8	30
TOTAL			**270**

Municipality losses	$21,380,000
Venue losses (average)	$2,375,778

Five out of eight of the State's top decile performers are in Glenorchy. Eight of nine Glenorchy venues are held by groups[16] with multiple establishments, with four of Federal Hotels' twelve pokie pubs located here. It is an astonishing haul for venues particularly when the underlying investment in EGM facilities is comparatively small. EGMs are supplied by Federal Hotels. All that is needed is to tart up a room and provide electricity.

Average losses are high but what happens at the margin emphasises how lucrative gaming can be. There are some fixed costs, the provision of a gaming room and the supply of machines, and network services supplied by Federal Hotels' Network Gaming arm. But there are few variable costs apart from taxes and CSLs totaling 30% paid to government, plus wages of gaming staff. Once fixed costs are covered it's what happens at the margin which is of utmost importance for policy makers. For every extra $1 left behind by players:

- The State government gets 30 cents
- The venue gets 30 cents
- Federal Hotels as licencee gets 31 cents
- GST is 9 cents

[16] Groups exist via ownership and/or operational links. See Appendix A. Details obtained from the public record, including media stories where a hotel might belong to a group with multiple EGM sites.

Therefore if Federal Hotels owns the pub it gets 61 cents. There are four such pubs in Glenorchy.

Given the low level of variable costs, which as a percentage of turnover declines even further with increased EGM activity, a tax regime that incorporated increasing marginal rates would be sensible public policy.

Federal Hotels with twelve EGM pubs or 15% of EGMs outside casinos manage to corner about 23% of losses. There are other groups with multiple sites who own and/or operate a further 50% of EGMs. Overall 80% of EGM losses are estimated to occur in venues owned and/or operated by a few groups with multiple sites (including Federal Hotels).[17] The ACIL Allen Consulting report to government on gambling[18] found " *...in 2014 there were 88 gaming hotel owners who owned one venue, accounting for 88 per cent of owners*." This gives a misleading impression.

A single site owner-operator offering EGM facilities as a mere add-on to other leisure activities demanded by patrons is not representative of what happens outside casino walls. The bulk of EGM revenue accrues to sites with multiple owners.

6. Profits and super profits

Normal profits in any industry are the minimum reward required by an owner to keep operating. In the hotel game revenue comes from various sources: accommodation, food, bottleshops, bars and gaming. Each has an underlying set of costs which determine the net profit in each area. Gaming is operated in establishments in tandem with food and bar offerings. It's a complementary product according to the hotel industry.

Yet returns from each area currently vary markedly. When assessing the rental value of a hotel an accepted rule of thumb derives an overall figure by applying a percentage figure to the turnover in each area. The rental value of a hotel is a good estimate of the return an owner would expect if he/she leased his/her establishment. When calculating a rental figure, the percentage factor in the case of bars is 10% of bar turnover and for gaming 25% of net gaming revenue (commission less EGM hire). Prima facie this suggests gaming is more profitable than bar operations. Bottleshops on the other hand have a rental value equal to 5% of turnover.

In addition to the rental return an operator would expect to earn say 13% on other assets employed, stock working capital etc.

[17] Summary of EGM numbers by groups included in Appendix A.

[18] http://www.treasury.tas.gov.au/domino/dtf/dtf.nsf/LookupFiles/20150109SEISVolume1FINAL.PDF/$file/20150109SEISVolume1FINAL.PDF Volume 1 page 27.

Where overall returns exceed 13% on all assets i.e. land buildings plant and working capital, super profits probably exist. In the case of gaming in pubs and clubs, there's not a lot of assets employed by the owner/operator. The machines are hired so they don't count in a rate of return calculation.

Standard economic theory suggests competitive markets will quickly eliminate super profits. New entrants will offer to provide the same service while earning a lower profit, driving prices down as a result. But there are so many exceptions to the theory in today's regulated world. One group of exceptions covers government licences and permits where caps apply. Free to air TV licences, broadband spectrum licences, fishing licences, the list is endless. Gaming licences fall into this category. That's why, in Tasmania, when EGM venues change hands or are leased, EGM turnover is much more valuable than bar or bottleshop turnover.

The public policy decision is between selling the license(s) for a lump sum and/or using taxes to remove the super profits each year.

7. Pubs & clubs EGM profits

First a quick overview of the arrangements governing EGMs in pubs and clubs.

Pubs and clubs hire EGMs from Federal Hotels which monitors and reports pursuant to the sole licence. The system records and reports each transaction on each EGM. The system can report the average daily loss on any machine anywhere in the State at any time. It's like a giant intensive care facility or perhaps more accurately a huge Red Cross blood donation amenity. Average losses in pubs and clubs per EGM as noted in section 5 above were $48,000 pa or $130 per day per machine. EGMs receiving less than $80 per day are sent for counselling or replaced. Above $200 per day EGMs are treated with respect (NB the Glenorchy average is $217). Above $300 per day respect becomes reverence. Federal Hotels continually updates EGMs. It's an easy arrangement for venues, which neither install nor finance EGMs. It's all done by Federal Hotels via its Network Gaming arm. No doubt Federal Hotels pay special attention to their own pubs but all the good performers get treated well. The hire figure for each EGM is calculated when old and non-performing machines are replaced with brand new spankers better designed to beguile. Venues pay the cost of EGMs plus interest over 5 years by way of a monthly hire fee. Hire fees on new machines are about $100 per week, $5,200 pa or about $26,000 over the term of 5 years. Hire fees on older machines part way through their 5 year terms are less. Some loyal and lucrative EGMs survive beyond the expiration of the initial 5 year payback arrangement with no monthly hire fee. A venue's EGMs will therefore consist of EGMs with varying hire arrangements. The average hire fee across all EGMs is approximately $4,000 per annum. At any point the average amount owing by venues on an EGM would be at least $10,000. A 30 EGM venue would have machines with almost $300,000 still owing. Not by the venue itself, as it only hires the EGMs from Federal Hotels and pays a monthly hire fee which Federal Hotels then remits to its finance company. The lease liabilities appear on Federal Hotels' balance sheet and are in addition to borrowings discussed in Section 3 above. At 30th June 2016 Federal Hotels had a lease liability of $38 million.

To reiterate, all gaming income accrues to the sole licence holder, Federal Hotels. Third party pubs and clubs receive a commission, 30% of player losses. They in turn pay some back to Federal Hotels for hire of machines and a promotions levy. In practice all losses are banked into a dedicated account, Federal Hotels extracts 70% of the losses plus hire fees and promotions levies. The balance left in the bank account is the net commission income to the venue.

In section 4 above EGM commission to third party pubs and clubs was estimated to be $26.3 million for 2015. With 2,015 EGMs in third party pubs and clubs, hire fees and promotions levies total approximately $8.5 million. These are fixed costs to each venue. The wage costs for venue operators which are variable, are similar to the costs of operating bars, about 22% of commission revenue, say about $6 million, which leaves gross profits of $11.8 million, around 40% of commission revenue.

Compare this to bars. With bar sales of $26.3 million, the cost of sales would be similar to EGM costs at 30% or $7.9 million. But these are strictly variable costs compared to fixed EGM hire costs. Wage costs are similarly variable as already noted, about 22% or $6 million. The gross profit for bars in this example would be $12.4 million.

Hence comparing bar returns with gaming returns for venues operating under current licence arrangements, a similar level of revenue gives similar gross profits after direct costs. But this conclusion is a comparison of averages. On the margin it is different. Once fixed costs are covered the marginal direct costs of operating gaming are mostly wages, say 22%. There will be a few other variable cost say cleaning and electricity, but all up the marginal costs would be no more than 30%. But in the case of bars the cost of grog dispensed of 30%, together with similar wages and other direct costs for gaming give marginal costs of 60%.

At the margin, gaming is twice as profitable for a hotel venue as the bar trade.

Another difference between the two operations is arguably that bars require a higher level of investment in facilities. In the case of gaming EGMs are hired. Little else is needed. Compare this to the capital expenditure needed to fit out a bar, which is considerably more than for a gaming room.

It was noted in Section 6 above the industry rule of thumb for calculating the rental value of a hotel business is to apply a figure of 10% for bar revenue and 25% for net gaming income (commission less EGM hire). Rules of thumb are usually based on perceived averages and don't always make logical sense when applied universally. At some point however, $1 of gambling revenue must add 2 ½ times more to the bottom line than $1 of bar sales. The rule doesn't apply across the board. Given the fixed cost components in gambling costs, at lower levels of turnover, gambling may be less profitable than bar operations but at higher levels gambling will be more profitable.

Why should gambling returns be so much more than returns from bar operations if it just another product demanded by hotel customers?

Increased taxes would bring the overall returns into line but a system of stepped tax rates would be a better policy option to remove the super profits from the large turnover venues, increasingly dominated by groups with multiple sites.

8. Federal Hotels EGM profits

We have just seen how EGM commission of $26.3 million was paid to third party pubs and clubs. They ended up with gross profit of $11.8 million after EGM hire fees, promotions levies and wages for gaming staff.

The balance of gaming losses goes to Federal Hotels, either from its own pubs, the casinos or from Network Gaming. The situation is as follows:

Federal Hotels EGM profits 2016

Revenue	
Gross player losses	191.1
less GST	17.4
Net player losses	173.7
Less taxes & commissions	
Commission to other pubs	26.3
Gambling taxes	49.4
Community service levy	4.5
Total taxes & commissions	80.2
Gross contribution	93.5
Less other direct costs	
Wages pubs EGMs only	1.6
Wages casinos EGMs only	15.4
Machine leases	7.0
Total other direct	24.0

Gross profit from EGMs	69.5
Split:	
Pubs (12)	4.7
Casinos	29.2
Network gaming	35.6
	69.5
After network and monitoring costs	
Split:	
Pubs (12)	4.7
Casinos	24.9
Network gaming	27.9
	57.4

Overall gross profit from EGMs (Federal Hotels plus the pubs and clubs) amounted to $69.5 million on turnover (losses after GST) of $173.7 million. That's gross profit of about 40% with few overheads to follow, not dissimilar to bar operations. But as we've noted above the nature of the costs are different. Once fixed costs are covered the lower level of variable costs and subsequent overheads ensures EGMs make a very profitable return with fewer facilities than bars.

Federal Hotels has expanded its bottle shop operations greatly since 2004. The equivalent gross profit figure we have discussed above for bottleshops would be 10% to 13%. Federal Hotels' 9/11 bottleshop operations would certainly be at the upper end. That's only one third of the margins available to EGM operations.

Perhaps bottleshop margins should be the benchmark for EGM gaming if it is to persist outside casinos?

9. Other gaming profits

As shown in section 2, Keno has grabbed a larger share of the declining gambling dollar. Losses almost doubled from 2003 to 2016. Commissions to third party operators are lower than for EGMs. There are about 160 Keno venues in total, including about 60 who run Keno but not EGMs, plus the two casinos. Tax on Keno is also considerably lower (6% of losses compared to 30% for EGMs including CSL). After tax and commissions to venue operators, Federal Hotels ended up with an estimated $26.1 million from Keno in 2016.

Federal Hotels Keno profits 2016

Revenue	
Gross player losses	36.4
less GST	3.3
Net player losses	33.1
Less taxes & commissions	
Commission to other pubs	4.9
Gambling taxes	2.1
Total taxes & commissions	7.0
Gross contribution	26.1

Venues also pay Keno machine hire fees and promotions levies of about $5,000 per venue per year to Federal Hotels which presumably compensates Federal Hotels for these outlays.

There are of course associated wages and overheads for Network Gaming to run Keno. It is believed a licence fee is also payable to the owners of the Keno game. It is not unreasonable however to estimate net earnings from Keno of at least $15 million.

The financial aspects of Federal Hotel's table gaming doesn't warrant much discussion. Gross income after taxes and licence fees was only $6 million in 2015, and after wages and other direct costs as per EGMs above, probably not much above zero. Taxes here includes casino licence fees of about $3.5 million plus a small tax on player losses of just under 1%.

10. Federal Hotels promises and outcomes

When David Walsh sought a variation of the sole licence so that MONA could build the State's third casino, Federal Hotels seized the opportunity to ask for an extension of its sole licence so it could proceed with spending $100 million on three projects: refurbishing Wrest Point, spending a bit on the Country Club Casino in Launceston and building another up market accommodation place at Port Arthur.

Even seasoned observers were stunned by this extraordinary display of chutzpah. It was a deja vu moment.

Federal Hotels' CEO opening words at the Public Accounts[19] hearing on 16th July 2003 set out Federal Hotels plans at the time:

*"Very clearly, from the company's perspective, we saw that for the company to give us essentially the opportunity to continue with the expansion of gaming in Tasmania over the next number of years was something that would require a quid pro quo. We saw that quid pro quo in a sense being a longer term of licence being negotiated by way of this new agreement, **which would then provide the company with a greater level of certainty which, in a sense, would assist in underwriting its significant tourism investment strategy in Tasmania, which no doubt is something we are fully committed to...**" (emphasis added)*

And then there was this:

"We also saw then the potential for Federal Hotels & Resorts to create a significant new business both in tourism and also in activity-based tourism with the West Coast Wilderness Railway and the Gordon River cruises and potentially a cruise operation on the east coast.

I think there is absolutely no doubt that the current Government of the State also saw that the level of significant commitment that Federal Hotels & Resorts had made to Tasmania was one that seen as being a sign of a high level of the commitment by the company to the State and its investments. I am sure that it did no harm to the company taking it to the negotiating table."

Followed by this:

"....... we believe that the agreement as negotiated provides a balance between the company's and the State's social responsibilities, a significant ability and level of reinvestment in the State and the creation of jobs and infrastructure as well as a socially responsible cap on the number of gaming units, not just in the State in 2003 but in the State in 20 years' time."

And then this:

"Business, as you well know, is based on maintaining, in our view, long-term sustainable, successful relationships and is about creating complementary outcomes. By and large, businesses that rip off their customers or their suppliers, or the Government or whatever may well reap benefits in the short term but it rarely ever will be successful in the long term. Our whole business modus operandi is to be a sustainable, successful business."

The matter of Federal Hotels acquiring hotels to compete with other venue operators was raised at the PAC hearing:

"We may well acquire further hotels in Tasmania that have gaming machines and if we do that we will stand in the market..."

Q "How many hotels would you like to own?

"Another one or two - I won't tell you which ones."

[19] Inquiry by Parliamentary Standing Committee of Public Accounts 16th July 2003

At the time it owned four hotels with EGMs. It now owns twelve. They are among twenty or so with the highest EGM patronage.

A business which didn't adapt to changing circumstances would not survive. That's a reasonable proposition. But Federal Hotels was granted an exclusive licence extension and as a quid pro quo undertook to proceed with a "*significant tourism investment strategy in Tasmania*". True, it invested as required at Coles Bay but the investment was 5 years late with only a fraction of the rooms and much less employment than promised. But most of the other capex was spent on existing land, buildings, brand names and goodwill of bottleshops and pokie pubs.

Buying existing assets is not investing from an economists' viewpoint. Unlike spending on new assets it doesn't add to existing infrastructure as promised.

Even if bottleshops and EGM pubs were new assets, they don't form part of tourism infrastructure. People don't come to Tasmania to patronise bottleshops and play the pokies. When Federal Hotels were pursuing a strategy that covered much of the State[20], its advertising and promotion had the effect of promoting tourism across the State. Even critics begrudgingly admitted that its advertisements had spill over benefits for the whole state. Whatever was good for Federal Hotels was good for Tasmania.

But its retreat from regional Tasmania has left Federal Hotels back in the peloton hanging off David Walsh's coattails like everyone else in the Hobart accommodation business.

Any attempt to link EGMs and Keno with the tourism industry should be resisted. For too long the tourism industry has acquiesced to Federal Hotel's dominant position in the industry because in part there were spill over benefits. After 2011 however reality struck Federal Hotels and its strategy changed with more emphasis on EGM pubs and much less on regional tourism.

As we saw in Section 3, 64% of Federal Hotels' earnings have been paid to shareholders as dividends, a total of $199 million over 13 years since 2004. The dividends are fully franked (they come as 'tax paid' dividends) which implies a return before tax to shareholders of $284 million, about $22 million per year.

No other capital intensive tourism business can afford to pay dividends that Federal Hotels does. Once fixed costs are covered, EGM profits are much higher than bar profits and considerably higher than bottleshop profits.

[20] The 2003 Joint Parliamentary Report refers to a condition of the Deed included in the original Act in 1993 that Federal Hotels were to "continue to spend at least $8 million a year promoting and marketing tourism." (See page 11). This clause or one with similar intent is absent from the 2003 Deed.

Either the house percentage is too high or taxes are too low, the latter point disputed by Federal Hotels' CEO at the 2003 PAC hearing:

"On the basis of taxes and licence fees there is absolutely no doubt in my mind that the Crown negotiated a very good outcome. ....there is no more blood to squeeze.....we have to try to weigh up against then(sic) moneys expended in taxes and licence fees against the ability of the company to meet its other objectives. One is that businesses must be sustainable and viable for the owners. ***They also must be able to meet and assist in providing the wherewithal to carry out our vision for the creation of new businesses, which is particularly relevant to our Tasmanian tourism investment strategy****."(Emphasis added)*

On any measure there's a fair gap between what Federal Hotels promised and what it has delivered. The creation of new businesses has failed to materialise. Gaming proceeds have been used to buy existing pokie pubs and bottleshops and to pay dividends.

Even the new MACq01 development touted as yet another contribution to tourism infrastructure is only a fit-out job. The building itself is being built by a third party.

Federal Hotels has squandered the opportunities offered by the 2003 agreement. "*Our whole business modus operandi is to be a sustainable, successful business*", said Federal Hotels' CEO in 2003. Successful maybe if judged by shareholder returns, but sustainable? Not in its current form based on evidence in the public domain. Not unless the government renews the licence with similar conditions? The promised spill over benefits from the 2003 arrangement has not flowed as expected.

11. Discussion & conclusions

Requesting government assistance to fund a makeover of existing gambling facilities is stretching the boundaries of sensible public policy.

If funds are needed to upgrade existing facilities they should be sourced from retained earnings, borrowings or shareholder contributions just like every other business. It shouldn't require another special deal. This is not a start up company that may require encouragement and/or kid gloves treatment. This is a major player in a mature industry competing with many others who aren't given the same advantages.

As for assisting new developments at Port Arthur, between $3 and $5 million a year is already given to the GBE[21] running the Port Arthur historic site and $15 million was recently splurged on the Three Peaks Tracks. How much more assistance is a

[21] Port Arthur Historic Site Management Authority a GBE established in 1987 to run the Port Arthur site. It receives government funding each year.

government supposed to give to encourage tourism ventures on the Tasman Peninsula?

Federal Hotels seems to have overlooked the logic underpinning the externality argument. Government assistance is given where wider spill over benefits are greater than the cost of assistance. A special deal is not required to build new tourism infrastructure at Port Arthur. I don't recall Rob Pennicott asking the punters of Glenorchy for assistance to extend his cruises to Tasman Island?

There is no argument in logic, equity, or economics, which supports the notion that super profits in a regulated industry like EGM gaming should accrue to one operator. Spreading the profits around a few more operators is no solution either.

Over time the government should seek to eliminate super profits from the industry and that may negate the need to seek market based solutions as to who should hold licences? Super sized returns have accrued to a select few to the relative disadvantage of all others in the industry and players participating. With continuing super profits those with the deepest pockets will gradually take over. This has been the pattern in the past. Most of the top EGM pubs are owned by well resourced groups.

One only has to look at pubs in Glenorchy. Much of their value results from the capitalised value of future misery and human failings. It should be the role of government to fix this problem.

It may mean increasing player returns or decreasing losses via increased harm mininimisation. The fall back position should be to divert excess profits into government coffers.

It's all very well for the government to say its policy position is that the rights to operate EGMs post 2023 will be allocated and priced by a market-based mechanism such as a tender. But the parameters which need to be set by government will determine the tender price. It's misleading to say we'll let the market decide when whatever the market does depends on what the government first decides. The government should decide the parameters which determine player losses, and then decide how much it will appropriate for itself. Let there be no more talk about a CSL payable on losses in pubs and clubs only. Why it ever only applied to losses in pubs and clubs defied logic. Let's just talk about a gambling tax.

The next problem is to determine a reasonable rate of return for venues and operators. Fortunately the current licence has a sunset clause so everyone is well aware that any investment decision made to date has been in full knowledge that the licence may expire in 2023. In other words a reasonable rate of return post 2023 doesn't depend on not what a venue might have spent in the past only what is a reasonable amount in the circumstances.

Electricity transmission and distribution companies, like Tas Networks, have regulated prices which allow returns of about 6% on the assessed value of their assets, their regulated asset bases, not on what the assets may have cost.

Some pokie pubs have managed to recoup their entire EGM investment in the space of a few months. Why should the EGM industry be treated so favourably vis à vis other regulated industries? Even if one ignores the harm, the social costs or the negative externalities which are shifted onto the community?

The market will then work out how much is left over and if there are profits to be made the right to future gambling proceeds may have value.

The government can put the gaming rights out to tender and receives a lump sum up front, plus presumably, some tax each year. In order to give potential licence holders enough certainty for them to place a value on a licence, a government will need to lay down certain specifications, one important one being a lengthy licence term. The government then surrenders an element of control. Over time consumers will probably pay higher prices, meaning in the case of EGMs, players will incur greater losses, because of specifications and regulations needed to ensure the licence holder makes a return over the agreed term. Chopping and changing midstream always invokes cries of sovereign risk. However consumers will probably bear a heavier burden over the term of the licence because the licence holder will be given every chance to make a return on his outlay.

Alternatively government can decide to rake off super profit each year via taxes. Altering tax rates every year might lead to too much uncertainty but if it were done say every five years as the Australian Energy Regulator does with electricity transmission and distribution charges, it would achieve the same result returning excess profits to Treasury regularly instead of via one up front payment.

One feature we observed in section 7 and 8 above was that compared to bars gaming has a lower level of variable costs. Compared to bottleshops even more so. This means that once fixed costs such as machine costs and network fees are covered, a big chunk of player losses ends up on the bottom line of either Federal Hotels or venue operators.

Let's just revisit EGMs from a different angle, looking at the overall picture. Venues pay machine hire, a fixed cost. Also wages roughly 20% of the 30% commission they receive which amounts to say 7% of player losses[22]. Federal Hotels via Network Gaming pays for network administration, reporting and monitoring which are

[22] Gaming employment (licensed persons) of 3,000+ was reported by ACIL Allen Consulting. This is misleading. For example front of house direct wages for EGMs in pubs and clubs less than $10 million, say 200 FTEs. See page 116 Vol 1 http://www.treasury.tas.gov.au/domino/dtf/dtf.nsf/LookupFiles/20150109SEISVolume1FINAL.PDF/$file/20150109SEISVolume1FINAL.PDF

essentially fixed costs. Taxes and CSL of 30% comprise the bulk of variable costs. Variable costs in bars are 55% to 60% and in bottleshops 85% to 90%.This is why above average EGM venues are very profitable.

To repeat the point made in section 5. It's what happens at the margin which is of utmost importance for policy makers. For every extra $1 left behind by players:

- The State government gets 30 cents
- The venue gets 30 cents
- Federal Hotels as licencee gets 31 cents
- GST payable is 9 cents

Therefore if Federal Hotels owns the pub it gets 61 cents after GST. A taxing regime needs to recognize this phenomenon.

Currently less than average EGM turnover will cover fixed costs and leave an operator with normal returns.

Above that the returns are excessive. In the case of a pub venue the marginal costs are mainly wages and these probably decline with increased turnover. For Network Gaming marginal costs would be close to zero. This is why a system of stepped tax rates makes public policy sense.

A three step system of EGM taxes can take into account the cost components confronting operators and would make the system fairer.

Compare a lower performing EGM in a pub, say losses of $25,000 per year with a top performer, say $80,000 or three times. The net commission return to the latter after machine hire (fixed) and gaming staff wages (variable) is eight times.

Little wonder EGMs in certain locations are highly sought after. EGMs currently provide attractive economies of scale.

The same applies to Network Gaming. It experiences significant economies of scale due to very low or zero marginal costs.

It seems a little perverse that in an area of public policy which carries so much social risk, the current EGM tax system does not recognize cost structure of the gaming industry which allows excess profits once average turnover are achieved.

The effect of tax scales as they apply to wage and salary income may assist in understanding the rationale of stepped tax rates. An individual earning $80,000 per annum, four times that of a $20,000 earner, will take home just over three times as much. Progressive taxes via stepped rates are considered equitable.

It must be remembered there have been stepped tax systems for EGMs in the past. The current tax rate is a flat 30%[23]. Let's look at a system where the first $5,000 of annual losses per EGM is tax free. From $5,000 to $40,000 the rate is 35% and above 70%. Let's focus on the tax for a 10th decile performer (the bottom 10%), the average EGM at $48,000 pa and a top performer at $80,000 pa .

	Losses $25k pa	Losses $48k pa	Losses $80k pa
Existing tax $	$7,500	$14,400	$24,000
Proposed tax $	$7,000	$17,850	$40,250

Not much difference for the bottom 10% or even the average EGM. The top performer would see a large increase in tax from $24,000 to $40,250 per EGM per year. In total the proposal would only see an estimated $13 million extra taken as taxes, assuming parameter changes didn't eliminate the super profits before the extra tax bite. Average pubs showing little change would easily survive. The above average pubs would also survive. Facing the same level of fixed and variable costs, if the lesser pubs can survive so too can the larger ones. Any surplus after taxes can be easily split between the licence owner and the operator. A 50:50 split would see everyone in a sustainable position even with an extra chunk taken out of the system via extra taxes. Such is the level of profits in the current system.

The split up of the pie would look like this, comparing the existing situation with the same three varying levels of EGM losses as the previous table. It only relates to pubs and clubs. The percentage figures shown are the average percentages for each particular level of losses.

	Existing	Proposed		
		Losses $25k pa	Losses $48k pa	Losses $80k pa
GST %	9.1	9.1	9.1	9.1
Gambling taxes %	30.0	28.0	37.2	50.3
Commission to pubs %	30.0	31.5	26.9	20.3
Federal Hotels %	30.9	31.5	26.9	20.3
Total %	100.0	100.0	100.0	100.0

[23] Includes 4% Community Service Levy (CSL)

At the average level and below there is not a great change, but at the top end, one third has been removed from commissions and amounts retained by Federal Hotels. If parameter changes to EGMs don't remove the excesses then taxes will.

Arguably it may be better to continue with the current arrangement of one licencee, whether or not that is Federal Hotels if gambling is to continue outside casinos. However a reduction in the size of the gambling pie and different split arrangements so that venue and licence operators get reasonable, but not usurious rates of return would be sound public policy.

If the same rate applied to casinos an extra $13 million would be diverted to government coffers. Removing the casino CSL concession comprises $3 million of that figure.

Whatever is finally chosen for EGMs in pubs and clubs, it's difficult to see why the same shouldn't apply to EGMs in casinos.

The government's first guiding principle *"is that gambling is a lawful form of entertainment for many Tasmanians, and a wide range of gaming products should be available to consumers that are fair, and which provide an acceptable average return to players."* Whether that means 'fair' in comparison to gambling in other States or 'fair' compared to other regulated industries like say electricity, is unclear. If gambling is just another product as proponents claim, then the latter view should prevail.

One big advantage from a public policy viewpoint of the current sole licence arrangement is that there is only one entity for the community/government to deal with. If a licence went out to tender or if licences were granted at the venue level, the government would create a much larger group of interested parties all wanting to clip the ticket. Creating a new series of licences could compound future problems.

Any move to shift license to the individual pub level, may require the venue operator to finance his/her machines. Currently Federal Hotels does this. The average amount owing on machine leases in a 30 EGM venue at any time would be approximately $300,000. Smaller operators may struggle to arrange finance particularly clubs. This has been one advantage of having a sole licence holder who also finances the machines. Having a sole licence has also made the EGM system easier to monitor and control especially with the sunset clause allowing the community to be the ultimate controller. Moving to a system with say two licence holders instead of one wouldn't present problems but any transition to a system where all venues were licence holders and machine owners would present transitional difficulties and would no doubt permit the better resourced groups to continue their expansion plans. The needs of the smaller operators with one site are probably best served with an arrangement similar to the current system where machines are hired from the license owner. A second licence holder may have the flexibility to allow venue operators to own their machines.

Financiers and investors attracted by the lure of licences to trade would worsen problems in such a sensitive area of social policy. Currently the government and community are still ultimately in control with a sunset clause

It's probably just an accident of history but in 2003 when EGM tax rates increased, Keno rates stayed the same. Keno was always just a sideshow and few took much notice. With Keno's increasing share of the declining gambling revenue and with lesser commission rates and a tax rate one-fifth that of EGMs, Keno has become quite a nice little earner for Federal Hotels.

There is no prima facie reason why Keno tax and commission rates should be so much lower than for EGMs.

There is also no reason why EGM and Keno licences can't be unbundled and treated differently. Keno appears to be a relatively straightforward operation producing plenty of super profits and of less community concern. Without tweaking the house percentage the community might welcome a chance to grab the super profits from Keno via taxes. Just raising the rate to the same as the current EGM rate would net $8 million pa.

Conventional wisdom has it that governments are addicted to gaming revenue. And maybe some are.

For Tasmania however gaming taxes only account for 1% of general government revenue. If changes to the gaming industry result in less tax the pain to the government would be negligible. The operators are the ones more likely to exhibit signs of addiction.

Table gaming may form part of tourism infrastructure, but EGMs whether in casinos or pubs, don't. The losses per machine statistics in 5 above provide the tentative conclusion the local trade is the dominant source of player losses for EGMs in casinos. Without casinos being reallocated to Hobart and Launceston, the losses in each of those two LGA areas seems oddly low. It is therefore a little difficult to work out why they should be treated any differently than EGMs in pubs and clubs.

Why are EGM casino losses taxed at a lower rate than other EGMs with the 4% CSL only applying outside casinos? Whatever is decided for EGMs in pubs and clubs should also apply to EGMs in casinos.

There is a unique opportunity to change the EGM landscape. All participants, from the licence holder to venue operators have more than recouped their original investment, in most cases many times over.

Those who have bought in since EGMs started in pubs did so in the full knowledge that the licence arrangement may expire in 2023. There are no grounds to argue against change on the basis investors need certainty and protection from unexpected policy shifts. The hoary old sovereign risk argument has no application.

There is occasional talk that gaming needs to have a competitive tax regime and long term secure arrangements.

Returns to gaming don't have to be higher than other areas of hospitality. There is no fear that lowering returns to gaming will cause an interstate flight of capital.

There is not a shortage of funds wishing to invest in the other hotel operations, in accommodation, food, bars and bottleshops.

The Government's ministerial statement on gaming in March 2016 contained five guiding principles. The government's fifth guiding principle "*that the duration of a gaming licence should be commensurate with, among other things, the level of investment necessary to underpin the delivery of the gaming operation*", is also redundant in the case of EGMs in pubs.

Further investment in EGM facilities, if indeed it is required, doesn't need government assistance in any form, and to the extent that capital maintenance is needed, that can be adequately funded from normal returns that apply to everyone else in the hospitality industry.

The third principle stated "the *financial rewards from the gaming industry should be shared appropriately among the industry, players and Government representing the community".*

Furthermore:

"The Government's third policy position on hotel and club EGMs is that the tax rate and licence fees for these machines are to be reviewed with a view to ensuring that returns to players, the licenced entity (or entities), venues and the community via the Government are appropriate and reflective of the broader Australian market. Our starting proposition is that the returns to hotels and clubs, and the community, should be at least in the same position they are today".

The term 'appropriate' is unambiguous although subjective. But if the term 'reflective of the broader Australian market" means our punters have to cop whatever punters in other States have to endure, that may conflict with the requirement for 'appropriate' returns.

But exactly why should a regulated return on one product offered by the hospitality industry attract a higher rate that those activities subject to the free market?

Federal Hotels' CEO in 2003 distanced himself from "*businesses that rip off their customers*". In answer to another question as to whether it was appropriate for Federal Hotels to operate venues as well as being the sole licence holder unlike other States, the reply was *"I can see no reason why Tasmania would just need to adopt what has been passed in other States for any sort of legislation unless there was a fit and proper reason for it…".*

That is an eminently reasonable proposition.

Why should Tasmania adopt the practices of other State unless there was a fit a proper reason for it? Why shouldn't Tasmanians decide an appropriate size and split of the gambling pie without the need to follow other States?

12. Other observations

Following the brief media firestorm much of it directed at Federal Hotels after it sought to use MONA's expression of interest in obtaining a casino licence as a pretext to extend its own licence, Federal Hotels attempted to correct the public record for a few alleged untruths peddled by EGM opponents. The CEO's address[24] in December 2015 was one such occasion unfortunately included a few untruths of his own:

"Overall, payments from our company account for eight percent of all State Government revenue. These payments have allowed Tasmanian Governments over that period to invest in major services for the Tasmanian community such as hospitals, schools and roads."

This is untrue. State revenue is over $5 billion per year. Gaming revenue represents about 1%. Federal Hotel's payroll tax and land tax adds another 0.2 %. In total it's nowhere near 8%. Even the $ figures quoted were incorrect:

"Since July 2003 Federal Group has paid the Tasmanian Government over one billion dollars in taxes and licence fees…"

[24] See speech by Federal Hotels' CEO 1st December 2015 http://www.examiner.com.au/story/3531879/casino-boss-denies-government-held-to-ransom/?cs=95

At the time of the address gaming taxes and licence fees over the period were about $650 million.[25] The CEO may have misread his own figures which include commission to third party pubs with government taxes and licence fees[26]? Payroll taxes, land taxes and CSLs may have added another $100 million for the period, but the total is well shy of $1 billion.

In any event a majority of people are uncomfortable with the underlying premise of the assertion that we should be grateful to Federal Hotels for arranging to assist the State to extract money from a portion of the population who can't afford to but probably pay more State taxes than the rest of us.

In setting tax rates for the gaming industry there's a need to remember that gaming taxes are inequitable as they fall on a small segment of the population. They worsen the inequity of our current system of State taxes. EGM taxes aren't supposed to be 'sin taxes', as with cigarettes for instance, which are set with the alleged aim of discouraging harmful practices. This leads to the sound premise, from an equity viewpoint, that adjusting parameters to lessen super profits is preferable to increasing taxes.

However the secondary argument from a public policy perspective is that increased taxes are preferable to allowing super profits to accrue to private operators.

Federal Hotels remits as much GST to government as it does gaming taxes. That's what businesses do. Most are tax collectors not benefactors. The burden of GST and gaming taxes falls on the final consumer not the entity entrusted with collection and remittance. Paying taxes in full and on time is what ninety five percent of the population does. It shouldn't require public acclaim or a quid pro quo handout.

Federal Hotels has been quite a remarkable survivor in the sense that it has experienced an unprecedented degree of stability at the director and shareholder level. It is of some relevance, but by no means the most crucial consideration, to know what the future holds at the director/shareholder level. It is highly likely the current owners stand a better chance than anyone else of securing another favourable deal for the post 2023 future. But what is to stop them immediately selling the licence and cashing in the capitalised value of future super profits and riding off into the sunset? That's why it may be preferable for gaming super profits to be gradually squeezed out of the system, or if they persist, to accrue to government and the community instead?

[25] See Appendix D.

[26] Licence fees as per income statement in Appendix C includes commissions to third party pubs and clubs.

In the early days, EGM operators were harm denialists. The latest PR approach is to make some concessions, as Federals' CEO did in his December 2015 speech[27]:

"To put things in perspective, we know that the social and economic costs of gambling are significantly lower than the costs of other issues like alcohol, tobacco and obesity in our community."

A plea in mitigation almost?

Online gambling is also taking some attention away from EGMs. But as Monash University Public Health expert Charles Livingstone said[28] in response to recent gambling statistics showing a phenomenal growth in sports betting losses:

".. the 600-pound gorilla of Australian gambling is still the pokies: $12 billion in losses per year, and still growing, year after year. If we're worried by sports betting, we should be 13 times more worried about the pokies."

[27] ibid

[28] See The Age 23rd August 2016 "Punters lose $23b in a year."

APPENDIX A : EGMs by LGA & Groups (excl casinos) 30th June 2016

LGA	Rank[29]	Pub	Group[30]	No EGMs[31]
Break O'Day	6	Bayside Inn	EBC	30
	10	St Helens RSL		15
				45
Brighton	2	Derwent Tavern	Federal	30
	3	Brighton Hotel	Prescott/Hibbert	30
				60
Burnie	1	Top of the Town Hotel Motel		30
	2	Beach Hotel		30
	5	Regent Hotel Burnie		30
	8	Comfort Hotel Burnie	Dixon	20
				110
Central Coast	2	Furner's Hotel	Federal	30
	2	Lighthouse Hotel	Goodstone	30
	4	River Arms Hotel	Goodstone	30
	6	Neptune Grand Hotel	Goodstone	25
	9	Ulverstone Returned Servicemen		20
				135
Circular Head	5	Bridge Hotel Motel	Goodstone	30
	8	Tall Timbers Hotel Motel		20
				50
Clarence	1	Shoreline Hotel		30
	3	Waterfront Hotel	Federal	30
	4	Beltana Hotel	Kalis	30
	4	Foreshore Tavern	EBC/Hibbert	30
	5	Mornington Inn	Kalis	30
	7	Risdon Brook	Hibbert	30
				180
Derwent Valley	5	New Norfolk Hotel	Kaaj	24
	7	Star and Garter Hotel		24

[29] Estimated ranking sorted into deciles cross checked with Tasmanian Liquor and Gaming Commission data on player losses per LGA.
[30] From Tasmanian Liquor and Gaming Commission and other information on the public record. Groups include persons associated via ownership and/or an operating interest.
[31] From Tasmanian Liquor and Gaming Commission

LGA	Rank	Pub	Group	No EGMs
Devonport	1	Molly Malones	Federal	30
	3	Quality Hotel Gateway	ALH	30
	5	Alexander Hotel	Goodstone	30
	5	Formby Hotel	Goodstone	30
	6	Edgewater Hotel	TTLine	30
	6	Argosy Motor Inn	Goodstone	30
	7	Elimatta Hotel		30
	9	Devonport RSL Club		20
				230
Dorset	8	Kendall's Hotel Motel		20
	10	Bridport Hotel		15
	10	Lords Hotel		10
				45
George Town	6	Grays Hotel	Dixon	25
	8	Pier Hotel		30
				55
Glamorgan Spring Bay	9	Beachfront Bicheno	Kalis	20
	10	Orford Blue Waters		15
				35
Glenorchy	1	Elwick Hotel	Federal	30
	1	Claremont Hotel Motel	Federal	30
	1	Club Hotel Glenorchy	Prescott	30
	1	Hotel Valern	Federal	30
	1	Granada Tavern	ALH	30
	3	Brooker Inn	Federal	30
	4	Carlyle Hotel	ALH	30
	5	Cooleys Hotel	Kalis	30
	8	Glenorchy RSL		30
				270
Hobart	3	Central Hotel Hobart	Dixon	30
	6	Black Buffalo Hotel	Kalis	30
	6	Queens Head Hotel	Dixon	25
	7	Hobart Midcity Hotel		30
	7	Welcome Stranger		24
	10	Marquis Hotel Motel		15
	10	Waratah Hotel		15
				169

LGA	Rank	Pub	Group	No EGMs
Huon Valley	7	Grand Hotel	Kaaj	25
	10	Dover RSL Club		12
				37
Kentish	9	Sheffield RSL & Citizens		15
				15
Kingborough	6	Kingston Hotel	Kalis	30
	9	Snug Tavern		20
				50
Latrobe	3	Mackey's Royal Hotel	Federal	30
	8	Shearwater Tavern		20
				50
Launceston	2	Mowbray Hotel	ALH	30
	2	Olde Tudor Motor Inn	EBC	30
	2	Kings Meadows Hotel	TRC Group	30
	2	Newstead Hotel	Federal	30
	3	Hotel Tasmania	Federal	30
	4	The Black Stallion	Dixon	30
	5	Park Tavern		30
	7	TRC Hotel	TRC Group	30
	7	Plough Inn	Dixon	30
	7	Commercial Hotel		21
	8	Sunnyhill Tavern		20
	8	Cock and Bull British		20
	9	All Year Round Hotel	Dixon	20
	10	Ravenswood Over 50's		15
				366

LGA	Rank	Pub	Group	No EGMs
Meander Valley	8	Deloraine Hotel		20
	10	Westbury Hotel		15
				35
Northern Midlands	8	Queens Head Inn		20
	9	Queen's Arms Hotel		20
	9	Campbelltown Hotel	Dixon	20
				60
Sorell	4	Pembroke Hotel		30
	7	Midway Point Tavern		25
	9	Dodges Ferry Cafe and Bar		20
	10	Dunalley Hotel		15
				90
Waratah Wynyard	3	Hotel Federal	Federal	30
	4	Seabrook Hotel Motel	Goodstone	30
	4	Somerset Hotel	Goodstone	30
	9	Wharf Hotel	Dixon	20
				110
West Coast	9	Heemskirk Hotel Motel		20
	9	Empire Hotel		15
	10	The Top Pub Rosebery		10
	10	Regatta Point Tavern		10
	10	Queenstown Railway Hotel		10
				65
West Tamar	6	Riverside Hotel - Motel	ALH	30
	8	Beauty Point Waterfront		20
	10	Exeter Hotel		15
				65
		Grand total		2375

EGM venues in Other LGAs

Pub	Group	Rank	EGMs
Derwent Tavern	Federal	2	30
Brighton Hotel	Prescott/Hibberd	3	30
Mackey's Royal Hotel	Federal	3	30
Bridge Hotel Motel	Goodstone	5	30
New Norfolk Hotel	Kaaj	5	24
Bayside Inn	Kalis	6	30
Grays Hotel	Dixon	6	25
Star and Garter Hotel		7	24
Tall Timbers Hotel Motel		8	20
Pier Hotel		8	30
Grand Hotel	Kaaj	8	25
Shearwater Tavern		8	20
Deloraine Hotel		8	20
St Helens RSL		9	15
Beachfront at Bicheno	Kalis	9	20
Sheffield RSL & Citizens Club		9	15
Orford Blue Waters		10	15
Dover RSL Club		10	12
Westbury Hotel		10	15
			430

EGMs in groups (excl casinos)	**EGMs**	**%**
Federal Hotels	360	15%
Goodstone	265	11%
Dixon[32]	230	10%
EBC/Prescott/Hibberd[33]	180	8%
Kalis	170	7%
ALH	150	6%
Others with multiple sites	109	5%
Single operator sites	911	38%
Total pubs & clubs	2375	100%

[32] Estimate only, likely to be higher according to some reports. Then Opposition Leader Hidding at the 2003 parliamentary inquiry referred to this group owning hotels in "every nook and cranny of Tasmania". Official data refers to operators not owners. This group is an owner or part owner rather than owner/operator on its sites.

[33] Included as a group because of ownership and operating links.

APPENDIX B: Federal Hotels cash flow statements[34] 2004 to 2016

	2004	2005	2006	2007	2008	2009	2010
Operating							
Receipts	407,298	434,847	426,250	460,090	508,650	540,668	521,714
Payments	-335,037	-358,707	-361,814	-391,162	-429,102	-462,561	-452,354
Income tax paid	-15,788	-15,832	-14,258	-9,072	-10,341	-13,948	-11,206
Net cash operating	56,473	60,308	50,178	59,856	69,207	64,159	58,154
Investing							
Sale PP & E	970	949	3,341	1,154	982	1,198	736
Interest rec	269	216	136	115	186	140	51
Divs rec	5		118	100	55		
Payments Biol assets					-26	-14	-15
Investments		-37	-6,148		-25		
Payments PP & E	-42,482	-47,938	-31,234	-16,292	-18,127	-25,932	-42,343
Payments businesses	-2,493		-4,914	-34,125	-5,062	-25,074	
Net cash investing	-43,731	-46,810	-38,701	-49,048	-22,017	-49,682	-41,571
Financing							
Proceeds borrowings	15,000	12,000	21,000	30,000	1,000	25,000	21,000
Payments deferred exp	-735	-14		-256	-63	-44	
Repayment borrowings	1,423	-2,552	-650	-294	-294		-238
Interest paid	-4,176	-5,792	-6,662	-9,266	-10,836	-9,433	-8,548
Divs paid	-11,000	-10,000	-15,000	-15,000	-15,000	-16,000	-18,000
Lease & HP payments	-12,338	-12,824	-12,163	-12,817	-19,601	-14,536	-15,669
Net cash financing	-11,826	-19,182	-13,475	-7,633	-44,794	-15,013	-21,455
Net change cash	916	-5,684	-1,998	3,175	2,396	-536	-4,872
Opening cash	11,436	12,352	6,953	4,955	8,130	10,526	9,990
Closing cash	12,352	6,668	4,955	8,130	10,526	9,990	5,118

[34] From ASIC Forms 388 for Mulawa Holdings P/L, parent company of the Federal group.

APPENDIX B: Federal Hotels Cash flow statements 2004 to 2016 ($'000) continued

	2011	2012	2013	2014	2015	2016
Operating						
Receipts	561,355	570,797	546,467	547,474	549,036	561,703
Payments	-488,300	-497,382	-481,036	-488,147	-489,246	-501,301
Income tax paid	-7,320	-9,002	-8,007	-6,797	-7,748	-9,500
Net cash operating	65,735	64,413	57,424	52,530	52,042	50,902
Investing						
Sale PP & E	1,203	1,670	2,100	37,320	3,862	1,118
Interest rec	266	43	51	243	758	325
Divs rec	148	267	297	594	594	461
Payments Biol assets		-27	-1		-78	
Investments				-5,515		11,678
Payments PP & E	-5,113	-7,305	-5,641	-7,988	-11,130	-10,684
Payments businesses	-32,842					-2,212
Net cash investing	-36,338	-5,352	-3,194	24,654	-5,994	686
Financing						
Proceeds borrowings	19,000	0	0	0	0	0
Payments deferred exp	-940	-59	-69	0	-216	-155
Repayment borrowings	-238	-9,000	-16,000	-26,000	-9,000	-16,500
Interest paid	-12,271	-13,207	-10,138	-8,269	-6,682	-5,186
Divs paid	-18,000	-18,000	-7,000	-26,027	-15,000	-15,000
Lease & HP payments	-16,593	-17,463	-15,666	-16,662	-15,675	-17,620
Net cash financing	-29,042	-57,729	-48,873	-76,958	-46,573	-54,461
Net change cash	355	1,332	5,357	226	-525	-2,873
Opening cash	5,118	5,473	6,805	12,162	12,388	11,863
Closing cash	5,473	6,805	12,162	12,388	11,863	8,990

APPENDIX C: Federal Hotels Income statements[35] 2004 to 2016

	2004	2005	2006	2007	2008	2009	2010
Revenue	369,841	394,407	387,651	420,213	464,137	487,517	478,258
Other income incl non op	1,539	1,406	879	444	849	910	526
Total revenue	371,380	395,813	388,530	420,657	464,986	488,427	478,784
Personnel expenses	90,581	101,798	107,211	118,759	128,743	140,753	139,788
Direct costs	87,115	100,528	98,731	113,062	130,948	135,725	133,096
Gaming taxes licence fees	83,936	84,668	78,925	80,066	84,865	89,011	85,546
Depr & amort	24,481	21,184	20,600	22,494	23,985	25,408	26,362
Finance expense	6,230	7,362	8,816	12,021	12,826	14,302	11,115
Lease rentals op leases	2,950	2,588	2,838	3,218	5,515	6,058	7,369
Impairment losses			1,750		5,308	256	
Other exp	33,160	29,921	35,169	36,003	37,703	40,637	40,255
Total expenses	328,453	348,049	354,040	385,623	429,893	452,150	443,531
Profit before tax	42,927	47,764	34,490	35,034	35,093	36,277	35,253
Income tax expense	13,565	14,971	10,990	11,248	12,427	10,437	8,150
Profit after tax	29,362	32,793	23,500	23,786	22,666	25,840	27,103

[35] From ASIC Forms 388 for Mulawa Holdings P/L, parent company of the Federal group.

APPENDIX C: Federal Hotels Income statements 2004 to 2016 ($'000) continued

	2011	2012	2013	2014	2015	2016
Revenue	515,058	520,300	497,398	493,932	498,201	512,382
Other income incl non op	1,091	643	1,311	10,161	5,744	4,818
Total revenue	516,149	520,943	498,709	504,093	503,945	517,200
Personnel expense	152,498	160,115	149,574	153,759	153,891	169,439
Direct costs	152,118	155,193	148,419	148,090	147,226	151,901
Gaming taxes licence fees	86,476	83,563	78,441	79,467	81,283	80,608
Depr & amort	27,154	27,529	26,802	25,705	25,309	25,771
Finance expenses	15,753	17,294	13,320	11,037	9,143	7,043
Lease rentals op leases	8,202	8,492	10,421	11,797	12,602	14,461
Impairment losses	110	83			0	1,019
Other exp	43,653	44,865	43,227	40,518	41,834	40,404
Total expenses	485,964	497,134	470,204	470,373	471,288	490,646
Profit before tax	30,185	23,809	28,505	33,720	32,657	26,554
Income tax expense	8,913	7,260	8,835	7,603	8,804	7,104
Profit after tax	21,272	16,549	19,670	26,117	23,853	19,450

APPENDIX D: Gaming losses and taxes 2004 to 2016

	2004	2005	2006	2007	2008	2009	2010
LOSSES							
EGM							
Casinos	89,510	93,377	90,658	91,339	96,640	100,809	95,848
Pubs & clubs	121,521	125,714	109,421	112,154	117,298	123,977	119,644
Total	211,031	219,091	200,079	203,493	213,938	224,786	215,492
Keno							
Casinos	1,900	2,048	2,242	2,305	2,601	3,065	3,109
Pubs & clubs	16,455	19,958	20,525	20,780	22,363	25,792	25,024
Total	18,355	22,006	22,767	23,085	24,963	28,857	28,133
Tables							
Casinos	7,158	8,064	8,364	8,283	10,039	10,039	9,608
Totals							
Casinos	98,568	103,489	101,265	101,927	109,280	113,914	108,565
Pubs & clubs	137,975	145,671	129,946	132,934	139,660	149,769	144,669
Grand total	236,544	249,161	231,211	234,861	248,941	263,683	253,233
TAX							
EGM							
Casinos	21,668	23,302	21,719	22,076	23,434	24,471	23,286
Pubs & clubs	31,126	31,516	28,011	28,712	30,048	31,800	30,630
Total	52,795	54,818	49,730	50,788	53,482	56,271	53,916
Keno							
Casinos	112	120	132	136	153	180	183
Pubs & clubs	964	1,174	1,196	1,231	1,314	1,512	1,471
Total	1,076	1,294	1,328	1,367	1,467	1,693	1,654
Tables							
Casinos	2,642	2,829	2,927	2,988	3,086	3,199	3,262
Totals							
Casinos	24,422	26,251	24,778	25,199	26,673	27,851	26,731
Pubs & clubs	32,090	32,690	29,207	29,943	31,362	33,312	32,101
Grand total	56,512	58,941	53,985	55,143	58,035	61,163	58,833

APPENDIX D: Gaming losses and taxes 2004 to 2015 ($'000) Continued

	2011	2012	2013	2014	2015	2016
LOSSES						
EGM						
Casinos	97,075	93,179	80,586	79,140	79,770	76,869
Pubs & clubs	118,624	115,164	113,337	111,049	113,896	114,244
Total	215,699	208,343	193,923	190,190	193,666	191,113
Keno						
Casinos	3,406	3,396	2,869	2,918	3,170	3,130
Pubs & clubs	27,301	27,654	26,297	29,506	30,207	33,336
Total	30,707	31,051	29,166	32,425	33,377	36,467
Tables						
Casinos	10,228	9,565	9,077	8,532	9,653	9,805
Totals						
Casinos	110,709	106,140	92,532	90,590	92,593	89,804
Pubs & clubs	145,925	142,818	139,633	140,556	144,103	147,580
Grand total	256,634	248,958	232,166	231,146	236,696	237,385
TAX						
EGM						
Casinos	23,551	23,265	19,395	20,348	20,510	19,769
Pubs & clubs	30,398	28,774	28,903	28,740	29,467	29,566
Total	53,949	52,040	48,298	49,087	49,977	49,335
Keno						
Casinos	200	197	169	177	186	184
Pubs & clubs	1,620	1,624	1,546	1,735	1,776	1,949
Total	1,821	1,821	1,715	1,912	1,963	2,133
Tables						
Casinos	3,369	3,458	3,524	3,553	3,659	3,691
Totals						
Casinos	27,120	26,921	23,087	24,077	24,355	23,644
Pubs & clubs	32,019	30,398	30,449	30,475	31,243	31,515
Grand total	59,139	57,319	53,536	54,552	55,598	55,159