

**DIXON HOTEL GROUP**

**SUBMISSION TO**

**JOINT SELECT COMMITTEE**

**FUTURE GAMING MARKETS (TASMANIA)**

December 2016

- a) Consideration of community attitudes and aspirations relating to the gambling industry in Tasmania with particular focus on the location, number and type of poker machines in the State.

### **Community Attitudes**

1. The vast majority of the community are not opposed to gaming machines.
2. People who hate poker machines know where they are located and do not have to visit such establishments!
3. Recently two of our properties (Paddy Wagon and Moonah Hotel) applied for twenty gaming machines and there were 185 objections to the former and to the latter. These objections represent about half of one percent of the 25,000 adults who live in Glenorchy.
4. The Glenorchy City Council held a well-publicised forum on poker machines, on Monday 14<sup>th</sup> November 2016 and only twelve (12) people attended – half of whom were the invited speakers - which demonstrates the absolute lack of community concern over poker machines.
5. Gambling has always been accepted as part of the "Australian Way of Life".
6. Experts agree that gaming machines is a mature industry. In fact, hotel and club gaming player expenditure fell from \$114,455,513 in 2014/15 to \$113,996,255 in 2015/16.
7. All forms of gambling are being negatively impacted by a rapid growth in sports betting.
8. Spending per adult on gaming machines in Tasmania (approx. \$300 p.a.) is less than 50% of the spend in all other states – (excluding W.A.).
9. Recent studies show a very minor percentage of problem gamblers.

### **Location of Gaming Machines**

- Evidence from studies shows that problem gamblers have fallen to an all-time low of half of one percent (•5%) of the population. Therefore, location of machines is not a significant issue.
- Because areas like Glenorchy, Devonport and Burnie spend more per capita on E.G.M.'s, such data must prove that people in those areas enjoy playing E.G.M.'s more than people in other areas of the State, so logically that is where the machines should be located.
- With minimal new applications for E.G.M. licensing over the past year, it would seem that the market has determined the proper location for machines.
- In areas like Glenorchy, Network Gaming has refused to place machines in some venues. Even if the venues were to be granted a gaming licence, this is anti-competitive behaviour and should be stopped. An independent body or the

Government should have the ability to give approval to the installation of gaming machines if a gaming licence is granted. We do not think it is appropriate nor fair when a competitor, who is also the Gaming Operator, refuses to put machines in an area where they own venues i.e. Moonah and Glenorchy are prime examples where they own The Valern and The Elwick Hotels. Locating machines in such venues would increase competition and this could occur by reducing the number of machines at existing licensed venues.

### **Number of Gaming Machines**

As Tasmania has by far the lowest spend per E.G.M.'s per capita, it would seem the current cap of 3,530 machines is about right.

Coupled with the introduction of a Community Interest Test, lower socio-economic areas will be able to stop the growth in E.G.M.'s if that's what the community demands.

### **Type of Gaming Machines**

As Federal Hotels (via Network Gaming) own and control all E.G.M.'s in the State, there is no opportunity for operators to source different machines and determine returns to players.

This is a significant deterrent to growth and competition of the industry.

- b) N/A
- c) Consideration of the document entitled: Hodgman Liberal Government post 2023 Gaming Structural Framework

As stated earlier in the year, we support the general thrust of this paper but believe the Community Interest Test should have been applied from date of enactment of legislation.

- d) An assessment of options on how market-based mechanisms such as a tender to operate E.G.M.'s in hotel and clubs could be framed.

The effectiveness and money raised by any tender process will be mainly impacted by:-

The term of the licence.

Any requirement to meet a Community Interest Test and how often.

Taxation arrangements.

Venue Owned or other model adopted.

Unless the E.G.M. licensing arrangement can provide 'acceptable' security to financiers – smaller operators and clubs will be unable to finance up-front payments for licences.

Therefore, as with the Victorian tender system in 2012, the process is likely to fail and in all likelihood, be dominated by Federal Hotels.

- e) Consideration of future taxation and licensing arrangements informed by those in other jurisdictions.

As happens in all other States, we strongly believe the taxation rate should vary in line with the annual gaming revenue generated by the venue.

We suggest small venues should be taxed at 5% and thereafter ranging through a variety of rates to a maximum of 60%.

- f) N/A
- g) Consideration of the duration and term of licences for the various gaming activities post 2023.

To maximise investment in the industry and remove ongoing uncertainty we strongly recommend perpetual licence terms.

Perpetual terms would also ensure maximum prices in a market tender process, or fixed price structure.

- h) Any other matters, incidental thereto

When considering the future of the gaming industry, we believe it is critical that the Select Committee be aware of the following:-

1. Annexure 1 – attached – State E.G.M. Comparison

This schedule highlights the exceptionally poor financial result from E.G.M.'s caused by Federal Hotels receiving forty percent (40% inclusive of G.S.T.) of net revenue.

Regardless of E.G.M. turnover, the Tasmanian E.G.M. system is pathetic in terms of return to venue, when compared to other States.

## **2. Annexure 2 – attached – Average Venue Profitability**

On current figures, at least one half of all E.G.M. venues turnover less than \$200,000 per week.

The schedule reveals that such a venue ends up with a net profit of approximately \$40,000 per annum from operating E.G.M.'s.

Most people in the population have been convinced that all gaming venues make a small fortune by ripping off players – nothing could be further from the truth.

Returns to players are impacted most severely by the high rate of taxation (25.88%) and large slice to Federal Hotels (30%).

**Based upon the above, our recommendations to The Select Committee are as follows:-**

1. A venue owner/operator model be adopted.
2. Existing venues be offered licences to operate E.G.M.'s for a perpetual term.
3. Rather than a tender system, up-front cost of licences be calculated by Treasury. Licence cost to vary per venue based upon turnover achieved for the 2023 financial year.
4. Taxation rate to vary from 5% to 60% per venue (based on estimated revenue profitability from E.G.M.'s) and the taxation rate to be taken into account in determining the up-front licence fee in (3) above.
5. Community Interest Test required for all new venues, not for existing licenced venues.
6. Trading system for licenses be adopted in line with Queensland where 33% of sale price of hotel entitlements (i.e. when a hotel or club decides to reduce entitlement numbers) is paid to the State Government.
7. We believe the select committee should have input into determining the criteria for the Community Interest Test. We would like to see the following taken into account as part of these criteria:
  - it should look at what the venue 'looks like'. How does it differ from other venues in the area?
  - Does it offer a difference in terms of services;
  - No group or entity should have control of the trading business of more than 25% of gaming machine venues in any municipality. This would prevent large operators from controlling the market and open it up to smaller operators. This will be better for the whole industry.
8. If not owner/operator model, there should be at least 2 network operators, so the hotels/clubs can have a choice of which operator to deal with (not a monopoly like it is now).

## State EGM Comparison

### Based Upon a Venue with \$200,000 pw Turnover

State	<u>NSW</u> \$	<u>VIC</u> \$	<u>SA</u> \$	<u>QLD</u> \$	<u>ACT</u> \$	<u>TAS</u> \$
Total Gross profit	1,040,000	1,040,000	1,040,000	1,040,000	1,040,000	1,040,000
Tax Rate (Approx.)	374,000 36%	395,000 38%	333,000 32%	364,000 35%	275,600 26.5%	312,000 30%*
Federal Hotels/Network Gaming (Including GST)	N/A	N/A	N/A	N/A	N/A	416,000 40%
Venue Gross Profit	666,000 64%	645,000 62%	710,000 68%	676,000 65%	764,400 73.50%	312,000 30%

\* Includes Community  
Support Levy

**Tasmanian E.G.M.'s Profitability Study****Weekly E.G.M. Venue Trunover of \$200,000**

<u>Turnover</u>					10,400,000
<u>Gross Profit</u>					1,040,000
<u>Less</u>	<u>State Government</u>	Taxation	269,000		
		Levy	<u>41,600</u>		
				310,600	
	<u>Federal Hotels</u>	Profit Share	312,000		
		Machine Rental	90,000		
		G.S.T.	<u>104,000</u>		
				506,000	
	<u>Share of Hotel Operating Costs</u>				
		Wages	75,000		
		Rental/Interest	60,000		
		Power	25,000		
		Rate, Land Tax, Insurance etc.	15,000		
		Annual licence fees	<u>5,000</u>		
				180,000	
					<u>996,600</u>
<u>Net Profit for Venue Operator</u>					<u>\$ 43,400</u>

**Julie Thompson**

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**From:** Keryn Nylander <keryn@nylanderconsulting.com.au>  
**Sent:** Thursday, 8 December 2016 9:44 AM  
**To:** fgm  
**Cc:** Dixon, Peter (AU - Launceston); Carlton Dixon (cdixon@bml.com.au)  
**Subject:** Dixon Hotel Group - Submission to Joint Selection Committee for Future Gaming Markets (Tasmania)  
**Attachments:** Dixon Hotel Group -FGR Select Committee Submission Annexures Dec 16.xlsx;  
DixonHotelGroup-FGMSubmission Dec 2016.pdf

Hi,

Attached is a submission to the committee for Future Gaming Markets (Tasmania) from Peter and Carlton Dixon, from the Dixon Hotel Group, Tasmania.

There is also a second attachment - an excel document annexure to the submission with two tabs.

Carlton and Peter Dixon would welcome the opportunity to appear before the Committee when it is holding hearings to further discuss their submission.

Can you please advise that you have received this email and the submission and supporting document, and that you are happy with the format? Do you require anything else.?

Thanks

Keryn Nylander  
on behalf of the Dixon Hotel Group.



**Keryn Nylander, BA, FAICD**

Nylander Consulting,  
Strategic communications and public relations,  
104 Nelson Road, Mount Nelson,  
Hobart Tasmania Australia 7007  
[keryn@nylanderconsulting.com.au](mailto:keryn@nylanderconsulting.com.au)  
■: 0418 996 536