

## Department's release of gaming machine expenditure statistics attracts media interest

On 3 November 2017 the Department released updated non-casino gaming machine expenditure (i.e. gambling losses) statistics for the 12 months ended 30 September 2017. Expenditure for that period rose \$29.2 million or 3.4 per cent from \$849 million to \$878 million. The rate of increase was similar to the previous 12 months.

The release attracted significant media coverage, including a Television One news item. The Problem Gambling Foundation and Salvation Army, which provide problem gambling counselling services, expressed concern that the increased expenditure was coming from disadvantaged sections of the community. Bruce Robertson, a representative of the gaming machine sector, argued that expenditure had declined in inflation-adjusted terms from a peak in 2004.

Earlier this year, the Department commissioned research from BERL to determine what was driving the increase in expenditure. The research released in April 2017 found no connection between the increases in expenditure and macro-economic factors. There was a suggested link found between new types of gaming machines and the expenditure increases. We will provide you with a briefing on the gambling sector on 13 November 2017, including an update on non-casino gaming machines.

Contact: Maarten Quivooy, (04) 495 7248

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# Internal Affairs briefing

Hon Tracey Martin  
Minister of Internal Affairs

**Title:** The New Zealand gambling sector - overview and current policy issues

**Date:** 17 November 2017

Key issues	
<p>This briefing provides an overview of the New Zealand gambling sector and your Ministerial role and responsibilities in respect of it.</p> <p>It highlights current policy issues in the sector, including the Department's recent work in relation to class 4 gambling, to assist you in determining the Department's future gambling work programme.</p>	
Action sought	Timeframe
Discuss the Department's future gambling policy work programme with officials.	At your convenience

Contact for telephone discussions (if required)

Name	Position	Direct phone line	After hours phone	Suggested 1 <sup>st</sup> contact
Marilyn Little	Deputy Chief Executive	04 816 4073		✓
Raj Krishnan	General Manager Policy	04 494 0572		

Return to	Craig Neil, Level 13, 147 Lambton Quay
Cohesion reference	<a href="#">YXQARP2T7VWH-46-59</a>
Ministerial database reference	IA201700688

## Purpose

1. This briefing provides an overview of the New Zealand gambling sector and your Ministerial role and responsibilities in respect of it.
2. We also highlight current policy issues in the sector, including the Department's recent work in relation to class 4 gambling and online gambling, to assist you in determining the Department's future gambling work programme.

## Executive Summary

3. There are a wide range of industry participants and other stakeholders in New Zealand's gambling sector. We expect that some will soon start contacting your office seeking meetings with you to discuss relevant issues affecting them.
4. The first part of this briefing provides an overview of the gambling sector to help you prepare for any such meetings. We can also provide more specific information before each meeting.
5. The Department has been undertaking a review of class 4 gambling. Class 4 gambling relates to gaming machines hosted in pubs, clubs, and New Zealand Racing Board venues (e.g. TABs). It has historically been the largest form of gambling and provides communities with significant funding for a range of purposes, including sport and recreation, racing, arts, health and education. There was, however, a decline between 2004 and 2014.
6. The review was prompted by concerns about the class 4 sector's long-term sustainability as a generator of community funds, in light of what was a significant decade-long decline, and the corresponding reduction in the level of community funding generated.
7. However, recent class 4 gambling expenditure trends indicate that concerns with community funding have eased, at least in the short-term, <sup>s(9)(2)(f)(iv)</sup>  
[REDACTED]  
[REDACTED] opportunities to improve policy settings for class 4 gambling. The approach taken will depend on the Government's priorities.
8. New Zealanders are increasingly gambling online with authorised New Zealand providers, and they also gamble online with offshore providers. The Department considers it is timely to review New Zealand's online gambling policy settings, with a focus on future proofing them in an environment where gambling products will be increasingly digitised.
9. Before undertaking any further gambling policy work we would like to discuss with you the Government's priorities for the gambling sector and our future work programme.

## As Minister of Internal Affairs you have key roles in the gambling sector

10. As Minister of Internal Affairs you are responsible for the Government's gambling policy.
11. Also, as part of your gambling responsibilities you:
  - have Ministerial responsibility for the New Zealand Lotteries Commission;
  - recommend Gambling Commission membership appointments to the Governor-General; and
  - are the presiding member of the New Zealand Lottery Grants Board.

12. We provide further information on your roles and responsibilities in relation to gambling and the gambling sector in **Appendix A**.
13. The Minister for Racing has responsibility for the Racing Act 2003. However, as changes to the Racing Act 2003 may impact on the Government's gambling policy it has been usual practice for the Minister for Racing to consult with the Minister of Internal Affairs. The proposed amendments to the Racing Act 2003, which impose some obligations on offshore betting operators, are an example of this interface.

### **Gambling in New Zealand is regulated by the Gambling Act 2003**

14. The regulatory framework for gambling in New Zealand, with the exception of casinos, is based on two principles:
  - that community, racing and sporting organisations should benefit from the profits from gambling (through grants and other distributions); and
  - that the cost of mitigating gambling harm should be borne by the industry (through a problem gambling levy).
15. The framework is given effect through the Gambling Act 2003 (the Act).
16. We provide information on key gambling sector organisations and stakeholders in **Appendix B**.

### **The Act authorises different types of gambling**

17. The types of gambling authorised or recognised under the Act are:
  - class 1 - small scale gambling where the prizes cannot exceed \$500, and no licence is required. Examples of class 1 gambling include small raffles and office sweepstakes;
  - class 2 - gambling where the person conducting the gambling is not paid, the gambling is run by a non-commercial society and all proceeds from gambling are applied to an authorised purpose. Prizes may not exceed \$5,000. Examples include smaller scale school and community raffles;
  - class 3 - gambling where prizes awarded for the gambling activity can exceed \$5,000, but the activity is run by a non-commercial society and all the proceeds from gambling are applied to an authorised purpose. Examples include housie/bingo and lotteries run by national organisations, such as the Heart Foundation and the Royal New Zealand Coastguard;
  - class 4 - gambling activity involving the use of gaming machines ("pokies") outside of a casino;
  - licensed casino operations - there are six licensed casinos in New Zealand: SKYCITY Auckland, SKYCITY Hamilton, Christchurch Casino, SKYCITY Queenstown, SKYCITY Wharf Casino (Queenstown) and Dunedin Casino;
  - gambling conducted by the New Zealand Lotteries Commission, which trades under the Lotto NZ brand; and
  - gambling under the Racing Act 2003, which permits the New Zealand Racing Board to operate racing and sports betting.

### **Gambling expenditure has been increasing and totalled \$2.2 billion in 2015/16**

18. In 2016, New Zealanders wagered more than \$12 billion on various forms of gambling.<sup>1</sup> This amount, referred to as “turnover”, is the total amount wagered by gamblers before prizes are paid and includes a re-investment factor where the same dollar is counted more than once. However, turnover can be a misleading measure as it does not refer to player losses.
19. A more common measure of gambling activity is “expenditure”. Expenditure measures gambling turnover, less prizes – in other words, gambling profits, or the amount lost by gamblers.
20. **Appendix C** shows gambling expenditure for the years 2012/13 to 2015/16, for the four main forms of gambling in New Zealand. The main gambling forms are conducted by the New Zealand Lotteries Commission, class 4 operators (outside casinos), casinos and the New Zealand Racing Board (TAB sports and race betting).
21. New Zealanders lost \$2.2 billion on these forms of gambling activity in 2015/16.

### **New Zealand’s community funding model for gambling**

22. New Zealand operates a community funding model, meaning that most forms of gambling are required to raise funds for the community and must be undertaken for an ‘authorised purpose’. The Act defines an authorised purpose as a charitable purpose, a non-commercial purpose benefitting the community, or promoting, controlling and conducting a race meeting (including the payment of stakes).
23. The exception to this are licensed casino operations, which are largely conducted for the benefit of private shareholders. However, casinos can also generate public benefits such as increased tourism and employment.
24. In 2016, around \$654 million was distributed to a variety of community purposes from gambling proceeds.

### **The most common form of gambling by New Zealanders is on New Zealand Lotteries Commission products**

25. Most adults in New Zealand gamble at least occasionally. For example, the 2014 National Gambling Study estimated that 77 per cent of the population took part in at least one gambling activity in the previous year.<sup>2</sup>
26. However, only a minority participate in any gambling activity other than buying New Zealand Lotteries Commission products or raffle tickets. For example, the 2014 National Gambling Study estimated that 60 per cent of adults bought a Lotto ticket at least once in the previous year, but only:
  - 14 per cent played a gaming machine at least once;
  - 9 per cent bet on a horse or dog race at least once; and
  - 3 per cent bet on a sports event at least once.

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<sup>1</sup> The \$12 billion excludes turnover from casinos as the Department does not collect this information.

<sup>2</sup> The National Gambling Study (NGS) is the first New Zealand population-representative longitudinal study into gambling, health, lifestyles, and attitudes about gambling. The Ministry of Health commissioned the NGS and its principal researcher is AUT University.

## **Gambling causes harm for some participants – and varies between gambling products**

27. Gambling is a form of entertainment. It offers the player a chance of winning – but all forms of gambling are designed to pay out less than they take in.
28. For some people, gambling causes harm. Significant harm from gambling can occur and can include relationship breakdown, depression, reduced work productivity and job loss.
29. Some forms of gambling are also more harmful than others – especially those that allow gamblers to play continuously and potentially lose track of how much time they are gambling and how much money they are spending.
30. New Zealand uses an internationally recognised screening tool, the Problem Gambling Severity Index (PGSI) to identify measures of gambling behaviour and associated harm. The PGSI is used to determine whether an individual is considered to be a 'non-problem', 'low risk', 'moderate risk', or 'problem' gambler.<sup>3</sup>
31. The 2014 National Gambling Study estimated that:
  - 0.3 per cent of adults in New Zealand (7,000 - 17,000 people) were considered problem gamblers;
  - 1.5 per cent (49,500 people) were moderate risk gamblers; and
  - 5.0 per cent (165,000 people) were low risk gamblers.
32. It has been practice over a number of years for gambling harm to be a responsibility of the Minister of Health. In the past, this has been delegated to an Associate Minister.

## **The sector pays a problem gambling levy to mitigate gambling harm**

33. The Act recognises that harm from gambling is of concern and provides that the responsible department should develop an 'integrated problem gambling strategy focused on public health' (the strategy). The Ministry of Health is responsible for the current *Strategy to Prevent and Minimise Gambling Harm 2016/17 to 2018/19*.
34. The strategy is funded by a problem gambling levy imposed on the profits of New Zealand's four main providers of gambling. It is calculated using a formula based on the level of attributable harm and total revenue in each gambling sub-sector.

## **Current policy issues**

### ***The Department has been undertaking a review of class 4 gambling***

35. Class 4 gambling refers to gambling on electronic gaming machines hosted in pubs, bars and clubs, but does not include gaming machines located in casinos. We provide further information on the class 4 sector in **Appendix D**.
36. In September 2015, Cabinet agreed to a broad review of class 4 gambling to look at whether the regulatory regime was fit-for-purpose and flexible enough to meet any future challenges [CAB-15-MIN-0074 refers]. Subsequently, in June 2016, Cabinet approved the release of a discussion document seeking feedback on the key issues and challenges facing the sector and inviting submitters to suggest their own options for reform [CAB-16-MIN-0283 refers]. The Department received over 700 submissions.

<sup>3</sup> The PGSI consists of nine questions focussed on assessing the degree to which self-reported gambling behaviour represents a problem in terms of a continuum of behaviour and frequency of harm. Responses to the questions are scored and added up. The higher the score, the greater the risks of gambling harm.

37. A major driver for the previous Government's review was evidence that the class 4 sector was in significant decline through declining revenues, gaming machines and venues, and community funding was therefore under threat. For example, the number of gaming machines nationwide had reduced from a high of 25,221 in 2003, to 16,717 in 2014, and gambling expenditure had reduced from \$1,035 million in 2003, to a low of \$806 million in 2014.
38. Accordingly, we undertook to look at ways the sector could be made "sustainable" and preserve funding to community groups.

***Recent data suggests that concerns with class 4 sustainability may have eased, at least in the short-term***

39. Our data shows that spending on class 4 gaming machines has been increasing steadily since 2014.
40. For example, class 4 expenditure increased from \$806 million in 2014, to \$818 million in 2015, and to \$843 million in 2016. It increased again to \$869 million in the year ending 30 June 2017. The latest statistics, released by the Department in early November 2017 show that expenditure for the 12 months ending September 2017 has increased to \$878 million.
41. In early 2017, the Department asked Business and Economic Research Limited (BERL) to examine these increases, their key drivers, and whether the increases represented a sustainable upward trend.
42. BERL completed its research in March 2017.<sup>4</sup> A key finding of the report was that it was too early to say if the increased expenditure represented a trend and the Department would need to monitor data until at least the end of 2017 before a trend could be confirmed. We can provide you with the final copy of the BERL report, at your request.

***There remain some issues to examine within the class 4 sector***

43. The class 4 gambling regime has structural challenges. These relate to the fact that not-for-profit gambling societies operate in a commercial setting.
44. Thirty five not-for-profit societies compete for the significant gambling revenue generated in commercial venues (e.g. pubs). Societies contract with venues for the hosting of their gaming machines, with societies' reimbursing venue costs by way of a commission based on turnover.
45. Competition by societies for venues, especially high revenue venues, exists because of the profits associated with high turnover machines and statutory limitations on the number of machines. In the context of this competition, there is a risk of 'grant capture', where venue operators may illegally influence societies' grant decision-making.
46. Regulatory costs, in a declining sector, are relatively high compared with other markets. This is a result of the prescriptive nature of the regime, which drives the high levels of regulatory oversight required to regulate the sector.
47. Our work also indicates the sector could improve its harm minimisation and prevention practices. For example, the Department's recent "Mystery Shopper"<sup>5</sup>

<sup>4</sup> The report to the Department of Internal Affairs was titled *Research into Influences on Class 4 Gaming Machine Proceeds*.

<sup>5</sup> The Department undertook a Mystery Shopper exercise in 2016. The purpose of the exercise was to provide a snapshot of how well staff in pubs, clubs and casinos identified and responded to signs of harmful gambling.



exercise found that although some class 4 operators had improved how gambling venues are preventing and minimising harm, the sector should do more.

48. The long-term future of the sector remains vulnerable to environmental factors, such as the state of the economy, demographic changes in the gambling population, changing consumer preferences and changes in the hospitality sector, which hosts the majority of gaming machines. We anticipate that these factors, along with a continual decline in venues and gaming machine numbers, may lead to a long-term decline of the sector and fewer proceeds available for community funding from class 4 gambling.

s(9)(2)(f)(iv)

49.

50. [REDACTED] opportunities to improve policy settings for class 4 gambling, but the approach taken will depend on the Government's priorities in the gambling area. We would like to discuss these with you.

51.

s(9)(2)(f)(iv)

52. We note that the Labour Party's manifesto included reviewing gambling legislation, regulation and policy with a focus on reducing harm from gambling. The Green Party's policy is that, as a principle, public policy would operate to reduce the harm caused by gambling and to protect communities from gambling harm.

#### **It is timely to review New Zealand's current online gambling policy**

53. There are currently two providers of online gambling in New Zealand. The New Zealand Racing Board offers online racing and sports betting, including live sports betting (through the TAB) and the New Zealand Lotteries Commission (Lotto NZ) sells lotto tickets online.
54. Online betting through Lotto NZ and the TAB is showing significant growth. For example, the New Zealand Lotteries Commission reports that online sales grew from \$75.5 million in 2014/15, to \$97.4 million in 2015/16. Online sales now make up about 10 per cent of Lotto NZ sales, up from 8 per cent the previous year.

55. New Zealanders are not prohibited from gambling with offshore betting operators and, with the exception of being prohibited from advertising to New Zealanders, offshore operators are not subject to regulatory control.<sup>6</sup>
56. New Zealanders are increasingly gambling online with New Zealand authorised providers. Although it is uncertain the extent to which New Zealanders are betting with offshore betting providers we consider that, given social trends and the increasing use of the internet, it is reasonable to assume that online gambling with both New Zealand and offshore providers will grow over time. This may become a disruptor to the community funding framework (discussed in paragraphs 23 - 25) and possibly increase problem gambling. The Government also misses out on duties and tax revenue from gambling undertaken with offshore operators.
57. The Department considers that it is timely to review New Zealand's current online gambling policy settings and would like to discuss this with you.
58. A review could focus on future proofing the policy settings in an environment where gambling products will be increasingly digitised. The review could potentially look at whether:

s(9)(2)(f)(iv)



### Next steps

59. The Department would like to meet with you to discuss the Government's priorities and possible policy responses.
60. We expect that gambling sector stakeholders will begin to contact your office to discuss issues of interest or concern to them. Such meetings would also provide the opportunity for the Department to brief you on specific issues for individual stakeholders.

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<sup>6</sup> Proposed changes to the Racing Act 2003 will require offshore betting operators to pay to use New Zealand racing and sporting information in their betting products (an information use charge) and to also pay when they take bets on racing or sporting events where those bets originate in New Zealand (a consumption charge).

**Recommendations**

61. We recommend that you:

- a) **note** the Department has been undertaking work on a review of the class 4 sector;

s(9)(2)(f)(iv)

- c) **note** there are opportunities to improve policy settings for class 4 gambling, but the approach taken will depend on the Government's priorities;
- d) **note** the Department considers it is timely to review New Zealand's online gambling policy settings; and
- e) **discuss** the Government's priorities for gambling, including the Department's future policy work programme.

**Yes/No**

Marilyn Little  
Deputy Chief Executive

**Hon Tracey Martin**  
**Minister of Internal Affairs**

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## Appendix A: Ministerial roles and responsibilities

Entity/Act	Role and responsibility
Gambling Act 2003	As the Minister of Internal Affairs you are responsible for the Government's gambling policy. The Minister of Internal Affairs and the Minister of Health jointly recommend regulations that set the problem gambling levy.
Gambling Commission	The Minister of Internal Affairs recommends Gambling Commission membership appointments to the Governor-General.
New Zealand Lotteries Commission (trading as Lotto NZ)	The Minister of Internal Affairs appoints members of the New Zealand Lotteries Commission. The Minister of Internal Affairs exercises Ministerial responsibility for the Lotteries Commission that includes a monitoring role. Both the Department and the Treasury assist the Minister of Internal Affairs in carrying out this role.
New Zealand Lottery Grants Board	The Minister of Internal Affairs is the presiding member of the New Zealand Lottery Grants Board, facilitates the appointment of other Board members, and makes appointments to distribution committees. As Minister of Internal Affairs, you are also responsible for the consideration of requests to the Minister's discretionary fund. The Department has provided a separate briefing to you on the New Zealand Lottery Grants Board.
Racing Act 2003	The Minister for Racing has responsibility for the Racing Act 2003. However, as changes to the Racing Act may impact on the Government's gambling policy, it has been usual practice for the Minister for Racing to consult with the Minister of Internal Affairs on any significant amendments to the Racing Act.

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## **Appendix B: Key organisations and stakeholders**

### ***Department of Internal Affairs***

The Department is the primary regulator of the gambling sector.

The Department's responsibilities relate to the overall administration of the Gambling Act 2003 (the Act) and to issues associated with limiting the opportunities for crime and dishonesty, ensuring profits from gambling benefit the community and the prevention and minimisation of gambling harm. These purposes are formally achieved through the Department's licensing, monitoring and enforcement functions.

The Department's role includes:

- providing advice to the Government on gambling policy;
- licensing class 3 and class 4 gambling (mainly large-scale lotteries and non-casino gaming machines);
- assessing the suitability of certain persons working or seeking to work for gambling providers;
- setting game rules and equipment standards for all licensed gambling;
- setting minimum operational standards and regulating compliance in casinos; and
- providing public information and education.

In addition, the Department has monitoring, compliance and investigation functions to ensure that gambling conducted in New Zealand complies with the Act.

### ***Gambling Commission***

The Gambling Commission (the Commission) is an independent statutory decision-making body established under the Act. The Commission hears casino licensing applications, and appeals on licensing and enforcement decisions made in relation to gaming machines and other non-casino gambling activities.

The Commission's functions are wide-ranging, and include:

- determining applications for casino operators' licences and the renewal of casino venue licences;
- approving agreements and changes to agreements between casino operators and casino venue licence holders;
- specifying, varying and revoking casino licence conditions;
- determining appeals against regulatory and licensing decisions made by the Department in respect of class 3 and class 4 gambling; and
- advising Ministers on the setting of the problem gambling levy.

The current Chief Gambling Commissioner is Graeme Reeves.

### **Ministry of Health**

The Act requires the development of a three-yearly integrated problem gambling strategy focussing on public health. Responsibility for this sits with the Ministry of Health. The current strategy includes:

- measures to promote public health by preventing and minimising the harm from gambling;
- services to treat and assist problem gamblers and their families;
- independent research associated with gambling, including (for example) longitudinal research on the social and economic impacts of gambling, particularly the impacts on different cultural groups; and
- ongoing evaluation.

The strategy is funded by a problem gambling levy on the four main gambling sectors. The problem gambling levy is recalculated every three years and has been set for the 2016/17 to 2018/19 period.

### **Territorial Authorities**

The Act specifies that each city and district council (as listed in Schedule 2 of the Local Government Act 2002), must have a class 4 venue policy. The venue policy sets out the rules around class 4 gambling in their districts. The aim of venue policies is to give local councils and the communities they represent a say in how class 4 gambling operates in their districts, in line with the Act's purposes.

When establishing or reviewing their policies, councils are required to go through a consultation process, as per the Local Government Act 2002. This process allows for class 4 venue policies to reflect local factors and the differences between communities.

Some councils have a "sinking lid" policy. This usually means that a council is trying to decrease the number of gaming machines and class 4 venues in its district. A sinking lid policy includes declining consents for any new gaming machines or venues in a district.

Councils can also have caps on the number of venues and/or gaming machines in their districts. Other councils, however, allow for growth in gaming machine numbers and/or venues within their districts.

### **New Zealand Lotteries Commission (trading as Lotto NZ)**

The New Zealand Lotteries Commission conducts a range of gambling activities including Lotto and Instant Kiwi, and a proposed range of online products<sup>7</sup>, to raise funds for distribution to the community by the Lottery Grants Board.

The Lotteries Commission is an Autonomous Crown Entity under the Crown Entities Act and has a Board. Its current Chairperson is Judy Kirk.

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<sup>7</sup> Lotto NZ is intending to launch a range of online 'Instant Game' products by the end of November 2017. We will provide you with a separate briefing ahead of the launch.

***Problem Gambling Foundation of New Zealand***

The Problem Gambling Foundation is a national non-profit organisation.

It provides free and confidential counselling services to address harmful gambling around New Zealand. Its current Board Chairman is Richard Northey. Its Chief Executive Officer is Paula Snowden.

***Salvation Army***

The Salvation Army is a registered charity providing mainly free and confidential help services to the community. The Salvation Army Oasis specifically provides support, education and counselling for those affected by gambling harm, as well as their family and others affected.

***Class 4 gaming working party***

The class 4 gaming working party is largely an industry group, made up of members from the class 4 sector.

The working party considers that it comprises over 80 per cent of societies operating gaming machines in New Zealand. It also includes the New Zealand Returned Services Association and Hospitality New Zealand. Associate members include gaming machine manufacturers and sector service providers.

The working party was formed in 2015 to advocate on (then) proposed gambling fees increases. Since then it has engaged with the Department and the Minister of Internal Affairs on a range of issues, most significantly on the move to a commission payments system and the class 4 review.

The working party is led by an independent Chair, Bruce Robertson.

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**Appendix C: Gambling expenditure 2012/13 – 2015/16 (\$ million – unadjusted for inflation)**

	2012/13 (\$m)	2013/14 (\$m)	2014/15 (\$m)	2015/16 (\$m)
Class 4 gaming machines (outside casinos)	\$827	\$806	\$818	\$843
Casinos	\$490	\$486	\$527	\$586
NZ Lotteries Commission	\$432	\$463	\$420	\$437
NZ Racing Board	\$294	\$310	\$325	\$342
<b>Total</b>	<b>\$2,043</b>	<b>\$2,065</b>	<b>\$2,090</b>	<b>\$2,208</b>

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## Appendix D: Class 4 gambling sector

Under the Act, class 4 gambling refers to gambling on gaming machines hosted in pubs, bars and clubs and does not include casino gambling.

Class 4 gambling operates on a not-for-profit basis, with the objective of generating revenue to return to communities through contestable grant processes.

The Department is responsible for regulating the class 4 gambling sector as part of its role in the administration and enforcement of all casino and non-casino gambling in New Zealand.

### Class 4 sector

There are a number of different types of organisations that make up the class 4 sector. Class 4 societies refer to the licensed organisations that operate gaming machines under the class 4 model. There are three types of class 4 society:

- non-club societies: own machines hosted in separately owned pubs and bars ('venues');
- club societies: own and operate gaming machines in their own clubrooms (e.g. Returned Services Associations and sports clubs); and
- New Zealand Racing Board: operates gaming machines in venues it owns, or leases (TABs).

### Non-club societies ('societies')

Non-club societies (societies) own gaming machines, but do not own the pubs or bars in which those gaming machines are hosted. Hosts of a society's gaming machines are referred to as venues, and a society enters into agreement with a venue to host the society's gaming machines in return for a commission payment to the venue.

Net proceeds from a society's gaming machines must be distributed to community organisations that fulfil the society's authorised purposes, as per its licence.<sup>8</sup> Authorised purposes for class 4 gambling are defined in the Act as:

- a charitable purpose;
- a non-commercial purpose that benefits the whole or a section of the community; and
- promoting, controlling, and conducting racing meetings under the Racing Act 2003, including the payment of stakes.

There are no limits to the number of societies that may be licensed under the Act, as long as they meet the licensing requirements, which includes specifying their authorised purposes.

### Club societies ('clubs')

Class 4 clubs own and host gaming machines in their own venues. Clubs are predominantly owned by their members, and most are non-profit organisations. Examples of clubs include Returned Services Associations, sports clubs and chartered clubs (e.g. cosmopolitan clubs).

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<sup>8</sup> Gambling Act 2003, section 52(1)(e).

In contrast to non-club societies, money raised from clubs' gaming machines is mainly, but not exclusively, applied to clubs' own purposes. This means that members who gamble in clubs are more likely to benefit from the proceeds of their gambling.

### **New Zealand Racing Board**

The New Zealand Racing Board (NZRB) is licensed under the Act as a class 4 society to operate gaming machines at its TAB venues. This is in addition to its racing and sports betting activities under the Racing Act 2003. The majority of funds generated by the NZRB's gaming machines are applied to its racing authorised purposes, and up to 20 per cent is distributed to amateur sports.

### **Class 4 distribution model**

The Gambling (Class 4 Net Proceeds) Regulations 2014 (the regulations) set out how the gross proceeds from class 4 gaming machines are allocated. Gaming duty, the problem gambling levy, society operating expenses, gambling fees and venue payments account for a maximum of 60 per cent of a class 4 society's gaming machine proceeds. The remainder ('net proceeds') are distributed to community organisations, consistent with the class 4 society's authorised purposes. The minimum amount that must be distributed to societies' authorised purposes is known as the 'minimum rate of return', and is currently set at 40 per cent of gross gaming machine proceeds for non-club societies.

### **Class 4 market environment**

While class 4 non-club societies operate on a not-for-profit basis, the market for venues to host societies' gaming machines has an element of competition. Non-club societies often seek out higher turnover venues to host their machines and maximise gaming machine proceeds. Location, size, reputation and gaming turnover of some venues contribute to a venue being more attractive to societies than others.

Non-club societies may approach a venue to host their machines, but it is the organisation that operates a venue (venue operator) that has the control over whether to host a society's gaming machines.

**Lisa Mackay****Subject:** FW: OAI request**From:** Maarten Quivooy**Sent:** Tuesday, 21 November 2017 1:54 p.m.**To:** Jason Hewett**Cc:** Kate Reid; Craig Neil; Heather McShane; Mike Osmond; Victor Cauty; Louise Cavanagh**Subject:** Gambling data

Kia ora Jason,

You recently asked for information for the Minister to amplify the item on gambling statistics in the Status Report – your email refers:

*“The Minister is interested in any geographical/socio-demographic information that the Department could provide her to give greater context to the spend/increase.*

*She specially said though that she does not want people to expend too much time on this as the request is more out of interest.”*

We have provided some information which responds to this request below. Please note that this information is not in the public domain.

Nga mihi,

Maarten

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#### Social and economic information in relation to class 4 gambling

The Department collects information on class 4 gambling expenditure and compares this to geographical deprivation areas based on Otago University’s deprivation study from the 2013 census data.

Broadly, the Department assigns a deprivation index (1-10) to each venue based on a geographical unit termed an Area Unit where the venue is physically located, with “1” being the lowest deprivation rating and “10” the highest.

The Department’s data shows that approximately:

- 53 per cent of class 4 gambling expenditure is generated in the three highest deprivation areas (Indexes 8-10);
- 11 per cent of class 4 gambling expenditure is generated in the three lowest deprivation areas (Indexes 1-3);
- Venues in the highest deprivation areas generate the highest average expenditure. For example, the average venue expenditure for a venue in the highest deprivation area (Index 10) for the 12 months ended 30 September 2017 was \$854,701 and \$561,587 for a venue in the lowest deprivation area (Index 1);
- 50 per cent of venues are in highest deprivation areas (Indexes 8 -10); and
- There are currently 164 venues in the highest deprivation area (Index 10), compared with 27 venues in in the lowest deprivation area (Index 1).

The Department has applied a number of assumptions and estimations for this analysis. These are important as they mean that the Department’s findings should be used as a guide only, and cannot be regarded as conclusive.

#### Where New Zealanders are undertaking class 4 gambling

The Department also collects information on where New Zealanders are gambling. The data shows that:

- For the 12 months ended 30 September 2017 class 4 gambling expenditure in the North Island was \$687,565,730 compared to \$190,661,203 in the South Island;
- Since 2013 class 4 gambling expenditure has declined in the South Island by 3.2 per cent but increased in the North Island by 10.4 per cent;
- The biggest class 4 gambling regions (on a regional council basis) are currently Auckland (\$274 million), Canterbury (\$110 million) and Wellington (\$103 million);
- The biggest increases in class 4 gambling from 2012/13 to 2016/17 (on a regional basis) were in Bay of Plenty (15.3 per cent), Hawkes Bay (14.9 per cent) and Auckland (13.9 per cent);
- The biggest decreases in class 4 gambling from 2012/13 to 2016/17 (on a regional basis) were West Coast (-16.4 per cent) and Canterbury (-4.9 per cent);

#### **Who is undertaking class 4 gambling**

##### **1. The National Gambling Study (NGS - 2012)**

- The NGS Study reports that Māori (26.4 per cent), Pacific (15 per cent) and European/Other (14.5 per cent) were more likely to have played a non-casino gaming machine in the previous 12 months than Asian people (4.2%).
- Males (15 per cent) were more likely to have played a non-casino gaming machine than females (13.8 per cent).
- People aged 18 - 24 (27.8 per cent) are more than 3 times more likely to have played a non-casino gaming machine than those aged 65+ (8.2% per cent).

##### **2. 2014 Health and Lifestyles Survey**

- The 2014 Health and Lifestyles Survey reports that 13.5 per cent of the New Zealand population played non-casino gaming machines in the previous 12 months.
- Māori (19.4 per cent), Pacific (16.4 per cent) and European/Other (14 per cent) were more likely to have played a non-casino gaming machine than Asian people (2.5 per cent).
- Males (14.1 per cent) were more likely to have played a non-casino gaming machine than females (13 per cent).