

Hon George Hawkins
Hon Annette King

30 June 2004

REPORT ON THE PROPOSED PROBLEM GAMBLING LEVY

1. INTRODUCTION

- 1.1 This report is submitted to responsible Ministers by the Gambling Commission ("**the Commission**") pursuant to section 318(5) of the Gambling Act 2003 ("**the Act**").
- 1.2 As required, this report makes recommendations on the total annual amount of the proposed problem gambling levy for a three year period (being the initial levy period) and the proposed levy rate for each gambling sector.
- 1.3 The purpose of the levy is to recover the cost of developing, managing and delivering the Integrated Problem Gambling Strategy ("**Strategy**") proposed by the Ministry of Health ("**Ministry**"). This report should be read alongside the proposed Strategy, which, for ease of reference, accompanies this report.
- 1.4 It is noted, at the outset, that this report has been prepared under considerable time pressures, and is necessarily based on limited data, particularly around Ministry costings.
- 1.5 The Commission was requested to report to Ministers by 1 July 2004, to allow for regulations implementing the levy to be promulgated and for the Inland Revenue Department (**IRD**) to be able to start collecting the levy from 1 October 2004.
- 1.6 Owing to process delays (beyond the control of the Ministry), the Strategy was not provided to the Commission until 20 May 2004. Submissions received by the Ministry on the Strategy were delivered to the Commission on 3 June 2004. Additional information requested by the Commission relating to the Ministry's funding requirements was provided on 9 June 2004. Supplementary information on funding requirements has been obtained through discussions with relevant officials and the Commission's consultation meeting on 16 June 2004.
- 1.7 This report is based on the best information available in the time frame.

2. BACKGROUND

- 2.1 As part of the process for developing the Strategy, the Commission was required under section 318(3) of the Act to convene a meeting to consult on the Strategy and the proposed levy rates. That meeting was convened in Auckland on 16 June 2004.
- 2.2 In accordance with the Act, the Commission requested the attendance at that meeting of the Ministry, the Department of Internal Affairs (**“the Department”**), representatives of gambling operators who will be subject to the levy, representatives of providers of gambling services, and representatives of other groups whom the Commission believed likely to be significantly affected by the levy. A list is **attached** as Annex 1 of those attending the meeting and those organizations invited, but who declined to attend.
- 2.3 The issues raised at the consultation meeting are discussed and addressed in this report. A comprehensive summary of the key themes discussed at the meeting is **attached** as Annex 2.
- 2.4 Section 318(6) of the Act contemplates the Commission engaging experts to assist in its consideration of the Strategy and the proposed levy. The Commission engaged Neil Woodhams and Chris Heilbronn, from the health consultancy Medilink, to advise on whether the programmes proposed in the Strategy are properly costed, and to examine the use of presentation data by the Ministry. Both Mr Woodhams and Mr Heilbronn have significant health sector experience, as detailed in their profiles, **attached** as Annex 3. Medilink prepared a detailed report, **attached** as Annex 4, which has assisted the Commission by identifying issues for discussion with attendees at its 16 June 2004 meeting and in making its recommendations to Ministers.
- 2.5 Pursuant to section 318(5) of the Act, the Commission is required to report to responsible Ministers, with recommendations on the levy, within 10 working days of its 16 June 2004 consultation meeting. This report is submitted in accordance with this requirement.
- 2.6 Section 319(1) of the Act contemplates that, after considering this report, Ministers will recommend that the Governor-General, by Order in Council, make regulations requiring gambling operators to pay a levy to the Crown. In

recommending regulations Ministers may, at their discretion, take into account this report.

3. EXECUTIVE SUMMARY

3.1 The key recommendations of the Commission are as follows:

- (a) That the total annual amount of the levy for the 3-year period be set at \$54,998,250. This reflects the total amount of the levy recommended in the Strategy for a three year period, with the deduction of the Ministry's transitional costs of \$962,750 for the period 2001 – 19 September 2003.
- (b) That the 10/90 (expenditure/presentations) weightings agreed by Cabinet in December 2001 for calculating the levy rate for each gambling sector be revised to apply a 20/80 weighting for the initial levy period.
- (c) That, taking into account the adjustments to the Ministry's funding requirement and weightings described above, the levy rates for collection over a 36 month period be set as follows:

	Non-casino gaming machines	Casinos	NZ Racing Board	Lotteries Commission
Sector levy rates(%)	1.08	0.55	0.62	0.24
Estimated contribution (\$ millions, GST incl)	39.8636	9.3062	3.9658	1.7184

- (d) That Ministers consider directing Department officials to monitor and report on the extent to which funds generated by the levy are tracking against projected forecasts for each sector, in particular to identify if there is any significant over or under collection, in which case, a review of levy rates may be necessary.
- (e) That Ministers consider directing Ministry officials to report to Ministers and the Commission on an annual basis on the extent to which expenditure by the Ministry is tracking against the projections in the Strategy, identifying any significant under or over spending for each programme area.

- (f) That the Ministry be directed to provide to the Commission in three years (or such earlier time as the levy may be reviewed) more detailed information on costings, programme performance and problem gambling presentations than is currently available.

3.2 The Commission's recommendations are subject to the following observations about the Strategy and the proposed cost projections, which Ministers may wish to discuss with officials prior to agreeing the Strategy and the proposed levy amount:

- (a) The cost projections for the Strategy appear to be inadequate, but the Commission has not been provided with adequate data to determine the amount of the underfunding.
- (b) As a consequence of overall budget constraints, the Ministry has made a series of funding allocation decisions which may result in potential shortfalls in a number of areas.
- (c) Asian services (both public health and intervention) and research, in particular, may be inadequately provided for. It is also noted that there is no dedicated public health programme (and associated funding) for youth. Many service providers and industry representatives consider such a programme to be desirable. Close monitoring is required to ensure adequate resources are available.
- (d) The projected funding levels between public health and intervention services are mismatched and the latter, in particular, appear to be inadequate based on the likely increased demand for treatment services generated by the proposed public health campaign. The most significant impact is likely to occur in 2006/2007 when the social marketing and media campaign starts (funding for intervention services "flat-lines" at this point).
- (e) There is also limited ability in the funding plan to reallocate funding between public health and intervention services once the Strategy is agreed.

- (f) Administration and development expenditure is high in relation to the total funding amount, at 12%. Reduction should be possible and the funding which is released should be redirected to intervention services.
- (g) The proportion of proposed service funding allocated to generic public health services is not consistent with the presentation statistics for problem gamblers. Whilst the Commission acknowledges a growing body of evidence for Maori, Pacific, Asian and youth problem gambling, it is noted that 56% of problem gamblers are European and yet the generic funding is 35% of total public health funding in year one dropping to 25% of funding by year three.
- (h) Ministry officials consider that the level of resourcing for Maori may be inadequate, given the significant over-representation of Maori as problem gamblers, and the recognition of the need for targeted services.
- (i) Projected expenditure for the period 2004/2005 may be understated or inadequate. It is understood that the Ministry will not be able to meet the annualized cost of contracts taken over from the Problem Gambling Purchasing Agency (“**PGPA**”) on 1 July as a result of increases in contract volume levels part way through 2003-2004. As a result, some contracts may be discontinued and others restricted to lower amounts until such time as additional funding can be allocated.
- (j) Further consideration is needed of eligibility requirements. It is understood that under standard Ministry contracts with providers, funding will not be provided for treatment of non-New Zealand residents. Ministers may wish to consider whether this is appropriate, as problem gambling services are in effect funded by eligible and non-eligible gamblers, and the introduction of eligibility requirements would significantly change current access to services.

4. APPROACH

- 4.1 Section 318(5) of the Act directs the Commission expressly to make recommendations on the total annual amount of the problem gambling levy for a three year period and the levy rate for each gambling sector. The consultation undertaken by the Commission, expert advice received by the

Commission, and its own deliberations have focused principally on these two key matters.

- 4.2 The formula for calculating the levy rate is set out in section 320 of the Act. This report does not address or recommend changes to the formula, which is specified as follows:

$$\text{Levy rate} = \frac{((A \times W1) + (B \times W2)) \times C}{D}$$

- 4.3 Broadly, the top line of the formula establishes the total potential levy liability of each gambling sector. The bottom line of the formula, once calculated, establishes how much, per dollar of expenditure, a sector is required to pay by way of levy to the IRD.

- 4.4 The component values to which reference is made in the formula are described in section 320(2) as follows:

- (a) **A** - estimated player expenditure in a sector divided by the total estimated player expenditure in all sectors subject to the levy;
- (b) **B** - customer presentations to problem gambling services that can be attributed to gambling in a sector divided by total presentations from sectors subject to the levy;
- (c) **C** - the Ministry's funding requirements for the period for which the levy is payable;
- (d) **D** - the forecast player expenditure in a sector for the levy period; and
- (e) **W1 and W2** – weights, the sum of which is 1.

- 4.5 The Commission has examined and consulted on the component values to be used in the calculation of the levy rate and weightings W1 and W2. Cabinet agreed in December 2001 that W1 (expenditure) should be set at .1 and that W2 (presentations) should be set at .9 (equivalent to a 10% and 90% weighting). Because these weightings have not yet been prescribed in regulations, the Commission has concluded that it can also properly consider and make recommendations to Ministers on the values for W1 and W2.

5. ANALYSIS OF COMPONENT A, PLAYER EXPENDITURE

- 5.1 Data relating to Component A was provided to the Department by the IRD based on returns from each of the four gambling sectors subject to the levy. The Commission has no ability to independently verify these figures and is unable to comment further on Component A. No views on Component A were expressed by attendees at the 16 June 2004 meeting.

6. ANALYSIS OF COMPONENT B, CUSTOMER PRESENTATIONS

- 6.1 Component B has been derived from presentation data compiled by the PGPA. The PGPA is responsible for problem gambling funding until the Ministry takes control from 1 July 2004.
- 6.2 The calculations used in the Strategy document are based on presentation data for the period 30 September 2002 – 1 October 2003. For the purpose of calculating recommended levy rates, the Department suggested at the consultation meeting that the Commission should use more up to date data now available from 1 January 2003 to 30 December 2003. The Commission agrees with this approach and the most up to date data has been used in making its recommendations.
- 6.3 The PGPA data has been collected, analysed and published on a planned basis for six years and was described at the meeting as being very comprehensive.
- 6.4 The design of the PGPA data and reporting systems was, however, intended to provide information to assist in the planning and management of problem gambling counseling services in each year. Presentation data is used in the levy formula to serve a different purpose, namely, serving as a proxy for gambling harm. This is done by identification of numbers seeking problem gambling services and attribution of treatment to a gambling sector. The implications of this divergence in purpose between the PGPA data and levy presentation figures are discussed below.
- 6.5 The Commission considers the PGPA data to be robust in respect of what it measured for the reasons set out in the Medilink report (Annex 4). The issue is how that data should be used in the calculation of the levy, and whether, and to what extent, it provides an appropriate basis for allocating liability between gambling sectors for the payment of the levy.

- 6.6 With the exception of one, service providers were concerned that the presentation levels recorded by the PGPA represented only a very small proportion of the numbers of the problem gamblers in New Zealand. It was suggested that Asian presentations, in particular, did not reflect the true prevalence of problem gambling in Asian communities. The Salvation Army also reported that a current screening project is showing that problem gamblers often do not present at problem gambling service providers, but instead they and their families present at agencies which provide food, accommodation and other welfare basics. The Woodlands Trust expressed a counter view at the consultation meeting, namely that the estimated number of “true” problem gamblers was exaggerated, and that inadequate emphasis was placed as a consequence on the needs of true problem and pathological gamblers.
- 6.7 Concerns were expressed at the Commission’s consultation meeting that the use of the presentation data for the calculation of levy rates was subject to a number of shortcomings, including the following:
- (a) the presentation data related only to the primary identified cause of an individual’s gambling problem. No weight had been given in the presentation data or in the levy rate formula to so called “Additional Modes”, where people have gambling problems with forms of gambling apart from the primary cause;
 - (b) the presentation data did not reflect the initiating cause of a gambling problem. The Lotteries Commission was described by one casino representative, for example, as being the “pied piper” of the gambling industry, a position the Lotteries Commission rejected. Others referred to the nature and extent of Lotteries Commission advertising, which, it was maintained, normalised gambling and failed to acknowledge any need for caution or the potential risks;
 - (c) presentation data reflected the numbers seeking help, but not the extent of the problem or the assistance required. Clearly, the level of treatment required will have a significant influence on the cost of providing that service;

- (d) the presentation data included “affected parties” (eg family or whanau) as well as problem gamblers;
- (e) presentation data was not representative of the total gambling problem and therefore not appropriate as a proxy for harm;
- (f) the levy rate to recoup the costs of the proposed public health campaign should be calculated on the basis of expenditure rather than presentations;
- (g) access to gambling opportunities is a key factor giving rise to the problem gambling behaviour, suggesting that greater weight should be given to expenditure.

6.8 In response, the Department and the PGPA confirmed at the 16 June 2004 meeting that:

- (a) presentation data reflected only the primary cause of an individual’s presentation. It was noted that a minority (24%) identified additional problem areas, but that data regarding Additional Modes had not been collected by PGPA consistently and uniformly;
- (b) presentation data did not reflect the initiating cause of a gambling problem. This was characterised as a research issue;
- (c) presentations equated with the number of people seeking treatment. An individual was counted once, whether they received one session of treatment or many;
- (d) presentations from “affected parties” were not included in the presentation numbers.

6.9 The Commission is satisfied, as those attending the consultation meeting were, that the PGPA data was the best available and should be used to determine Component B of the levy formula. The Commission considers however that the proposed 90% weighting on presentations should be altered to take into account the concerns raised above and to acknowledge a wider view of gambling harm.

- 6.10 From its review of the PGPA data, it appears to the Commission that Additional Mode data may be statistically significant. For example, that data shows that, whereas 0.8% of new clients presenting for treatment identified Lotto/Keno/scratchies as their primary problem, 21.5% identified it as their additional, secondary, problem. The statistics also show problem gamblers with non-casino gambling machines as their primary mode also frequent casino gaming machines. Against this background, the Commission considers that analysis of additional modes should be an area for further development in the design of presentation data for the purposes of levy calculation. Given that the number of gamblers reporting additional modes of problem gambling is only 24%, a lower weighting would be required for this factor if it is included in the levy calculations.
- 6.11 The Commission considers that further consideration should also be given to what constitutes a presentation. The fact that one client might attend for treatment/assistance once and another for many treatments has a significant influence on the cost of providing that service (and possibly on the extent of the problem), and this should potentially be taken into account.
- 6.12 Taking into account all of the above, the Commission recommends as follows:
- (a) utilisation of the updated presentation data proposed in the Strategy for the initial levy period;
 - (b) that a review be undertaken by the Ministry of data requirements to best reflect harm in the future calculation of Component B. This review should address, inter alia, whether and the extent to which additional modes should be taken into account, and further assessment of what should comprise a presentation. This review should be undertaken within the next year, to allow early communication with service providers if data collection requirements are to be changed;
 - (c) adjustment of the proposed weighting on presentations in the initial levy period from 90% to 80%. In addition to compensating for some of the concerns regarding the data, the changed weighting is intended to reflect the fact that the Strategy is funding not only intervention

services to address gambling harm, but a broader public health campaign for which all gambling sectors should bear responsibility.

7. COMPONENT C – MINISTRY OF HEALTH FUNDING REQUIREMENTS

Ministry Proposals

- 7.1 The Ministry has costed implementation of its proposed Strategy at \$55.961 million for the three financial years commencing on 1 July 2004. Implementation of the Strategy will be funded from the consolidated account, with the IRD recovering funding of the Strategy from the 4 gambling sectors identified in the Act.
- 7.2 The problem gambling levy proposed in the Strategy across the three year implementation period is as follows:

Problem gambling requirement	funding	\$ million
2004/05		15.980
2005/06		18.997
2006/07		20.984
Total		55.961

- 7.3 Based on this funding requirement, the levy rates for each sector over a 3 year period have been calculated by the Ministry as follows:

Proposed problem gambling levy rates (36 months)

	Non-casino gaming machines	Casinos	New Zealand Racing Board	Lotteries Commission
Sector levy rates (%)	1.13	0.55	0.60	0.15

- 7.4 The Ministry funding requirements are based on cabinet funding levels approved in October 2001. The funding levels set at that time were up to \$9.8 million for 2002/03, \$15 million for 2003/04 (actual spending for this period was \$12.6 million) and \$20 million for 2004/05. It is understood these figures were revised by the Ministry in 2003, following a further needs assessment, and the revised figures approved by Cabinet for inclusion in the Strategy.

- 7.5 The Strategy has a dual focus of intervention (providing services to individuals) and public health (promoting the health of populations generally). This is as contemplated in section 317(2) of the Act. For the period 2004/05, a reasonably modest \$3.38 million increase is proposed on current spending to \$15.98 million. The Strategy states that a “significant proportion” of this funding is to be spent on “current services and realignment to Ministry of Health service specifications and requirements”. It is understood that this realignment will involve reviewing existing public health programmes to ensure all available and appropriate tools are being utilised, and providing training where necessary. In the treatment area, the Ministry will be working to ensure that services meet the requirements and quality standards applied to other Ministry funded services. The adequacy of funding for the period 2004/05 is discussed in section 9, below.
- 7.6 The expansion of services, and funding of new services is programmed to begin in 2005/06 and accelerate in 2006/07. This is reflected in increased funding for these periods to 18.997 and 20.984 million, respectively.
- 7.7 The projected requirements for the direct intervention programme have been based on the current spend for 2003/04 (\$7,856,396) with an increase in 2004/05 of \$1,751,604, a larger 20% increase to \$11,623,000 in 2005/06, with funds “flat lining” at this level in 2006/07. As discussed below, the projected expenditure levels appear to be mismatched and understated based on the likely increases in the number of problem gamblers who will present for treatment once the public health programme gains momentum, with the most significant impact likely to occur in 2006/07.
- 7.8 The public health component of the Strategy is new and differs markedly from the current intervention based approach. Necessarily, the Ministry has been unable to make cost projections based on existing programmes, and has instead used similar programmes such as “Like minds like mine” for this purpose. The Commission accepts this as a reasonable approach. It notes industry concerns that the proposed media campaign should be pitched at minimizing harm, while not stigmatizing gambling activity generally. Current funding for public health services for 2003/04 is \$3,843,604. This is projected to increase in 2004/05 to \$4,094,312, increasing thereafter by 23% and 36% to \$5,128,687 in 2005/06 and \$7,115,187 in 2006/07.

8. ANALYSIS OF MINISTRY FUNDING REQUIREMENTS

Lack of detail and alternatives

- 8.1 Both industry and provider representatives expressed concerns to the Commission that the Ministry's estimate of costs was insufficiently detailed to enable a full analysis to be undertaken, on one hand, to justify the level of expenditure proposed, and on the other to test the adequacy or otherwise of funding proposals. There was also criticism of the top down approach to developing funding requirements – with previous Cabinet determinations driving the funding benchmarks, rather than an assessment of the funding gaps, and how these needed to be addressed.
- 8.2 In making its recommendations in respect of Component C, the Commission is practically limited to consideration of the Ministry's prior approved projections. No alternative projections based on different expenditure projections were supplied. In these circumstances, while being concerned that projected expenditure over the next 3 years may be inadequate in the respects outlined below, the Commission is not prepared to recommend an increase in Component C. Its preference would be for properly funded effective programmes and it may have been prepared to recommend a higher total levy amount if alternative cost projections had been advanced to justify it.

9. LEVEL OF FUNDING

- 9.1 Concerns were expressed by most gambling service providers that proposed funding is inadequate. In particular, representatives identified services to Asian communities and youth and research as being underfunded. Service providers also reminded the Commission that beyond actual problem gamblers themselves, there were significant numbers (family, friends etc) experiencing gambling related harm which current services were not reaching. One service provider commented that the funding proportions were out of balance, with the amount spent on problem gambling services accounting for just 1.1% of losses on gaming machines.
- 9.2 At the consultation meeting, industry did not directly challenge the quantum of the levy (although in written submissions to the Ministry a number previously expressed concern that projected expenditure may be excessive). While industry indicated it was prepared to meet costs of effective treatment of

problem gambling, some industry representatives questioned how the Ministry had defined problem gambling and all were concerned to ensure levied funds were well spent. Concerns were also expressed that the levy may be used to cross-subsidise other services, eg the treatment of alcohol and drug problems. The Ministry confirmed that all funds would be tagged, and that “intermingling” will not occur.

- 9.3 Generally, it is noted that the “business as usual” basis for the projections reflects the level of funding that a self-regulating industry chose to accept. The Commission does not believe therefore that it necessarily addresses the true scale of problem gambling. Because of overall budget constraints determined by Cabinet, the Ministry has made allocation decisions which will potentially result in shortfalls in a number of areas.
- 9.4 Funding is likely to prove inadequate in the context, in particular, of a likely increase in demand for services over the levy period once a greater public awareness of the problem and the availability of treatment services is created by the public health components of the Strategy. The Commission is also concerned about the adequacy of projected expenditure on the youth and Asian sectors (which may require new or extended programmes not currently anticipated) and on research.
- 9.5 It is also noted that the proportion of service funding allocated to generic public health services is not consistent with the presentation statistics for problem gamblers. Whilst the Commission acknowledges a growing body of evidence for Maori, Pacific, Asian and youth problem gambling, it notes that 56% of problem gamblers are European and yet the generic funding is 35% of total public health funding in year one, dropping to 25% of funding by year three. Ministry officials consider that the level of resourcing for Māori may be inadequate, given the significant over-representation of Maori as problem gamblers, and the recognition of the need for targeted services.
- 9.6 It is noted that the level of administration and development expenditure is very high in relation to the total funding amount and the budget constraints described above. The proportion is 12% of funding in each year. This includes the Ministry’s public health and mental health operating costs and costs unrelated to provider funding (eg workforce training, coordination of services etc). It is understood that the Ministry draws a distinction between

expenditure directly incurred by the Ministry (its operating costs), and work-force training, resource development etc which it considers to be an integral part of the ongoing development and delivery of problem gambling services funded by the Ministry. The Commission's observation is that costs unrelated to provider funding, whether incurred directly or funded by the Ministry, are high in relation to the overall budget available to the Ministry, and should be capable of being reduced. The Commission recommends that the released funding should be allocated to provision of intervention services.

- 9.7 The Commission notes that there is little flexibility to move funding within the plan and that the Ministry considers that significant changes would require it to consult. Furthermore, it is understood the transfer of funding from public health to the personal health intervention services is precluded by the Ministry (NDOC) funding requirements which "quarantine" funding for public health. This suggests that unless funds are redistributed now, or administrative cost savings are found within the intervention services funding, a further injection of new funding would be required to address the under-funding issues identified in this report. Ministers may wish to discuss this with officials.
- 9.8 The Commission is advised that the Ministry will not be able to meet the annualised costs of contracts taken over from the PGPA on 1 July as a result of increases in contract volume levels part way through the 2003-04 year. As a result some contracts may be discontinued and others restricted to lower amounts until such time as additional funding can be allocated. Whilst the Ministry will manage this issue in the most effective way it suggests that the proposed initial funding amount is already inadequate.
- 9.9 It is understood that the Ministry has completed a gap analysis to identify new service requirements, but that provider capacity to meet those has not been fully assessed. It is uncertain whether there is sufficient provider capacity and this is likely to result in delays in establishing or extending services. This may indicate a need to defer some expenditure in the funding plan.
- 9.10 The Commission's advisors have raised with the Ministry whether it intends to apply the Eligibility Direction in contracting with providers for services. This is understood to be Ministry practice with almost all other health contracts. If the Ministry does apply the Direction, this will result in a number of current service users no longer qualifying for access, as they are non-residents. While this

approach is consistent with other health services it is noted that problem gambling services are in effect funded by eligible and non-eligible gamblers. The Commission recommends that this issue is considered further as a number of patients in this category will be part way through treatment programmes on 1 July 2004 and other treatment channels may be required for the long term.

10. ACCOUNTABILITY

- 10.1 At the consultation meeting by both industry and service providers emphasized the need for transparency and accountability. The Gambling Helpline, for example, called in its submission for “a clear and bold vision, with measurable targets, outcomes for “customers”, action steps, accountability and objective costings”. Some industry representatives spoke of “benchmarks”, which the Commission understood to mean reduction targets, and all supported the need for ongoing evaluation of programmes to enable the Ministry to focus and invest in those that work best.
- 10.2 The Ministry explained at the meeting that it has an accountability cycle and that all the problem gambling funding will be explicitly coded so that it cannot be used for other purposes. Accountability mechanisms included requirements to table an annual report in Parliament on the Ministry’s overall financial capability and performance, and to report on a quarterly basis to its Minister on expenditure, including implementation of the Strategy. It is also understood by the Commission that the Ministry audits contract performance by service providers, which involves assessment against a variety of performance indicators. The Commission believes there is also a need for additional monitoring of implementation of the Strategy at a broader level – to ensure that programmes are being delivered as projected and that they are proving effective.
- 10.3 While the Commission notes industry concerns that spending on problem gambling should be “ring-fenced”, it notes that there are inherent difficulties in doing so due to the co-morbidities that many gamblers suffer from. The Commission is advised that, on balance, this is likely to favour the problem gambling funding position as problem gamblers are accessing other services such as mental health and drug and alcohol in resolving their problems, as service providers attested at the consultation meeting.

11. SPECIFIC CONCERNS RAISED AT 16 JUNE CONSULTATION MEETING

11.1 The particular issues relating to Maori, Pacific, Asian communities and youth raised at the Commission's June 16 2004 consultation meeting are discussed below.

Maori Interests

11.2 It is proposed in the Strategy that funding of \$3,407,500 be provided for Maori public health services over three years. Problem gambling services for Maori are described as being at an early stage, requiring development.

11.3 Representatives underscored the significance of the Maori problem gambling – 31% of problem and pathological gamblers were estimated to be Maori in 1999, with a very high incidence rate amongst Maori prison inmates.

11.4 Concerns were also expressed to the Commission about the removal from the consultation draft of references to the Treaty of Waitangi. It is understood that the Treaty is recognized as implying a partnership to improve the health and wellbeing of Maori and all New Zealanders, and that Maori consider the Treaty should be the framework for the development and implementation of any gambling policy. A representative of a Maori service provider explained at the meeting that the removal of Treaty of Waitangi references reduced the "bargaining power" of Maori to ensure Maori concerns were addressed as tangata whenua.

11.5 The Ministry confirmed that it continues to recognise the requirement for a "needs based" approach, that the needs of Maori communities are high, and that there is no intention to reduce or minimise the funding or service development for those communities. The Ministry also stated that the Strategy had been developed taking into account the Ministry's obligations under the Health and Disability Act 2000 and in accordance with the Maori Health Strategy. The Commission anticipates that these documents will continue to guide implementation of the Strategy.

Youth

11.6 A number of service providers and gambling industry representatives expressed concern that the Strategy did not recognise and fund a targeted youth programme. The Problem Gambling Foundation reported that considerable resources had been invested in developing and piloting an

education programme for schools and expressed surprise that the Strategy did not propose funding a full “roll out”.

- 11.7 Responding to this, and concerns expressed that the Strategy did not adequately provide for elderly, those in custody, or families, the Ministry said that the Strategy had not targeted age groups as this would have fragmented the available funds to such an extent that no group would have sufficient funding.
- 11.8 Ministry officials have commented to the Commission that it has “no good evidence” that there are young problem gamblers, but acknowledged the potential for problems to develop and the desirability of promoting responsible gambling from a young age.
- 11.9 It is clear to the Commission that currently youth views on gambling, and the potential size of any gambling problems, are not well understood. Gaining this understanding would be a necessary underpinning to developing well constructed programmes targeting youth. Reaching youth and educating them in an appropriate way about gambling risks would, it is anticipated, require a carefully tailored and reasonably sophisticated approach (taking into account, for example, youth reliance on computer mediums). In relation to the education programme to which the Problem Gambling Foundation referred, the Ministry agreed that existing resources should be utilised, if appropriate.
- 11.10 Ministers may wish to consider reallocation or new funding for a targeted youth programme.

Asian interests

- 11.11 Casino representatives and a number of service providers indicated to the Commission that Asian problem gambling was under-reported. Providers stated that funding levels were out of date and inadequate to address current and predicted demand for services. Those providing Asian problem gambling services identified a number of recent trends including:
- (a) Asian communities becoming more prepared to address the issues;
 - (b) an increase of clients presenting to services;

- (c) more Asian women becoming involved in gambling; and
- (d) parents of grown up children becoming increasingly anxious to find out more about problem gambling.

11.12 A range of measures to address Asian problem gambling were proposed, including the establishment of a reference group on Asian problem gambling at a national level, and specific Asian services in Wellington and Dunedin (it was also noted that Christchurch shows a demand for more services for the Korean community). Measurement of the effectiveness of intervention services, together with systematic research to improve current understanding of Asian problem gambling in New Zealand, was also identified as necessary.

11.13 The Commission acknowledges there is anecdotal evidence suggesting a degree of prevalence and that resources could usefully be devoted to gaining a better understanding of the nature and extent of Asian problem gambling. It would appear to be a reasonable assumption that demand for services is increasing and will increase with the proposed public health campaign at a rate which may not have been predicted. Accordingly, the Commission observes that additional funding to Asian problem gambling services may be necessary, including research to ascertain the extent of problem gambling and how best this should be addressed.

Pacific Interests

11.14 The Strategy indicates that Pacific people are also disproportionately represented as problem or pathological gamblers. Although forming 2% of the population Pacific peoples comprised 14% of problem gamblers. Pacific representatives at the consultation meeting charged the Commission with ensuring the needs of Pacific communities were addressed.

Research

11.15 At the Commission's consultation meeting, industry and a number of problem gambling service providers emphasised the need for adequate research to be undertaken, with some service providers suggesting that the proposed research allocation in the Strategy - \$1 million annually from 2004-2007 – was insufficient.

- 11.16 The preferred research emphasis for industry was on defining problem gambling and its scope, researching where resources were best invested, and measurement of effectiveness of programmes once underway. Some service providers interpreted this as being a way of deferring action to address problem gambling.
- 11.17 The Gambling Research Centre emphasised the need for further research to ascertain why people gamble and become problem gamblers in order to inform future directions for public health and treatment intervention approaches, as well as monitoring and programme evaluation of current and proposed services, and evaluation of the effectiveness of proposed and implemented harm minimisation measures.
- 11.18 It was confirmed by the Ministry at the meeting that the research budget reflects only funding requirements for generic research, and that evaluating the effectiveness will be (as it is now) an operational part of all harm minimisation programmes.
- 11.19 The Commission observes that it may be desirable to provide additional research funding. It is anticipated that this would be applied, inter alia, to better understanding Asian and youth problem gambling issues, and to evaluating the effectiveness of programmes to be developed under the Strategy. For this reason, it is anticipated that any funding increases would be weighted to the outer years of the levy period.

12. COMPONENT D – FORECAST EXPENDITURE

- 12.1 It was acknowledged by the Department at the consultation meeting that there is a large degree of uncertainty in forecasting, given the changed regulatory environment for gambling activities and the implications of new legislation, including the Gambling Act 2003 and smoke free legislation.
- 12.2 The Department's forecasts appear to be very conservative having regard to historical trends, notwithstanding some faint suggestions by operators to the contrary. The Commission is aware that conservative forecasting enhances the levy collection rate and, if they are too low, over collection will result. If the forecasts were too high, recovery would be inadequate. In setting the levy for the next period, given the delay and potential uncertainty surrounding any future adjustments, it is desirable that actual recovery against budgeted

recovery be monitored over the next 3 years, and that Ministers be alerted if early adjustment of levy rates for particular sectors is necessary.

- 12.3 The Commission has outlined below how the Department predicted the forecast expenditure for each of the gambling sectors and is generally satisfied (in the absence of forward projections) that the forecasting method used in each instance is reasonable, if conservative. Section 322 of the Act contemplates that the Ministry can initiate an early reconsideration of the Strategy or the levy or levy rates “if there is a significant change in the gambling environment”. Ministers may also wish to consider recognising an ability of the Department to recommend a change in the levy rate if expenditure significantly exceeds or is significantly below what had been forecast for each sector, as a consequence of which there is significant under or over collection of levy funds.

Non-casino Gaming Machines

- 12.4 From 1998-2003, player losses on gaming machines increased at a rate of over 26% per annum because of an increase in machine numbers (17% annually) and more intense use of existing machines. The Department predicts that new limits on machine numbers and more stringent licensing and regulatory controls under the Gambling Act 2003 will result in a decrease in machine numbers. The rate of growth in player expenditure for the year to 30 June 2003 was 19.28% and this has been estimated by the Department to halve over the levy period to forecast growth of 9.64%.

Casinos

- 12.5 Player expenditure at casinos has been growing at a rate in excess of 11% per annum for the last 4 years. During this time it was noted by the Department that a new casino (Hamilton) was opened and the Auckland casino expanded its operations. The Gambling Act 2003 prohibits the licensing of new casinos and prevents the expansion of existing casinos. The Department therefore expects that player expenditure at casinos will continue to grow at a reduced rate of 7.6% per annum during the initial levy period.

New Zealand Racing Board

- 12.6 The Department noted that TAB player expenditure has been growing at a rate of over 2% annually, attributable to increased expenditure on overseas

racing betting and sports betting. This growth is expected to continue, and is forecast by the Department at 2.1%.

New Zealand Lotteries Commission

- 12.7 The Department advised that the international trend is for lotteries to reach a peak of popularity then gradually decline, and that player expenditure for Lotteries Commission products has followed this trend. Expenditure peaked in 1998 and 1989 and has declined at a rate of approximately 4.5% annually since.
- 12.8 This decline is counterbalanced by increased turnover this year, and the expectation that the Lotteries Commission will develop new products and marketing which could halt its general decline in sales. Accordingly the Department has predicted zero growth.

13. WEIGHTINGS

- 13.1 The Commission's recommendations on weightings is linked to its analysis of Component B, presentations (section 6, above).
- 13.2 It is clearly the Government's intent that gambling sectors giving rise to problem gambling behaviour should bear the appropriate proportion of costs associated with treating that gambling harm. The issue for the Commission is whether, because of the issues discussed in section 6 around the presentation data, it is appropriate to recommend to Ministers that increased weighting be given to expenditure.
- 13.3 As shown in Table 1 (below), changing the values of W1 and W2 to .8 and .2 (respectively) will slightly decrease the burden on non-casino gambling operators (from 1.12 cents per dollar of expenditure to 1.08 cents) and increase the liability of the Lotteries Commission from 0.14 cents in the dollar to 0.24 cents (GST inclusive). Casino operators will pay slightly more, and the New Zealand Racing Board slightly less. For the reasons set out above, it is considered appropriate to give slightly more emphasis to expenditure in this way, to reflect the broader public health focus of the Strategy beyond treatment of problem gambling harm.

Table 1**Levy Rate \$54,998,250 (10/90)**

	Non-casino gaming machines	Casinos	New Zealand Racing Board	Lotteries Commission
Sector levy rates %	1.12	0.52	0.58	0.14
Levies (\$million GST incl)	41.3400	8.7985	3.7100	1.0024

Levy Rate \$54,998,250 (20/80)

	Non-casino gaming machines	Casinos	New Zealand Racing Board	Lotteries Commission
Sector levy rates %	1.08	0.55	0.62	0.24
Levies (\$million GST incl)	39.8636	9.3062	3.9658	1.7184

14. TRANSITIONAL FUNDING

- 14.1 The Strategy's proposed levy includes the recoupment of transitional expenditure by the Ministry for the period 2001/02 – 2003/04 totalling \$1,450,998. It is also proposed that the levy be collected over a 33 month period (commencing 1 October 2004).
- 14.2 A legal opinion is **attached** as Annex 5 addressing the ability of Government to recoup the Ministry's costs incurred prior to 19 September 2003, and the levy period in respect of which the Commission is required to make its recommendations.
- 14.3 Section 320(3)(c)(ii) of the Act provides that the Ministry's funding requirements for the levy calculation must take into account "the estimated costs of the department that has responsibility for the integrated problem gambling strategy during the transition to the strategy in the period before the introduction of the initial levy".
- 14.4 The Commission does not recommend that the total levy recover costs incurred by the Ministry prior to it becoming departmentally responsible for Strategy on 19 September 2003. It does not consider that the gambling industry, which has paid other forms of levy over the prior period, should be required to meet expenditure incurred over a lengthy period prior to the commencement of the Act.

14.5 Equally, the Commission is concerned that, if Ministers share the Commission's reservations, the Ministry should not be required to absorb its transitional costs prior to 19 September 2003 out of funding earmarked for implementation of the Strategy going forward. There are already indications that the cost projections in the Strategy are inadequate, and any requirement to defray earlier costs would put unwarranted pressure on the Ministry's ability to implement the Strategy.

15. LEVY PERIOD

15.1 The Strategy recommends setting a shorter period for the initial levy period than 3 years. The underlying rationale is the assumption that the period of expenditure recovery should match exactly the levy period so that, if the levy period commences later than the related expenditure period, the levy period should be shortened and the cost recovered over the reduced period.

15.2 The Commission is, however, required under section 318(5) of the Act to make "recommendations on the **total annual amount** of the problem gambling levy for [a] . . . **3-year period**" and accordingly may not recommend a total annual amount on the basis that it will be imposed for, and collected over, a shorter period.

15.3 The Commission has therefore in its recommendations assumed a three year levy period starting whenever the necessary regulations come into force. All calculations and estimates used for estimating the total annual amount have been calculated on that basis. In making its recommendations, however, the Commission has adopted, in respect of the expenditure recovery period, a three-year period commencing 1 July 2004, plus an allowance for expenditure from the commencement of the Act until 1 July 2004.

16. ONGOING ROLE OF COMMISSION

16.1 The Act directs the Commission to set levy rates every three years (unless there is an earlier review). In the interim, Ministers may wish to consider directing the Department to monitor and report on the extent to which funds generated by the levy are tracking against projected forecasts for each sector, in particular to identify if there is any significant over or under collection, in which case, a review of levy rates may be necessary.

- 16.2 In addition to its routine reporting, Ministers may also wish to direct Ministry officials to report to Ministers and the Commission on an annual basis on the extent to which expenditure by the Ministry is tracking against the projections in the Strategy and identifying any significant under or over spending for each programme area. This may address some of industry and provider concerns about transparency and accountability.
- 16.3 The Commission has already noted in its recommendations that when it next reviews the levy, it expects the Ministry to provide more detailed information on costings, programme performance and problem gambling presentations than it has been possible to provide at this stage of the development of the Strategy.

17. CONCLUSIONS

- 17.1 The Commission thanks Ministers for this opportunity to review and comment on the Strategy, and the proposed levy and rates.
- 17.2 The Commission is, of course, available to answer any questions Ministers may have in relation to this report, and the Commission's consultation and deliberation processes. It is suggested that the Chief Gambling Commissioner be contacted in the first instance, with contact details set out below.

SIGNED

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