

Before Hearing Commissioners

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*under:* the s134 of the Gambling Act 2003

*in the matter of:* Application for renewal of casino venue licence

*between:* **Christchurch Casinos Limited**  
*Applicant*

*and:* **Gambling Commission**  
*Respondent*

Statement of Evidence of Geoffrey Vernon Butcher

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Dated:

5 November 2018

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## STATEMENT OF EVIDENCE OF GEOFF VERNON BUTCHER

### INTRODUCTION

- 1 My full name is **Geoffrey Vernon Butcher**. I am a Director of Butcher Partners Ltd, an economic consulting company in Christchurch.
- 2 Together with James Baines, I prepared the "Casino Impact Report: An assessment of the social and economic impacts of the Christchurch Casino" dated 29 November 2017 (the *CIR*). My primary role was to prepare the economic impact assessment.
- 3 I have the following qualifications and experience relevant to preparing that report and to providing this evidence:
  - 3.1 I gained an MA (Hons) in Economics from Canterbury University in 1978, and have 40 years of experience as an economist, including periods of employment at the NZ Institute of Economic Research and Lincoln University;
  - 3.2 I have published a manual on regional economic impact analysis in New Zealand and run workshops for government and council policy analysts on how to undertake analysis and interpret results, and over the last 20 years I have developed regional economic models for many New Zealand regions and these are used by various councils and other economic consultancies such as BERL and Infometrics;
  - 3.3 I have undertaken analyses of the economic impacts of a wide range of industries, and in particular I have prepared assessments of the economic impacts of a number of casinos, and have worked with Lincoln University on a number of studies examining the economic impacts of tourism; and
  - 3.4 In a decision of 11th November 2016, the gambling commissioners approved me as an independent economic expert for the purposes of preparing the *CIR*.
- 4 A complete C.V. of my relevant experience is attached in **Appendix 1** of this evidence.
- 5 I confirm that I have read the 'Code of Conduct for Expert Witnesses' contained in Schedule 4 of the High Court Rules 2016 as if references to the court were reference to the Commission. My evidence has been prepared in compliance with that Code in the same way as I would if giving evidence in the High Court. In particular, unless I state otherwise, this evidence is within my sphere of expertise and I have not omitted to consider material

facts known to me that might alter or detract from the opinions I express.

- 6 In preparing this evidence I have read the "Peer Review of Christchurch Casino Impact Report" by Professor Paul Delfabbro (the *Peer Review*) and the various submissions made regarding Christchurch Casinos Limited's application for licence renewal.

#### **SCOPE OF EVIDENCE**

- 7 My evidence will cover the following matters:
- 7.1 An extremely brief summary of my findings on the economic impacts of Christchurch Casino; and
  - 7.2 My responses to issues associated with economic impacts which were raised by the Peer Review and by submitters.

#### **SUMMARY OF FINDINGS**

- 8 My assessment of the casino's impacts on the Christchurch and Canterbury uses input-output models which are, in my opinion, the most appropriate models to use for local and regional modelling. In broad terms I calculate:
- 8.1 the operations of the casino and associated multiplier effects;
  - 8.2 the offsetting effects of all visitors to the casino spending less money on other goods and services than they otherwise would (diverted expenditure) and associated multiplier effects; and
  - 8.3 the impact on the casino on visitor numbers and the duration of visitors' trips to the city and region, and the associated expenditure and multiplier effects.

**Summary Table 1: Net Economic Impacts of Christchurch Casino on Christchurch City and Canterbury Region**

	Employment (FTEs)		Value Added (\$m / yr)		Gross Household Income (\$m / yr)	
	Christchurch	Canterbury	Christchurch	Canterbury	Christchurch	Canterbury
Casino	590	603	67	71	27	30
Trade Diversion	-520	-524	-46	-48	-22	-22
Tourism	26	26	2.3	2.3	1.1	1.1
<b>Total Impacts*</b>	<b>95</b>	<b>104</b>	<b>23</b>	<b>26</b>	<b>6</b>	<b>9</b>

\* Totals may not add due to rounding.

- 9 The results are shown in Summary Table 1 above. On balance the operation of the Casino leads to an estimated 95 Full Time Equivalent (FTE) additional jobs in Christchurch and an additional \$23 million per year of Value Added, including \$6 million per year of additional earned household income. The Canterbury net impacts are somewhat larger at 104 FTE extra jobs and \$26 million per year of extra Value Added, including \$9 million per year of extra earned household income.
- 10 Input-output models are less suited to national economic impact assessment, and Computable General Equilibrium (CGE) models are preferred. Because I am not an expert in CGE modelling, I asked Dr Adolf Stroombergen to assess the national value added impacts of the casino using the Infometrics CGE model, using information which I provided to him on the economic structure of the casino. Dr Stroombergen is a recognised expert in macro-economic modelling of the NZ economy, and he has used the Infometrics model to analyse impacts and provide policy advice in numerous studies for the NZ government. Dr Stroombergen estimates that the establishment of the Christchurch Casino has increased Real Gross Disposable National Income by \$70-140 million per year. This is a measure of the national (market) economic benefit of the Casino.
- 11 The Casino generates approximately \$18 million per year in tax directly. This is offset in part by the loss of tax from businesses

which lose spending to the Casino, but the net tax impact of the Casino is still substantial.

- 12 There are non-market costs and benefits associated with the Casino. The most obvious cost is the potential increase in harm from problem gambling, and the most obvious non-monetary benefits are associated with an increase in consumer choice, and with the contribution of the Casino towards providing a "big city" experience and increasing the sense of vitality in the city, particularly at night when the Casino is seen by patrons as providing a safe social and entertainment environment. The Casino plays a role in attracting new residents, businesses and visitors, particularly conference visitors. Funding from the Casino also contributes to the economic impacts of festivals and events such as Cup Week and major sporting events.

#### **Economic effects of no licence renewal**

- 13 If the Christchurch Casino closes, then the net positive economic impacts of the Casino would be reversed. A net 95 FTE jobs and \$23 million per year of Added Value, including \$6 million of earned household income, would be lost to the Christchurch economy, with slightly larger impacts at the regional level. At the national level, Real Gross Disposable Income would fall by in excess of \$70 million per year.

#### **RESPONSE TO THE PEER REVIEW**

- 14 The Peer Review of our report was undertaken by Professor Paul Delfabbro of the University of Adelaide. His overall finding was that "the report provides a comprehensive coverage of the social and economic impacts of the Casino's operations as required under the Act" and that "the economic modelling was appropriate, notwithstanding some questions about the amount of information presented concerning the assumptions used to undertake this analysis". However, he raised some issues regarding the economic impacts, to which I respond below.
- 15 In paragraph 28, Professor Delfabbro raises a concern about the meaning of the "% of respondents" figures in Table 4.2 of the CIR, and queried why this added up to 151%. As the footnote points out, respondents could make multiple responses, and the 151% means that on average the respondents made 1.51 responses. The point of the "percentage of responses" rows are to show the relative significance of the various responses. The aim of these latter rows was to make interpretation easier, but it seems to have added confusion rather than enlightenment, perhaps leading to the reader drowning in data.
- 16 Further, Professor Delfabbro wonders how Table 4.3 of the CIR was created. This was a simple analysis of the responses to questions 8

and 9 of the Casino Patron Survey (Appendix G of the CIR) (the *CPS*), broken down by origin of visitor (question 1 of the *CPS*). An explanation of the origin of Table 4.3 did not seem necessary, but obviously would have helped Professor Delfabbro. This demonstrates nicely the on-going tension between providing sufficient information to ensure clarity, and providing so much information that the report becomes excessively wordy.

- 17 In paragraph 29, Professor Delfabbro was unconvinced that the patrons were going to the casino “because it was a better venue”. I accept that I should have said “presumably because they thought it was a better venue”. I was using the standard economist’s assumption that consumers are making rational choices on the basis of the information available to them, and choose the best of the available options. Of course, if the consumers do not know about the alternative options, they can’t be sure they are choosing the better venue. However, local residents, who are the majority of casino patrons, will certainly know something about the quality of alternative venues, and even visitors these days are remarkably well informed by reviews on websites such as Trip Advisor.
- 18 In paragraph 30, Professor Delfabbro says “the survey does not ask a specific question about whether people come to Christchurch specifically because of the Casino.” While we did not ask that question directly, we did ask “How long do you expect to stay in Christchurch on this visit” followed by “Would you have stayed less time if the Christchurch casino was not here. If yes, how much less” (question 3 of the *CPS*). A simple comparison of the answer to “how long did you stay” with the answer to “how much less time would you have stayed if the Christchurch casino was not here” reveals those people who would not have come to Christchurch in the absence of the casino. We asked the question in the way we did so that we could look at the impact of the casino in both attracting people to Christchurch who otherwise not have come, and in extending the stay of those who would otherwise have stayed a shorter time. Both those impacts are relevant to assessing the economic impacts of the casino. The “Effects on stay” questions are frequently asked this way in surveys of patrons which aim to estimate the economic impacts of events and activities.

#### **SUBMISSION OF PROBLEM GAMBLING FOUNDATION (PGF)**

- 19 The Problem Gambling Foundation of New Zealand (the *PGF*) has submitted that our report does not provide sufficient information. My response refers solely to the *PGF* comments about the economic impact assessment. At paragraph 3.9, the *PGF* says that our report “does not report on the expected ... economic effects on the local and regional areas affected by the operation of the casino, and on New Zealand generally”. With respect, I disagree. I have reported on the local (Christchurch) and regional (Canterbury) impacts on

employment, household income and value added. I have also reported on the expected New Zealand impacts on Value added. Our report also comments on the effects of the casino on immediately adjacent businesses.

- 20 A wider definition of "economic effects" includes non-market costs and benefits. I accept that I have only reported on those matters covered by markets and monetary transactions and have not tried to place a financial value on the various social impacts which Mr Baines reports on. As we explain in our report, we have not attempted such valuation because previous studies which have tried to do this have generated enormously different results, thus demonstrating the difficulty, and arguably the pointlessness, of such valuations. In our view, it is the role of the commissioners to weigh up and compare the financial impacts and the social impacts. That this is the role of the commissioners seems to be also the conclusion reached by the PGF (paragraph 3.15).
- 21 In paragraph 5.2.6, the PGF says that "the modelling used to determine economic benefit ... is questionable, and probably requires more work to be done to state more clearly whether there has been a benefit" and appeals to para 24 of the Peer Review for support. Paragraph 24 simply refers to General Equilibrium modelling, and does not seem to say anything about whether the modelling is either questionable or sufficient. Paragraph 25 of the Peer Review describes the way in which such modelling is generally done, which was the way my modelling was undertaken, and then concludes in paragraph 26 that "on the whole, the information contained in this [economic impact] section is clear," while paragraph 27 says that "there are a few areas which could have been made clearer or need to be treated with caution." Given Professor Delfabbro's conclusions, and my responses earlier in this evidence to the minor alleged shortcomings identified by the Peer Review (see paragraphs 14 to 18 above), it is my view that the PGF's statement that the modelling is "questionable" is not substantiated.
- 22 In paragraphs 7.19 et seq, the PGF refers to "Economic degradation". First, I want to make the point that whereas the submission refers to the harm from gambling per se, it should be focussing on the difference in harm from gambling at the casino as opposed to whatever people would do instead, which may well be some other forms of gambling.<sup>1</sup>
- 23 Second, in paragraph 7.20 the submission refers to the increase in employment generated by gambling, and contrasts this with the loss of employment which might otherwise occur in the industries where

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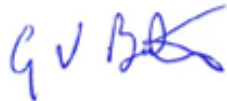
<sup>1</sup> The CIR describes the increase in non-casino gaming machines gambling when the casino was closed because of the Christchurch earthquakes.

money might otherwise be spent, implying that the casino possibly reduces net employment. My economic impact modelling takes explicit account of the reduction in expenditure in other areas. Whereas the submitter refers to potential lost employment per million dollars of spend in one area (retail), I have considered the loss of employment in the whole range of other areas where people say they would otherwise have spent their money.

### **OTHER SUBMITTERS**

- 24 Mr Whyte opposes the renewal of the licence. He considers that the survey sample is too small. In my opinion, the survey sample is of sufficient size for the purposes for which the results were used. Typically, a sample of 350 – 400 is required for large populations to give a +/- 5 % accuracy at 95 % confidence level.<sup>2</sup> The reason that we interviewed a lot more people (658 casino patrons in total) was to ensure that the sub-sample of visitors to Christchurch was also sufficiently large to draw reasonably robust conclusions.
- 25 Many other submissions, generally in support of the licence renewal application, referred to the positive economic impacts of the casino. However, I have not commented on any other submissions as I do not consider a response by me to these would necessarily assist the commissioners in coming to their decision.

Dated: 5 November 2018




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Geoffrey Vernon Butcher

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<sup>2</sup> That is, for there to be a 95 % probability that the true answer is within 5 % of the calculated answer. A population of 10,000 requires a sample of 370; a population of 100,000 requires a sample of 383; a population of 1,000,000 requires a sample size of 385. To have a 99 % probability of being within 5 % requires a sample of 660.

**APPENDIX 1**

## **G V Butcher: Summary of Relevant Experience**

This project relates to analysis of the economic impacts of casinos, including related tourism. Relevant project experience will relate principally to those two areas.

In the last thirty years Geoff Butcher (MA Hons - economics) has undertaken numerous economic impact and cost benefit analyses of a wide range of projects including tourism in general and casinos in particular.

Geoff's regional economic impact multipliers are used widely in the profession, and he provides them to COVEC, Infometrics and BERL amongst others. He has an excellent reputation for impartiality and integrity as an "Expert Witness", and has appeared on behalf of numerous clients before Commissioners, Councils, the Environment Court and the Casino Control. In the latter regard his evidence related to economic impacts arising from casinos and associated activities including tourism and conventions.

### **Casinos**

In 1992 Geoff was retained by Christchurch Casinos Ltd (the applicant) to estimate the economic impact of the Christchurch Casino, and to present the results to the Casino Control Authority Hearing. In 1995 he was asked by the CCA to undertake a review of the economic impact of the Christchurch Casino to see if the realised impacts were consistent with the forecast impacts, and concluded that all the impacts were in fact significantly greater than he had originally forecast in his submissions to the Casino Control Licence Application Hearings. Geoff was retained by various applicants to undertake further economic impact analyses for a proposed Wellington Casino (1996), the Queenstown Casino (1997), and the Hamilton casino (1998). He also gave evidence to the Casino Control Authority hearings for the Christchurch, Dunedin (2001) and Queenstown casinos.

### **Conference Centres**

In 2001 Geoff prepared a report for Sky City Casino on the likely economic impacts (changes in employment, output and value added) of the proposed Sky City conference and banquet centre adjacent to the Auckland Casino. In 2009 he prepared a report on the economic impacts of the Christchurch Convention Centre (2009)

### **Tourism**

Geoff has undertaken research into the economic impacts of tourism for the NZ Tourism Board and for DOC. He has worked with Lincoln University on several research projects on the economic impacts of tourism in different regions including Kaikoura, Rotorua, Westland, National Parks, and Christchurch. The research was funded by the Foundation for Research Science and Technology and by Tourism New Zealand.

Geoff has also worked on estimating the economic impacts of specific tourism projects such as Shantytown and the Queen Charlotte Walkway.

BUTCHER, Geoffrey Vernon : Economist

Date of Birth : 1 April 1953

Languages : English

Countries Worked In : Belize, India, Marshall Islands, New Zealand, Thailand, Tonga, Turkey, Tuvalu, Vietnam, Western Samoa.

Number of Years Professional Experience 38

**QUALIFICATIONS:**

- Master of Arts (Honours) in Economics; University of Canterbury, New Zealand
- Full year courses in financial and management accounting and commercial law (Open Polytechnic of NZ - 1989) and computer science (Canterbury University - 1986)

**FIELDS OF COMPETENCE:**

- Government Policy Analysis;
- Transport Policy analysis including demand modelling;
- Macro-Economic analysis and demand forecasting;
- Government price setting for goods and services
- Cost Benefit Analysis: Public and Private Sector Project Evaluation.
- Regional modelling and analysis of regional impact of projects including rezoning land;
- Analysis of Tourism and Casinos;
- Business Advisory Services (Business plans and budgets).

**PRESENT POSITION:**

Principal of Butcher Partners Ltd: Economic Consultants (from Jan 1984 with interruptions)

**WORK HISTORY:**

1990 - Principal of Butcher Partners Ltd: Consulting Economists;  
1989 Deputy Secretary for Finance & Acting Secretary for Finance: Tonga.  
1988 Economist: Ministry of Finance; Tonga  
1987 Lecturer in Economics at Lincoln University;  
1984 - 86 Principal of Butcher Partners: Consulting Economists;  
1979 - 83 Contracts Manager and Research Economist ; New Zealand Institute of Economic Research, Wellington, N.Z.  
1979-1983 Research Economist (NZIER).

**CURRENT WORK:**

A range of economic consultancy projects for New Zealand clients, both public and private sector, and multilateral agencies. Current projects include:

- Cost Benefit and economic impact analysis of irrigation projects;
- Evidence to Commissioners regarding ChCh City and Hurunui District plans.

**GOVERNMENT POLICY:**

- Arguments for and against government funding of Irrigation Development in New Zealand;
- Lecturing on principles and practice of economic restructuring (shifting from planned to market economies) to government officials from SE Asian countries (1997).
- Advising on hydrocarbons sector policy in Vietnam (1996 – for ADB);
- Advice to Marshall Islands government and Tuvalu government on transport planning (preparation of National Transportation Sector Plan) and development of Transport

- infrastructure, with particular reference to the impact of transport on economic development in outer islands and ways of introducing market principles into the government suppliers.
- Analysis of, and advice on, Indian industry assistance and employment generation programmes (2.5 months in India for World Bank, 1993).
  - A review of Foreign Aid assistance given by New Zealand Ministry of External Relations and Trade to the private sector in Western Samoa.
  - A study of New Zealand government drought assistance policy as it was applied in the 1988/89 Canterbury drought.

### **TRANSPORT POLICY**

- Economic Impacts of numerous ports and airports in NZ and Australia;
- Analysis of transport demand in Marshall Islands and Tuvalu;
- Regional and Industry impacts of changes to road pricing (from rates to fuel tax);
- Charging for Urban Transport services in Christchurch;

### **PRICING OF GOVERNMENT SERVICES:**

- Lecturing to international courses (in Thailand);
- Advising on government price-setting principles (Vietnam);
- Public Sector Service Pricing: A policy framework for the Ministry of Transport.
- Charging for Urban Transport services in Christchurch;

### **PROJECT APPRAISAL / COST BENEFIT ANALYSIS:**

A number of projects have been carried out in this area looking at both the national and commercial viewpoints. Recent work has focused on risk analysis of projects, probability distribution of outcomes, and valuation of non-market effects. Recent projects include:

- Costs, benefits & economic impacts of coal mining on the West Coast;
- Costs, benefits & economic impacts of irrigation in Hawkes Bay and Canterbury;
- Economic Impacts of Dairy farming and of Fish Farming;
- Costs and benefits of expansion of Dunedin's port;
- Economic Benefits of Flood Management at Lake Ellesmere.
- Project West Wind (Wellington, for Meridian Energy);
- Peer review of flood management in the Mararoa River;
- Replacement of earthquake-prone bridge in Christchurch, including valuation of intangibles;
- Lectured in Cost Benefit Analysis (including valuation of non-market goods) at Lincoln University.

### **ECONOMICS OF RESOURCE MANAGEMENT ISSUES**

Contribution to several cases before District Councils or Environment Court, examining the efficiency arguments relevant to the case and the effects on communities (economic impact assessment). Cases include:

- Rezoning of land for residential and industrial development in Oamaru, Dunedin and Ashburton;
- Electricity Development (hydro in Wairau Valley and wind in Wellington);
- Irrigation developments in Waitaki, Otago and Central Canterbury;
- Development of coal mining on the West Coast;
- Retail developments in Auckland, Wellington, and North Shore City
- Aquaculture in Marlborough;
- Christchurch International Airport: (Economic arguments against permitting subdivision in areas close to airport);
- Saving Heritage Buildings (non-market benefits of heritage buildings - for ChCh City);

### **REGIONAL ECONOMIC IMPACTS**

Development and continuous upgrading of input-output models of the regional economies of New Zealand since 1984. A number of regional economic impact analyses have been undertaken using the regional models. Examples of studies undertaken include:

- Rezoning of land for industrial use in Dunedin and Ashburton;
- Irrigation development in Canterbury;
- Economic Impacts of Aquaculture and Fish Processing in Nelson and Marlborough;
- Economic impacts of tourism in Kaikoura, Westland and Rotorua;
- The impact of various recreation and leisure facilities.
- Economic impacts of a number of ports and airports.

### **MACRO-ECONOMIC ANALYSIS**

Sectoral forecasting and macro-economic policy work including:

- Review of Fiji economy (desktop research) (1998).
- Review of the Tuvalu economy and likely transport demand (1995);
- Review of the Marshall Islands economy and likely transport demand (1994)
- Working for five years in the macro-economic forecasting team at the New Zealand Institute of Economic Research (1979 - 83).

### **TOURISM:**

- The Economic Impacts of tourism in various locations including Kaikoura, Rotorua, Westland, Christchurch & Banks Peninsula and several National Parks;
- Tourism and Energy Use;
- Economic Yield of Tourism in New Zealand

### **BUSINESS ADVICE:**

- Financial forecasting and control for boat-building company;
- Land development in both rural and urban context.