

CORRECTED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into 2003–04 budget estimates

Melbourne—30 May 2003

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Mr J. Pandazopoulos, Minister for Gaming;

Ms P. Armytage, Secretary; and

Mr R. Kennedy, Director, Office of Gaming and Racing, Department of Justice.

The CHAIR — Thank you, Minister. You have 5 minutes for the presentation.

Overheads shown.

Mr PANDAZOPOULOS — Just to give you some back background on how the portfolio works, we have transferred the gaming function from Treasury to the Department of Justice. The Victorian Casino and Gaming Authority is part of that. The director of gaming and betting, the director of casino surveillance and the gambling policy unit within the department's Office of Gaming and Racing is responsible for providing policy advice on all matters relating to gaming. The VCGA is the key regulatory body that regulates the casino, gaming equipment, including gaming machines, lotteries and wagering systems. The VCGA also has a statutory function to act as a source of advice to the minister on gaming issues.

The statutory position is that the director of gaming and betting and the director of casino surveillance assists the VCGA, but also has specific statutory roles and responsibilities, including minor gaming and lottery supervision and casino monitoring. The authority and the directors are administratively supported by the Office of Gambling Regulation within the department, and there is also the independent gambling research panel which conducts and monitors research into the social and economic effects of gambling and problem gambling.

The next slide is the regulation of gambling. The key functions are there: fostering responsible gambling, licensing and equipment approvals, investigations and compliance audits and casino regulation. Gaming policy advice is about gaming policy framework and legislation, analysis of gaming research and strategic advice on the future of gaming and on responsible gambling practices. The gambling research panel reports on dimensions of problem gambling, community attitudes, prevention, harm minimisation and diversion, and effectiveness of services for problem gamblers.

You have the gaming portfolio outputs there. I again remind you that the 2002–03 figures only reflect the six months since these outputs were transferred to the Department of Justice. On a like-for-like basis there has not been any material change to these output costs, and research commissioned by the gambling research panel is funded from the Community Support Fund with \$1.6 million currently provided for the approved research plans.

The regulation of gambling slide is there. Licences comprise mainly the issue of gaming venue licences, special employee licences, minor gaming permits and declarations of charities and community groups. Compliance services comprise mainly gaming venue and casino audits and investigations, revenue verification audits and casino regulation, and the performance measures for the regulation of gambling output are licences. We have a target in 2003–04 of processing over 16 000 licences. On compliance services, we have a target of conducting over 7000 compliance activities, such as audits, inspections, revenue verification, operator procedure and rule approvals.

In the quality area less than 0.1 per cent of licences are expected to be cancelled following disciplinary action as a proportion of active licences. One hundred per cent of gambling operations and audit branch functions are processed accurately. In terms of time lines 90 per cent of licences and 100 per cent of compliance services are expected to be performed within target times.

There are the key activities of the Victorian Casino and Gaming Authority — that is, the activities of the director, the integrity and probity of gaming industry, the implementation of government initiatives and implementation of legislation relating to player information on gaming machines, restrictions on gaming machines and limits on cash withdrawals from ATMs.

There is the gaming and racing industry management output. We showed you that slide when we did the racing ones. There are the recent government initiatives — that is, gaming machine design amendments, cash accessibility requirements, player loyalty scheme amendments, new player information regulations and the establishment of a problem gambling round table.

There is the gambling research program. The gambling research panel has a variety of research plans. There are 16 projects currently under way at a cost of \$1.6 million. Two research reports were released in April and also the national research program of the ministerial council on gambling is conducted and supported by Victoria. New government initiatives have been the banning of advertising of poker machines, establishing five new capped areas, extending current regional capped areas, increased powers for local councils on gaming issues, creating the role of the Advocate of Responsible Gambling, establishing the Commission for Gambling Regulation and consolidating gaming and gambling legislation. That is just a quick overview. I am happy to answer questions.

The CHAIR — You came in 40 seconds under time, Minister. Thank you very much. In your overhead on the gambling research program you refer to the national research program of the ministerial council. Can you outline the work Victoria is doing, particularly on that national research and the collective efforts?

Mr PANDAZOPOULOS — Since coming into government we have been very conscious that there is a lack of proper research about effects of gambling and measures that might be able to assist. We are also conscious that much gambling research came from the industry or the community sector and therefore was viewed as coming from a certain point of view.

The small amount of gambling research that was being done was being done by the casino and gaming authority and the public was concerned about what it perceived to be a lack of independence. We made a policy decision to create an independent gambling research panel with three people on the board who administer the research program. We are conscious that because not much research has been done the research we do in Victoria is of value to other jurisdictions. Much of our research, you can understand, can have similar benefits in other jurisdictions.

Because of our large commitment and approach to setting up an independent gambling research panel we highlighted at a previous ministerial council — which I think met in Adelaide and was hosted by the federal government — that there was a need for better national cooperation. Whilst we will continue to make efforts in terms of work through the independent gambling research panel we offered Victoria as the centre of gambling research excellence. That was endorsed and we have recently given permission and signed off on a memorandum of understanding with the commonwealth and all jurisdictions have agreed to have that national research effort based in Victoria to work with us out of the Department of Justice. Obviously that will be about ensuring that we are not only getting best value for the dollar in terms of research, but that the research is shared.

Some research has the potential to be cost shared with other jurisdictions because we are all trying to understand the same thing. It is a real sign of confidence in what we are doing in Victoria that every jurisdiction across Australia, including the commonwealth, says, 'Yes, the research effort that is happening in Victoria is leading the way and we want to be part of that effort'. They have given us that task. Some dollars come from the commonwealth and other jurisdictions in terms of shared costs and we have the additional costs of running the independent gambling research panel. That reflects how Victoria is leading the way. All of this research will be of value not only to Victoria but to a range of jurisdictions. Certainly some of the research projects we are involved in are getting not only national but also international attention.

The CHAIR — Where do we find any contributions from the commonwealth government and from interstate in the budget papers? Where will they appear once they flow through?

Mr PANDAZOPOULOS — The state contribution is provided out of the Community Support Fund. They are paid into a trust fund that we hold the account to.

Mr FORWOOD — I refer you to page 237 of budget paper 3 and to the annual report of the Victorian Casino and Gaming Authority. My question is about the funding. The \$17.5 million shown as the total output cost, is that all special appropriations or are there other sources of funds that come for the regulation of gaming from other sources? If so, why? And where is it accounted for, the funds that Dr Lahey got in order to ensure that probity checks took place? Where do I find the receipts, in the budget papers or the annual report? If you look at the annual report, page 62 —

The CHAIR — Have you got an annual report?

Mr FORWOOD — I have the annual report here if you need it.

Mr PANDAZOPOULOS — It shows other revenue received.

Mr FORWOOD — There is a note on the accounts that explains what those two figures are. I would have thought — —

Mr PANDAZOPOULOS — We will find a separate page for you in there where there are some details.

Mr FORWOOD — Thank you. Do you get the issue I am driving at? What are the sources of income that go to fund the operations?

Mr PANDAZOPOULOS — I am happy to get more detail later on, but on page 76 of the report in part 19 of the financial statement, it has ‘Administered items’. That covers a whole lot of different areas, but it is basically a special appropriation that covers the running costs and that roughly equates to the cost of administration of regulation of the industry that is paid as part of the contributions.

Mr FORWOOD — That is the output group on page 237 of budget paper 3, is it not? It comes from special appropriation?.

Mr PANDAZOPOULOS — Yes, the \$17.5 million. It comes out of special appropriation.

Mr FORWOOD — It comes out of section 84 or 94 of the Gaming Act?

Mr PANDAZOPOULOS — Yes.

Mr FORWOOD — But the issue is that that when you look through that document, yes, you start with some funds from special appropriation and then you get other funds in as well. Where do you account for the fact that you had a private individual pay a substantial amount of funds? It should appear in the accounts.

Mr PANDAZOPOULOS — The private individual being?

Mr FORWOOD — Mr Lahey’s decision to seek reimbursement for probity checks — —

Mr PANDAZOPOULOS — This is International Gaming Technology?

Mr FORWOOD — Yes, which happened in that year.

Mr PANDAZOPOULOS — As you know, there is a reference to IGT on page 76 of the annual report anyway about how it is accounted.

Mr FORWOOD — I am not talking about IGT. I am talking about the general principle.

Mr PANDAZOPOULOS — I know, but the point is this is an annual report for the dollars the department has. The department also has a function to help administer revenue collected which goes to Treasury, so it obviously does not appear as part of its annual report because it is in the Treasury books, it is not part of the board’s annual report. However, I am happy to provide you with further detail of that.

Mr MERLINO — I refer you to your presentation and the slide that outlines recent government achievements. Can you describe to the committee some of the key responsible gambling initiatives in effect as at the beginning of this year?

Mr PANDAZOPOULOS — A number of measures flow on from new initiatives in gambling legislation, and regulations commenced on 1 January. They were a ban on accepting bank notes of more than \$50 denomination as note acceptors, a ban on autoplay facilities, a limit on game spin rates, and the requirement that machines be capable of generating game and player information including the amount of time and money spent by the player in a session of play. That applies to all new machines that have been introduced from 1 January.

This must apply to all existing gaming machines. We require the industry to replace those gaming machines over five years unless they are in exempt areas which are allowed under the act. The operators are allowed up to 1000 machines to be exempt, subject to people having the ability to preset their own loss limits; but any new machine which is replacing an existing machine must have these additional gaming machine redesign functions. I reported to the Public Accounts and Estimates Committee last year about this initiative. It has now commenced and will be fully carried out over the next few years.

Other measures are a complete ban on ATMs in gaming rooms, a cap of \$200 per transaction on withdrawals from ATM and EFTPOS machines located elsewhere in a venue, compulsory payouts by cheques for winnings over \$2000 with payouts of less than that by request, and these are all part of the gaming machine legislation amendment that went to Parliament in 2002. These are just some of the initiatives that have commenced and there is more as a result of that legislation that flow on in areas like player loyalty schemes and limiting outdoor advertising.

Mr RICH-PHILLIPS — I would like clarification on the output group, gaming and racing industry management. You said the early slide relates to the other output group, that after machinery of government changes there is no difference to the cost of the output group to that effect in your presentation. There is not a footnote in

relation to the gaming and racing industry management output group. Can you clarify what is the quantum of the machinery of government changes to that output group and what is the real difference in funding between the \$900 000 for 2002–03 and the \$6.2 million for the coming year?

Mr PANDAZOPOULOS — It does only reveal expenditure since the transfer to the Department of Justice — that is a period of approximately six months as well. Actual expenditure for the full year, I am told, across all three departments where the functions sat in different forms will be in the order of \$1.4 million, which is similar to the provision being made in 2003–04. The 2003–04 target expenditure of \$6.2 million includes the one-off \$3.75 million for the Australian Racing Museum at Federation Square, \$380 000 for the Living Country Racing program and salaries, operating overheads. I did actually cover this in the racing slide, and I know that just the way that the outputs have been organised — they are combined but we treat them as separate portfolios — they all add up to \$6.2 million.

Mr DONNELLAN — Can you outline the role of the advocate for responsible gambling?

Mr PANDAZOPOULOS — Yes, this is a new position created by government. It is one of our election commitments. We have seen that there is a need for someone in government to take an overarching role looking at not only regulation but also education and service provision in a whole-of-government way — obviously there are different parts of government that have responsibilities for those different functions, but having a position that overarches all of that. We have advertised for the advocate and will be interviewing next week. The role of the advocate will be to encourage, promote and facilitate responsible gambling in various forms, provide a channel for community concerns about gambling — how you channel the many different ideas that come across from community and how you work through them to decide the priorities, what will work out of all the gamut, where is the value in doing further work on them in terms of meeting objectives, and providing advice to the government in development of services and strategies to promote responsible gambling. In other words, what are the types of education campaigns you might undertake, what additional strategies, are there any gaps in service provision or those sorts of things, how efficient are we in service provision — they will look at all those things.

We will also announce that the advocate will play a leadership role, working closely with the problem gambling round table, an initiative we started late last year to get the community sector and the gambling industry sitting around together trying to identify the key areas that they could improve on in terms of responsible gambling outcomes. Gambling, as we know, is a legal product, but some people end up having problems, and it is about how we can alleviate that in a cooperative approach. There are some things you can do by service provision, others you can do by education, regulation, and industry delivering on its own in a cooperative, holistic effort. That is what the round table is about, and we feel the advocate is well placed to chair that round table, to lead those debates. We have six working groups dealing with different areas of initiatives around that, and they are working through a number of possible initiatives that the advocate can then follow through.

The position will be filled by a senior public servant, and the office will be supported by its own secretariat. It will be funded as part of the government's increased expenditure on problem gambling initiatives which were announced in the election campaign. It was advertised in the national press on 12 April, an executive recruitment firm was engaged as part of the recruitment process and, as you heard, there will be interviews next week and we anticipate that the person will be selected by the end of June. We think the advocate's position is a valuable one to take that holistic strategic approach across all areas of government about what is responsible gambling.

Mr FORWOOD — I return to the annual report, page 62. It has an expense item of probity and credit checks of \$260 000. I make the point that if that is shown as an expense, one would have thought the contributions towards it should be shown as a revenue item, but I will leave that to you to deal with later. It shows that the net result for the period was a loss of around \$750 000. If you turn to page 74 you note that the accumulated deficit at the beginning of the financial year was \$2 million and you lost another \$750 000, so at the end of the year the accumulated deficit was up to \$2 750 000. I guess my question is why do you operate at a deficit, or what will you do to resolve the issue? Again, my question is what is your relationship with the audit committee of the casino and gaming authority? Do you want this?

Mr PANDAZOPOULOS — No. The \$700 000 you were referring to, you referred to a figure of \$700 000?

Mr FORWOOD — The net result was \$725 000, the loss for the period.

Mr PANDAZOPOULOS — Yes. That is right. Now what you should be aware of in terms of the way special appropriations are done is that they are cash draw-downs as compared with expenses on an accrual basis, so this is an estimate of what it would cost to deliver the function. But, of course, in the end the detail of it may end up varying. That is why you have a special appropriation because basically the industry is paying a contribution for those investigations. That goes to Treasury, and Treasury gives a working amount of available funds to the regulator to be able to deliver those regulatory functions. The advice that I have is that is a matter of accounting treatment rather than efficient management.

Mr FORWOOD — You might like to take it on notice and get back to me. I do not think that it is good practice for you to continue to operate at a deficit each year. I also make the point that the accounts on page 62 show that there was a depreciation of over \$1 million so it is obviously not just cash. I would appreciate some advice.

Mr PANDAZOPOULOS — There are assets that get depreciated, of course.

Mr FORWOOD — But we have a significant body under your control that according to its own annual report was obviously operating at deficit last year and had done so the year before, and I wonder what will happen this year. Perhaps you could explain it to us.

Mr PANDAZOPOULOS — Again I would imagine it has been like that for many, many years, including a period not of our government.

Mr FORWOOD — If it is, let's — —

Mr PANDAZOPOULOS — I think it is just part of the problem of special appropriations where you have a probity function to undertake and it is a bit hard to be able to predict in its entirety how much you may need to expend on some of these sorts of things to fulfil the statutory obligations under the act. Certainly there is more work in trying to predict what is required. Obviously that is something that occurs with Treasury. I am informed that we do actually come in under budget, but that figure is part of that cash accrual way of dealing with it. But I am happy to get more information for you, Bill. We will get it to you in writing.

Mr FORWOOD — Yes, okay. That will be excellent.

The CHAIR — Minister, in your overhead presentation under 'New government initiatives' you referred us to the role of local government. Can you give us some background on any expenditure in relation to your work with local government and how that has facilitated responsible gaming?

Mr PANDAZOPOULOS — We believe local governments needed to have more say in what their community wanted, as well as a localised analysis of impacts, so we legislated for gaming venue applications to require social and economic impact tests. The councils had the opportunity to choose whether they made representations about whether a venue met the social and economic impact criteria. It is a requirement on the regulator that it has to be a net benefit, and that allows local councils to have a say. Many councils avail themselves of that opportunity to make a submission either for or against a venue. Some decide not to make any submission at all and be a bit neutral about it. I understand that there are about 10 current applications to the regulator, and local governments have made about six submissions. So that whole focus — —

The CHAIR — How many submissions? Could you say that figure again?

Mr PANDAZOPOULOS — Six submissions at the moment, is what I am advised, out of 10 applications that are sitting there, which might be about relocation of venues or about five extra gaming machines. I am not sure what the applications are for, but I am advised that out of 10 that are there local government made six submissions. In terms of more detail, we think there is still more work to do. We have been encouraging local councils to develop their own local gambling policies and charters and they have been doing that in conjunction with their local communities and gambling venues, because there are a whole lot of responsible gambling initiatives that can be taken at the local level that do not require law or regulation. They actually require cooperation on certain things and many councils have that. I think it is a pretty good effort by local government. We have seen a bit of debate in recent times that the Shire of Melton has changed its gambling policy in order to — —

I think it had a policy of no extra gaming machines in the Shire of Melton and it has changed that to no extra gaming machines in the Melton suburb itself. It just highlights it. At least communities are out there debating it. It was not long ago, only a few years ago, that councils were threatened they would be sacked if they wanted to

engage in what was seen as predominantly a state regulatory function. It is a state regulatory function, but we believe that input is important.

As part of our election commitment we have decided to do further things. Caps have been set in five areas, which has involved local government. We will be having further caps in another five areas across Victoria, in Warrnambool, Geelong, Shepparton, Moonee Valley and Ballarat. We will be extending caps in the existing capped areas and there will obviously be local government involvement in all of those. But we have also said we want the right to appeal the authority's decisions at the Victorian Civil and Administrative Tribunal — that was part of our election commitment — and also the introduction of amending planning legislation that would require planning permits for all gaming venues.

There is no requirement for planning permits for every single gaming venue. Any venue with less than 25 per cent of floor space to be occupied by gaming machines does not require a permit at the moment, but we will be changing that. There are more opportunities for councils to be involved. They are important partners and in the end the regulator has to make the best decision based on everything else, but we think the input of local councils not only helps the regulator to be better informed when making its decision, but also allows local government to engage in more things that help deliver responsible gambling outcomes in local communities.

Mr FORWOOD — I just wanted to follow up on the last part of my earlier question — did you meet with the audit committee? — which was not answered.

Mr PANDAZOPOULOS — I am very conscious that the Victorian Casino and Gaming Authority is independent. I do have meetings maybe a couple of times a year with the chair of the VCGA on strategic issues, as we should. They are subject to the Auditor-General as far as overseeing what it does as a regulator. I am very conscious of the independence of the regulator in doing its job. The auditors have ticked off on all their books and I am generally pretty satisfied about the outcome.

Mr FORWOOD — Why would you meet with the audit committee of Tourism Victoria and not with the audit committee of the Victorian Casino and Gaming Authority?

Mr PANDAZOPOULOS — There have been occasions where the chair of the audit committee of Tourism Victoria has wanted to raise a couple of issues with me and sound me out, and that is entirely appropriate, but — —

Mr FORWOOD — For example?

Mr PANDAZOPOULOS — One of the issues it wanted to raise was what the Auditor-General raised about the way that staffing entitlements were handled in 1998. It had to keep me in the loop about its need to work through this, because it obviously had not been discovered until recently. It was doing its job. As I said, I meet with the chair a couple of times a year. I am very conscious of the authority's independence and we have been very deliberate about it and the independent research panel taking responsibility to govern themselves. You have to meet just to touch base.

The CHAIR — That was — —

Mr FORWOOD — It is a follow-up to the last question. In my electorate there are a number of Returned and Services League clubs — and I could name four of them — which they say are finding life extraordinarily difficult because of the smoking bans. I understand you have met with Clubs Victoria. Are you aware of the stress that is being placed on some RSL clubs that have entered into expansions and have considerable debt which they are now finding very difficult to service because of a drop in revenue from poker machines, in some cases over 20 per cent? This has been going on now for eight or nine months. I think people expected it to dip and then come back, but it has not. I can give you the names of the four clubs afterwards if you like.

Mr PANDAZOPOULOS — I understand that the smoking ban has affected clubs. It varies according to different venues. Overall gambling is down about 12 per cent since the smoking bans took effect on 1 September. The ban was introduced as a health measure and businesses know that the regulations the government makes may impact on their forward planning.

The analysis that has been done indicates it is different in different areas. Some venues have limitations about how they adjust to smoking in terms of what they do and how they provide smoker rooms. They may have logistical problems because of the nature of the venue. Some clubs that were going through refurbishment have had the

money to do the capital upgrade sooner rather than later. We are not sure what the long-term effects will be of the smoking bans. All we know is what the financial analysts are saying — that revenue will bounce back. We will see about that, but at the moment it is 12 per cent down and is impacting on those venues.

Our responsibility is about the regulation of gambling rather than the business difficulties venues have, but the government is conscious of these impacts and I can imagine that RSL clubs, like some other venues, are looking at how, in meeting the requirement for bans on the gaming floor, they can modify their buildings to accommodate smokers in appropriate circumstances. They are all struggling with that, but some are doing better than others. That is about all I can say. We have met with Clubs Victoria and have had discussions with the RSL as well. As I mentioned to Mr Baxter earlier, there are some strategic things that can be done not only in relation to working with those involved in tourism but also working with the sector to help improve their management.

I have certainly not had advice that says that the clubs sector may not manage themselves as well as the pubs sector. I am not saying that at all, but obviously there are different tensions. Many clubs are not-for-profit organisations and they involve a lot of membership association issues and not just managers of the gaming venue to maximise the returns or the profits from the gaming venue. A lot of management focus is on other parts of the organisation and perhaps there are some strategic things that we can do to help the club sector improve its level of support to managers to manage venues as an industry initiative rather than as a gambling regulation issue. I am wearing a few different hats in answering this question.

Mr FORWOOD — We would not want the RSL clubs to fall over.

Mr MERLINO — Minister, will you inform the committee as to the status of the government's regional reforms?

Mr PANDAZOPOULOS — The committee will be aware that as part of legislation we allowed for capping areas. The objective of caps is to say that no extra gaming machines will be allowed in certain localities. Three things were identified in terms of vulnerable areas — accessibility to the public as to gaming machines; the average player loss; and the socioeconomic status of a particular area as ranked by the Australian Bureau of Statistics. We looked at areas and said, 'Where do you start?'. Some areas were high on two or all of those indicators. The five areas are: Darebin plus, Maribyrnong plus, Greater Dandenong plus, City of Latrobe and Bass Coast shire. There have not been any extra gaming machines in those area since the caps have been put in place.

There is a requirement that by February each year there is a set reduction in four of those five capped areas to bring down the number of gaming machines to more reasonable levels and they are on target, so there has been a reduction of gaming machines across four of those five regions. As I said, work is being done in expanding those existing capped areas into neighbouring areas that have similar criteria and setting new capped areas. We will work on those once we have all the updated information from the 2001 census figures, which are not fully available yet. The socioeconomic data is not fully available as yet and once we have those we will start working on them and implementing the extra caps. Predominantly it is about saying to those communities who feel they have a high concentration of gaming machines that there will be no extra gaming machines. You can move gaming machines around within the area out of the existing cap subject to the approval by the VCGA and meeting all the other requirements that it has. It simply means no additional gaming machines and that has been loudly applauded by those communities. They are simply on the areas that are perceived to be doing it tougher.

The CHAIR — Thank you, Minister. That concludes the budget estimates for the portfolios of tourism, gaming and racing. I thank the minister, departmental staff for their attendance and Hansard. The information you have provided has been very useful. We will circulate transcripts and write to you in relation to the matters that you have taken on notice and any other matters about which the committee wishes to communicate with you.

Witnesses withdrew.