



Cabinet Policy Committee

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18 June 2001

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Title	Gaming Review: Paper 6: Problem Gambling (B): Funding of Problem Gambling Services
Purpose	This is the second of three papers on problem gambling. It seeks decisions in principle on the sources of funding for problem gambling services.
Previous Consideration	<p>In August 2000 Cabinet invited the Minister of Internal Affairs to arrange for the Gaming Review to examine the treatment of problem gambling and ways in which the provision of treatment could be better coordinated by the Ministry of Health [CAB (00) M 28/3].</p> <p>In October 2000 the Cabinet Committee on Government Expenditure and Administration approved the terms of reference for the Gaming Review, including a requirement to review the extent and nature of the social and private costs of gaming, including the potential for problem gambling [EXG (00) M 16/13].</p> <p>The first four papers on the Gaming Review were considered by Cabinet on 18 June 2001.</p>
Summary	<p>The present arrangements for funding problem gambling services through the Problem Gambling Committee are unstable. Decisions on the funding of problem gambling services may be affected by the Government's Tax Review which is due to report in September 2001. They may also be affected by decisions arising from other gaming review papers as to whether gaming proceeds should be required to fund community purposes and, if so, whether the requirement should be met by a community purposes levy on gaming operators.</p> <p>Five options are presented for the funding of problem gambling services. They are listed in recommendation 2.</p> <p>Final decisions on the method of funding problem gambling services should await the Government's decisions on the Tax Review. Alternatively a method of funding could be chosen now from options which enable the gaming sector to bear the cost of assessed harm.</p>
Baseline Implications	There are no immediate financial implications.

Legislative Implications	Decisions will eventually form the basis for subsequent gaming legislation.
Timing Issues	None indicated.
Announcement	None indicated.
Consultation	<p>DPMC, Treasury, SSC, IRD, Justice, Crime Prevention, Economic Development, Consumer Affairs, Health, Social Policy, Senior Citizens, TPK, Pacific Island Affairs, Women's Affairs, Youth Affairs, Culture and Heritage, Tourism and Sport, Education, MFAT, Police, Customs, Child Youth and Family.</p> <p>This paper incorporates consideration of 1300 submissions to the consultation document released on 28 February 2001 and feedback from targeted meetings.</p> <p>The Minister indicates that the coalition consultation Minister has been consulted and that consultation with the Government caucuses is not required.</p>

The Minister of Internal Affairs recommends that the Committee:

Instability of Current Funding Arrangements

- 1 note that the present arrangements for funding problem gambling services through the Problem Gambling Committee are unstable because:
 - 1.1 membership of the Committee is voluntary;
 - 1.2 funding comes from a mix of voluntary contributions from (most) gaming operators, supplemented by a mandatory levy on non-casino gaming machine operators;
 - 1.3 purchasing requirements and pressures to incorporate prevention strategies have reached a level that members believe to be beyond the capacity of a voluntary committee to manage; and
 - 1.4 all members of the Committee believe the government should contribute funding;

Options for Future Funding of Problem Gambling Services

- 2 note that five approaches to the funding of problem gambling services have been examined, namely:
 - 2.1 status quo (a mixture of voluntary gaming operator funding and mandatory levy on gaming machines);
 - 2.2 tied tax/mandatory levies (with funds earmarked for problem gambling services);
 - 2.3 local authority levies;

- 2.4 gaming sector duties;
- 2.5 general taxation;
- 3 agree in principle, subject to further work on the Gaming Review to be reported to the Cabinet Policy Committee by 31 July 2001, that the gaming sector should be required to bear the costs of harm caused;
- 4 **EITHER**
- 4.1 agree that final decisions on the method of funding problem gambling services should await the Government's decisions on the Tax Review, which is due to be reported in September 2001;
- OR**
- 4.2 decide on a desired method of funding problem gambling services from options 2.1 to 2.4 above (all of which enable the gaming sector to bear the cost of assessed harm); and
- 4.3 note that option 2.5 (general taxation) does not enable the gaming sector to bear the cost of assessed harm.

Andrew MacKenzie
for Secretary of the Cabinet

Copies to:

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Nicola White, DPMC
Chief Executive, Ministry for Culture and Heritage
Chief Executive, Ministry of Economic Development
Head, Ministry of Consumer Affairs
Comptroller of Customs
Secretary to the Treasury
Commissioner of Inland Revenue
Chief Executive, Ministry of Social Policy
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Director, Crime Prevention Unit
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State Services Commissioner
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Director, Office of Tourism and Sport (Sport)

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Minister for Senior Citizens
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Secretary for Internal Affairs
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Minister of Tourism
Director, Office of Tourism and Sport (Tourism)
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Chief Executive, Ministry of Economic Development (Commerce)
Minister of Pacific Island Affairs
Chief Executive, Ministry of Pacific Island Affairs
Minister of Women's Affairs
Chief Executive, Ministry of Women's Affairs
Chief Executive, Ministry of Youth Affairs
Associate Minister of Health (Hon Tariana Turia)
Mr John Wright, MP

Chair
Cabinet Policy Committee

GAMING REVIEW: PAPER 6: PROBLEM GAMBLING (B): FUNDING OF PROBLEM GAMBLING SERVICES

Executive Summary

- 1 This paper seeks decisions in principle on the *sources of funding for problem gambling services*. It is the second of three papers on problem gambling management. The first proposes an *integrated strategy* for the management of problem gambling; the third seeks decisions on *structures for the co-ordination of problem gambling services*.
- 2 The present arrangements for funding problem gambling services through the Problem Gambling Committee (PGC) are unstable because:
 - membership of PGC is voluntary
 - funding comes from a mix of voluntary contributions from most major gaming operators, supplemented by a mandatory levy on non-casino gaming machine operators
 - purchasing requirements and pressures to incorporate prevention strategies have reached a level that PGC members believe to be beyond the capacity of a voluntary committee to manage, and
 - all PGC members believe the government should contribute funding, given present levels of taxation on gaming operators.
- 3 Decisions on the funding of problem gambling services may be affected by:
 - the Government's Tax Review which is due to report in September 2001, and
 - decisions arising from other gaming review papers as to whether gaming proceeds should be required to fund community purposes and, if so, whether the requirement should be met by a 'community purposes levy' on all (or some) gaming operators.
- 4 The paper proposes that Ministers (a) agree-in-principle that the gaming sector should be required to bear the costs of harm caused, and (b) either defer a decision on how to fund problem gambling until after the Tax Review has reported in September 2001 or decide on a preferred funding option from:
 - i Status Quo – Mixture of Voluntary Gaming Operator Funding & Mandatory Levy on Gaming Machines
 - ii Tied Tax/Mandatory Levies (with funds earmarked for problem gambling services)
 - iii Local Authority Levies
 - iv Gaming sector duties
 - v General taxation

Purpose

- 5 This paper evaluates options for the sourcing of funding for an integrated problem gambling management strategy and invites Ministers to agree that the gaming sector should bear all the costs that it generates.
- 6 The Gaming Review timetable requires decisions on the management of problem gambling by July 2001. The review of gaming taxation is due to report to Ministers by September 2001. Its results may be relevant to the future funding of problem gambling services.

Background

- 7 This paper on the *funding* of problem gambling services is the second of three papers on problem gambling management. The first proposes an *integrated strategy* for the management of problem gambling; the third seeks decisions on *structural arrangements for the co-ordination of problem gambling services*.
- 8 Previous Cabinet decisions on problem gambling management are set out in *Gaming Review Paper 5: Problem Gambling (A) A Strategy for the Management of Problem Gambling*.

Current Approach To Funding Problem Gambling Services

- 9 In 1995, the then Government agreed that treatment services for people with severe gambling disorders should be funded by the gaming industry through a negotiated funding mechanism, rather than through Vote: Health.
- 10 The present Problem Gambling Committee is the result of this decision. The Committee's members represent major gaming operators and problem gambling treatment providers. The Committee receives funding from the gaming industry under a funding agreement signed in 1996. It contracts an independent organisation to advise on funding levels and purchase problem gambling services. The Committee is the principal purchaser of problem gambling services in New Zealand.
- 11 The TAB, the casino sector, and the Lottery Grants Board contribute funding on a *voluntary* basis. Because the non-casino gaming machine sector is made up of hundreds of independent operators, it was impractical to secure its contribution by voluntary means. In 1996, legislation was amended to enable its contribution to be collected by a *mandatory* levy. Each year, the amount of the levy is negotiated within the Committee and subsequently implemented by statutory regulation.
- 12 *The level of problem gambling harm caused by each gaming sector determines the amount of funding provided by that sector.* This has the advantage of encouraging responsible operator behaviour. People seeking assistance for problem gambling are asked to identify the main type of gambling that is causing them problems. This information is a key factor in determining relative gaming sector funding contributions.

Pressures On The Current Approach To The Management And Funding Of Problem Gambling Services

- 13 Problem Gambling Committee *treatment* services are accessible to most New Zealanders and officials consider they are also reasonably well funded. Gaming operator membership of the Committee has increased their awareness of the need to manage problem gambling and to provide a safe gambling environment for consumers.
- 14 Nevertheless, membership of the Committee is voluntary (members may leave on one year's notice) and most gaming operators are not required by law to contribute funding. The Wharf casino in Queenstown, for example, has declined to contribute. One consequence of this instability is that problem gambling service provider contracts must be renegotiated annually. This is costly, creates problems with staff retention and makes forward planning difficult. It is not an ideal basis for service provision.
- 15 Demand for problem gambling services continues to grow and the focus is now shifting to *prevention*. The resulting funding pressures on the Committee have created internal dissension between gaming operators and service-provider members over the *total* amount of funding required, and between gaming operators themselves over their *relative contributions* to the purchase of problem gambling services.
- 16 Total funding from gaming operators has increased sharply in recent years (although the 3.26 million in 1999/00 was still only a quarter of one percent of the \$1.3 billion gambling expenditure in that year):

Year	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Funding (\$m)	1.00	2.0	2.2	2.75	3.26	4.2	6.0

- 17 The projected increase in funding for the 2001/2002 year could again result in a substantial increase in the levy (to perhaps \$220 on each non-casino gaming machine). This would come on top of last year's 66% levy increase, and the prospect has attracted opposition from some operators. Trends in the levy are outlined below:

Year	1996	1997	1998	1999	2000
Levy (\$ per gaming m/c)	61	56	67	83	137

- 18 Increases in funding requirements are the result of increases in the number of people seeking help. Trends in presentation rates are outlined below:

Year	1997	1998	1999	2000
New Hotline Callers	Unpublished	2,628	3,404	3,690
New Clients for Counselling	982	1,492	1,587	1,942

- 19 Gaming operator members on the Committee do not want to increase funding levels significantly. They point out that they already pay gaming duties, GST and (in some cases) income tax on top of their problem gambling contribution. Problem gambling treatment provider members point to increased operator profitability, and believe further funding should be provided for preventative advertising campaigns. Both groups believe that there should be more Government involvement in the provision of problem gambling services, given current levels of gaming operator taxation.

- 20 In its submission to the gaming review, the Committee (ie both gaming operator members and problem treatment provider members) indicated that “the significance and increasing size of the problem gambling issue” places it beyond the Committee’s capacity to manage on a private sector basis.
- 21 In summary, issues that call into question the ability of the Problem Gambling Committee to continue as the principal funder (and purchaser) of problem gambling services include:
- a lack of structural stability
 - increasing numbers seeking help, and pressure to move to prevention strategies, resulting in funding pressures
 - a perception among Committee members that there should be more Government funding of services, given that the sector already pays gaming duties, GST and (in some cases) income tax
 - a Committee view that the size of the problem is beyond its capacity to cope.

Options For The Funding Of Problem Gambling Services

22 The paper examines four approaches to the *funding* of problem gambling services:

- 1 *Status Quo – Mixture of Voluntary Gaming Operator Funding & Mandatory Levy on Gaming Machines*
- 2 *Tied Tax/Mandatory Levies (with funds earmarked for problem gambling services)*
- 3 *Local Authority Levies*
- 4 *Gaming sector duties*
- 5 *General taxation*

Option 1: Status Quo – Mix of Voluntary Industry Funding & Mandatory Levy

- 23 Problem gambling services would be funded (and purchased) by the Problem Gambling Committee. Funds would be collected using the present mix of voluntary contributions and a mandatory levy. This structure and its problems are described above.
- 24 This option would preclude the use of a Crown agency to purchase problem gambling services because gaming operators would not voluntarily fund such an agency.

Advantages	Disadvantages
<ul style="list-style-type: none"> • Gaming operator funding of problem gambling has increased their awareness of the need to manage problem gambling and to provide a safe gambling environment • The Problem Gambling Committee incurs minimal collection costs, given that most of its funding is voluntary • Gaming operator funding of problem gambling services, at levels proportionate to harm caused, encourages responsible industry behaviour 	<ul style="list-style-type: none"> • Funding suffers from a lack of medium term certainty (gaming operator members who provide Problem Gambling Committee funding may cease doing so after one year’s notice) • Funding uncertainty results in annual contracts with service providers, which is inefficient • Little funding is provided for preventative services, causing tension within the Committee • Problem gambling funding is inconsistent with that of other health services • Gaming operator funding of problem gambling is not subject to parliamentary scrutiny as part of the estimates process

Option 2 – Tied Tax/Levy (with funds earmarked for problem gambling services)

- 25 Option 2 envisages a tied tax or levy specifically earmarked for problem gambling services. The rate of the tax or levy would be set at a level sufficient to cover the cost of the services.
- 26 Amounts could be determined in a similar fashion to ACC levies, which relate to levels of harm engendered by individual sector groups. As an example, the non-casino gaming machine sector would attract a relatively high levy in comparison with other gaming operators, given the high level of problem gambling help-seeking presently associated with it.
- 27 Alternatively, it may be possible to equalise the risks of different gaming forms through the regulatory environment, eliminating the need for complex levies with high administrative costs.
- 28 If Ministers decided to impose a further levy on the gaming sector to generate funds for community purposes, it could be collected through the same mechanism.
- 29 This funding option may well preclude the use of an industry body to co-ordinate problem gambling services, given the constitutional issues associated with a non-government/non-parliamentary body compulsorily taxing or levying the gaming industry in its entirety.

Advantages	Disadvantages
<ul style="list-style-type: none">• Use of tied tax/levy will result in a more stable funding stream than the voluntary funding mechanism outlined in option 1• Tied tax/levy mechanism may be flexible enough for individual gaming sector contributions to be proportionate to the level of problem gambling harm, thus encouraging responsible industry behaviour• Purchase of problem gambling services would be subject to parliamentary scrutiny through the estimates process• Convenient mechanism if Ministers wish to collect a community purposes levy	<ul style="list-style-type: none">• Tied tax/levy setting process is likely to be complex and costly• Problem gambling funding would be generated in a manner inconsistent with that of other health services

Option 3 Local Authority Levies

- 30 This option envisages levies applied by local authorities on venue-based gaming providers located in their areas. Levies could be set by the authorities using agreed criteria (such as gaming area, number of gaming positions, etc). This option would be consistent with local authority involvement in venue-based gaming licensing, if Ministers take that decision in the context of later gaming review papers. It also implies that local authorities would co-ordinate and manage problem gambling services in their areas.

Advantages	Disadvantages
<ul style="list-style-type: none"> • Community involvement in decisions about local gaming and problem gambling management • Possible consistency with community involvement in licensing regime (subject to later decisions) 	<ul style="list-style-type: none"> • Potential for variability in levy rates and in effectiveness of problem gambling services, depending on skills and commitment of local authorities • Potential loss of efficiencies from administrative duplication • Possible confusion between funding of national and locally based strategies • Possible requirement for transition arrangements (eg for casinos whose 25 year licences imply contractual obligations) • May be used by some authorities to limit gaming or raise funds for other purposes, causing operators to move to other areas with lower levy rates • Revenue may be insufficient in small areas to support adequate treatment services • Difficulty of tagging gambling problems to a particular location when there is high concentration of gaming opportunities in an adjoining area

Option 4: Gaming sector duties

- 31 Option 4 envisages the continuation of gaming duties.
- 32 Money collected would be paid into consolidated revenue and used for general purposes (including the funding of problem gambling services), rather than being earmarked specifically for problem gambling. The tax could be set to reflect an estimate of the level of harm caused, or to discourage the supply of gaming.
- 33 This funding option may well preclude the use of an industry body to co-ordinate problem gambling services, given the constitutional issues associated with a non-government/non-Parliamentary body taxing the gaming industry in its entirety.

Advantages	Disadvantages
<ul style="list-style-type: none"> • Gaming duties ensure that operators bear the costs of the harm they create • Duties could be used as a “rationing device” by raising the costs of providing gambling • As with option 2, subject to parliamentary scrutiny and the Official Information Act 	<ul style="list-style-type: none"> • Duties involve high administrative costs if they are proportionate to the level of harm caused by each sector • A flat duty could not be so linked, and therefore, does not create incentives for gaming operators to modify their behaviour. • Administration of duties may involve costs for the Inland Revenue Department • Problem gambling funding would be generated in a manner inconsistent with that of other health services

Option 5 – General Taxation

- 34 Under this option problem gambling services would be funded from general taxation revenue. There would be no tied levy (to fund problem gambling services) or specific taxation (to reflect the level of harm caused).
- 35 This funding option may well preclude the use of an industry body to purchase problem gambling services, given the constitutional issues associated with a non-government/non-Parliamentary body taxing the gaming industry in its entirety.

Advantages	Disadvantages
<ul style="list-style-type: none">• Parliamentary appropriations will result in a more stable funding stream than the voluntary funding mechanism outlined in option 1• Problem gambling funding would be placed on a contestable basis with all other expenditure priorities• As with option 2, it would be subject to Parliamentary scrutiny through the Estimates process• General taxation is likely to incur lower administrative costs than tied taxes / levies	<ul style="list-style-type: none">• General taxation provides no cost-incentives for gaming operators to modify their behaviour• Funding priority of problem gambling services may be low, translating to less funding than under option 1, and potentially options 2 and 3

Options Analysis – Summary

- 36 Option 1 (Status Quo – Mixture of Voluntary Industry Funding & Mandatory Levy on Gaming Machines) involves gaming operators directly in the funding of problem gambling services. Gaming operator funding contributions are proportionate to the level of problem gambling damage caused. The principal difficulty with the option is its lack of stability as a system of funding, and the lack of commitment to it from both gaming operators and problem gambling treatment providers. For these reasons it is not favoured.
- 37 Options 2 (Tied tax/levies), 3 (Local authority levies) and 4 (Gaming duties) impose a direct requirement on the industry to bear the costs of any harm caused. In principle, it is desirable that such social costs should be borne by the sectors that create them. All three options may create incentives for operators to try to reduce the harm that they cause. Under Option 2 it would also be simple to add a community purposes levy across the gaming sector, if Ministers wish. Option 2 has the disadvantages associated with all tied taxes. Such regimes create compliance and administrative costs, reduce the flexibility of the Government to respond to changing expenditure priorities, and can be difficult to evaluate in terms of their economic impacts.
- 38 Option 3 (Local authority levies) implies that local authorities would also be responsible for local co-ordination of problem gambling services. It offers the advantage of promoting community involvement in finding solutions to local gambling problems and would be consistent with local authority involvement in venue-based gaming licensing, if Ministers take that decision in the context of later gaming review papers. However, levy rates may vary widely around the country and may become a

source of funding for other purposes, undermining the availability of funding for problem gambling services.

- 39 Option 4 (gaming duties) has most of the advantages of option 2, but (like option 3) the amount of tax on the sector will not necessarily bear a direct relationship to the costs of the problem gambling management services. However, it gives the Government greater flexibility to respond to changing expenditure priorities.
- 40 Option 5 (general tax revenue) would make the funding of problem gambling services consistent with other health services and incurs lower administrative costs. The chief disadvantage is that other areas of activity that do not create the same costs for society effectively cross-subsidise the cost of redressing harm caused by gaming.
- 41 It is suggested that Ministers agree to the principle that the gaming sector should bear the costs of harm caused. Given that the Tax Review is likely to report on gaming taxation in September 2001, it may be more appropriate to delay final decisions on the funding of problem gambling until after it has reported. However, it is open to Ministers to agree-in-principle now to one of the options described.

Consultation

- 42 This paper incorporates consideration of 1300 submissions to the consultation document released on 28 February and feedback from targeted meetings. It was sent to the following agencies, and their comments have been incorporated: DPMC, Treasury, SSC, IRD, Justice, Crime Prevention, Economic Development, Consumer Affairs, Health, Social Policy, Senior Citizens, Te Puni Kokiri, Pacific Island Affairs, Women's Affairs, Youth Affairs, Culture and Heritage, Tourism and Sport, Education, MFAT, Police, Customs, Child Youth and Family.
- 43 Treasury commented that it has been consulted on the recommendations contained in this paper. Due to the tight timetable for developing gaming policy options, the Treasury has had little involvement in the development of options and rationales underpinning the recommendations. Neither has the Treasury been able to consider the detail presented in the paper in the time available.

Financial, Legislative, Bill of Rights Act and Human Rights Act Implications

- 44 This paper has no immediate financial implications. Decisions will eventually form the basis for subsequent gaming legislation. The Ministry of Justice suggests that there may be New Zealand Bill of Rights issues with the use of mandatory levies to fund education programmes or provide information about problem gambling. These might be considered to be a form of compelled expression.

Recommendations

45 It is recommended that the Committee:

Instability of current funding arrangements

- 1 Note that the present arrangements for funding problem gambling services through the Problem Gambling Committee are unstable because:
 - 1.1 Membership of the Committee is voluntary
 - 1.2 Funding comes from a mix of voluntary contributions from (most) gaming operators, supplemented by a mandatory levy on non-casino gaming machine operators
 - 1.3 Purchasing requirements and pressures to incorporate prevention strategies have reached a level that members believe to be beyond the capacity of a voluntary committee to manage, and
 - 1.4 All members believe the government should contribute funding.

Options for future funding of problem gambling services

- 2 Note that four approaches to the funding of problem gambling services have been examined, namely
 - 2.1 Status Quo (A mixture of voluntary gaming operator funding & mandatory levy on gaming machines)
 - 2.2 Tied tax/mandatory levies (with funds earmarked for problem gambling services)
 - 2.3 Local authority levies
 - 2.4 Gaming sector duties
 - 2.5 General taxation
- 3 Agree-in-principle that the gaming sector should be required to bear the costs of harm caused.
- 4 **EITHER**
 - 4.1 Agree that final decisions on the method of funding problem gambling services should await the Government's decisions on the Tax Review, which is due to be reported in September 2001

OR

 - 4.2 Decide on a desired method of funding problem gambling services from options 2.1 to 2.4 above (all of which enable the gaming sector to bear the cost of assessed harm)

Hon George Hawkins
MINISTER OF INTERNAL AFFAIRS