

DECEMBER 2000

### Improving the system

Our lead story this issue concerns the latest set of licence conditions and guidelines. As you know, the licence conditions contain most of the rules for the operation of gaming machines outside casinos and we issue an updated set on 1 October each year.

No fundamental changes have been made this year. Societies will continue to return at least 33% of their gaming machine income to authorised purposes and deduct only actual, reasonable and necessary expenses from the gaming machine account. And the department still expects everyone involved in gaming machine operations to follow the systems described in the licence conditions and the Blue Book (the operators' manual).

In short, the licensing regime that was introduced in July 1997 is still in force and the new licence conditions will enhance it and give it greater effect. More about them later on.

Several of our other stories also touch on the licence conditions, from publicising your grants in the newspaper to ensuring you don't have deficits in the gaming machine account.

On a different subject altogether, we'd like to thank all those of you who sent in helpful comments about our plans to put contact details on our website. We've made a number of other improvements to our website and would like to bring you up to date with developments.

The staff at Gaming  
Licensing and  
Compliance wish you all  
a *safe, peaceful* and  
*prosperous* holiday  
season and a  
fulfilling  
year  
ahead



# A change in conditions

Here's a summary of the changes made in the latest set of licence conditions and guidelines

You can find the latest edition of the licence conditions and guidelines on our website ([www.gaminglicensing.dia.govt.nz](http://www.gaminglicensing.dia.govt.nz)). Societies will be sent a copy of the new licence conditions and guidelines with their renewed licences.

As licence holders, societies bear several responsibilities: the most important being to comply with these licence conditions at all times. The accompanying guidelines are designed to help societies achieve this, by providing explanations, examples and advice.

A society's licence allows it to operate gaming machines for the purpose of raising funds for the authorised purpose(s) stated on the licence. It is the society's responsibility to ensure that as much as possible of the money raised is spent on the authorised purpose – and to be a trustee of that money.

The society is also legally responsible for its gaming machine operation, even though many of the duties may be delegated to site operators or other representatives. For that reason, societies need to have effective systems in place to ensure that everyone complies with the licence conditions.

Failure to comply with any of the licence conditions can, of course, lead to the licence being cancelled, amended or not being renewed. Applications to add sites are likely to be declined when the site operators in question were responsible for the non-compliance.

## What's new?

So, what were our priorities this year when revising the conditions

and guidelines? Firstly, we wanted to keep changes to a minimum, while improving accuracy, consistency and readability. We also wanted to target specific issues, which we will go into here.

The following is a broad summary of the main changes we have made. You'll need to refer to your copy of the society licence and operators' manual to check the details.

### **1. Change of principal officer to be an amendment**

From 1 October 2000, societies need to apply for a licence amendment if any change is made to their principal officers. Previously, it was sufficient to notify the department within 20 days of the change.

We realise that, in some cases, the new condition could result in extra fee expenses for societies. To avoid this, details of the change may be sent to us on your first application for a licence amendment following the change. If you have no need to apply for an amendment after the change, the details must be included in your next licence renewal application instead.

We'd like to point out that this condition was altered to take account of the fact that we have to make probity checks on all new principal officers; we don't just amend our records. We also had to bring the process in line with our database. It was not merely a revenue-gathering exercise, and we will be flexible about how we implement it.

### **2. Conflict of interest**

We have increased the emphasis in the licence conditions on the need

for societies to operate fairly and honestly. The new introduction page to the guidelines sets the tone, and the message is carried throughout the conditions, particularly in those dealing with society integrity. This is not so much a change, as a clarification of the standard of behaviour we expect from societies.

### **3. Banking of gaming machine profit**

There is a new condition requiring the weekly gaming machine profit return (WGMPR) to be completed each week (LC23 Set A, LC28 Set B). This requirement is linked to the 5-day banking rule (LC24 Set A, LC29 Set B), and societies must turn off their gaming machines if this condition is not complied with. This change was made to clarify the existing policy, rather than to change the policy.

### **4. Decision-making process for authorised purpose grants**

Some changes have been made to the conditions affecting grants to authorised purposes, to increase the emphasis on fair and open processes for grant applications and decisions. This is partly a conflict of interest issue; especially where site operators influence who can apply for and who receives grants from gaming machine profit earned at their site. A new condition (LC49 Set B) has been added requiring societies to make sure prospective applicants can access application forms. Licence conditions have always said that a committee of the society's members, including at least one principal officer, must make the decisions about who gets grants. In practice, however, the committee

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doesn't get to see all of the applications, because site operators often forward only a select few through to the society. This is in breach of the licence conditions. Site operators can't withhold forms from applicants or decline to send forms through to the society. The new condition has been included to ensure that site operators act as the conduit only and not as an initial decision-maker.

### **5. Employees playing gaming machines**

A new condition has been inserted (LC11 Set A, LC16 Set B) requiring employees and site operators who wish to play gaming machines to do so only during the normal opening hours of the site, and only when they are off duty. Neither site operators nor staff may play machines outside normal opening hours. This change is intended to address the issue of fairness in relation to the playing of machines. It should also help societies in policing the issue.

### **6. Other changes**

We have made a number of other, minor, editorial changes to the licence conditions and guidelines, so we recommend you give them a careful read. We have also reworded and simplified the face of the licence itself to bring it in line with the conditions.

# Once bitten

## **The latest licence conditions are making things tougher for dodgy site operators**

It was once not uncommon for site operators with a poor track record to simply join up with another society when they were dropped by their previous one.

Last year, Gaming Licensing introduced a new licence condition (was LC22, now part of LC15, Set B) to deal with this problem. The licence condition says: "the Department reserves the right not to amend, or renew, the Society's Licence to include a site with a Site Operator that has committed any serious breach of Licence Conditions."

By serious breach, we mean anything involving poor management or loss of gaming machine money. This includes constant late bankings, loss of money at site level, and thefts resulting from poor controls.

When a society applies to add a site to its licence, we check the history of the site and the site operator. We check with the Gaming Compliance Unit and any previous society that the site was with. If we are told of serious breaches, we let the site operator know in writing that we intend to decline the application unless we receive a satisfactory explanation.

Gaming Licensing is likely to decline an application to add the new site if there is a history of serious breaches. Serious breaches are anything to do with mismanagement of the gaming machine money. This includes late banking, failure to bank the correct amounts, theft or misappropriation of money, or 'back-handers' in exchange for grants.

So, a word to all site operators: please follow the rules set out in your site agreement and the Blue Book; make sure your bankings are for the correct amount and are made within five days of completing the weekly gaming machine profit return form. Don't withhold money to pay yourself site rental or cover other expenses – take this up with the society. If you don't, you may find your site without gaming machines!

# Ownership of gaming machine equipment

## **Societies no longer need to buy machines outright before getting their licences approved**

As you know, societies are only allowed to operate gaming machine equipment that they own (LC12 Set A, LC23, Set B). This used to mean submitting a receipt as proof of ownership before we would issue a licence. However, this proved a bit hard on societies, as they had to draw down the finance before they could earn any money to make repayments.

So, we've made some changes. Societies still have to demonstrate to Gaming Licensing that they will own the equipment they plan to operate, but a copy of the conditional agreement drawn up with the machine vendor is now sufficient. This must show that ownership will pass to the society as soon as the licence is issued.

If you'd like any more information about the requirements for ownership of gaming machine equipment, please contact us at Gaming Licensing.

# Thanks for the feedback

We welcomed your comments on plans to list society and site addresses on our website

In April, we sent out a letter to all societies and sites, outlining our intention to put a New Zealand-wide list of contact addresses on our Gaming Licensing website. Each week, we receive several information requests from members of the public interested in applying for grants from gaming machine revenue, so we felt a comprehensive list on the internet would give everyone a fair chance and save people from having to access the details via you or us.

However, before going ahead, we wanted to hear your comments

– although we did point out that, under the Official Information Act 1982, the contact addresses cannot actually be withheld.

Many of you wrote back to us, and the feedback was generally positive, so thanks for your support. The only words of concern came from clubs who use funds raised for their own club purposes, rather than making grants to other bodies. To put your minds at rest, we can assure you that only those societies who distribute money to grant applicants are listed on the website.

We have taken all your comments on board, and we have now posted the list on our website (reach us at [www.gaminglicensing.dia.govt.nz](http://www.gaminglicensing.dia.govt.nz)).

## Deficit won't do

**Some societies have been achieving their 33% to authorised purposes by carrying over a deficit – and, sorry, it's a no-go**

Let's say you achieve only 30% of funds available for distribution to authorised purposes, instead of the required yearly minimum of 33%. As you fill in the financial summary section of your licence renewal application, you might be tempted to put a minus figure in the undistributed funds to carry forward to the next year, in order to bring you up to the 33% limit. Good try, but we're afraid it won't wash.

Funds given away to the authorised purpose must be made up of actual gaming machine income from the current year. They can include a small amount of undistributed income carried over from the previous year, but they CAN'T be achieved by carrying over a deficit to the following year.

**Note:** We must also stress that you may only carry over small amounts of undistributed income, and then only if it wasn't practically possible to apply and distribute the funds within the given year. Funds should be applied and distributed regularly and frequently to avoid accumulation, and to demonstrate the society's honest intention to give its profits to authorised purposes (LC 42 Set A, LC 52 Set B).

To make sure this happens, your society's principal members need to meet often to decide on grant applications and to ensure the money is paid out promptly. If a club allocates funds to a capital project, it should set the funds aside, perhaps in a specific project account, rather than carry them forward as undistributed funds.

## Going public

### A brief reminder to advertise your grants

At least once a year, all the grants you have made need to be publicised in an appropriate newspaper. This legal requirement is set out in licence condition 54 (Set B), which details exactly what has to appear. Here is what must be published:

- A list of all grants made
- The amount of each grant
- The grant recipients (individuals may only be listed with their approval)
- A summary of the society's authorised purpose(s)
- The public's ability to apply for a grant and how to do so

To give you an idea of what we mean by 'appropriate newspaper', a town-based society would probably publish its grants in the local newspaper. A national trust with sites across New Zealand, on the other hand, might choose to publish the list in all the metropolitan dailies or in a national weekend newspaper. Clubs, which have a similar obligation (LC44, Set A) can publicise funds distributed in their annual report for members. It is not sufficient to publish the information on your website, although we encourage you to do this as well as publish your grants in the paper.

# New faces

Gaming Licensing has seen several staff changes in the past few months. To bring you up to speed, we'd like to introduce the new team. Back row from left: Gaming Licensing Officers Judy Rohloff, Daryl Te Whiti, Team Leader Gavin Duffy, Gaming Licensing Officers Mike Schwass and Helen Baylis. Front row, from left: Senior Policy Advisor Stephen Rogers, Manager Lois Markland and Gaming Licensing Officer Craig Holmes. Absent: Gaming Licensing Officer Brent Addison.



# The three-thirds myth

In all areas of life, certain ideas take on a life of their own, even though there is no substance to them. This happens in gaming machine circles too. For instance, have you heard the theory that the way to allocate gaming machine profits is to set one third aside for making grants, pay one third to the government and pay one third to the site operator?

If you have heard this theory, don't you believe it!

The sole object of operating gaming machines is to generate funds for authorised purposes. If your gaming machines generate improved profits for whatever reason, your return to authorised purposes should also increase, but not your expenses. The reference to a 33% return in the licence conditions is a **minimum**, not the maximum or the average you should return to authorised purposes. You should be continuously seeking to improve your return to authorised purposes and not simply resting on the minimum legal performance. An increase in gaming machine profit is not justification for an increase in expenses.

# Rules of the game

## A word of warning to clubs and hotels running illegal lotteries

In the past year, the Gaming Compliance Unit has had to close down a number of lotteries being operated illegally in hotels and clubs. We want to make it clear why these lotteries were deemed to be illegal, so no one else runs into the same trouble.

For a start, an illegal lottery will invariably have some or all of the following components:

- Prizes jackpot from one draw to the next
- The prizes on offer exceed \$500 and the lottery has not been licensed
- The lottery is not being run with a view to raise money for an authorised purpose

Any involvement in organising an illegal lottery such as this can result in three months' imprisonment, or a fine of up to \$4,000 for the individual, or \$12,000 for the body corporate. Those who allow their premises to be used for illegal lotteries, meanwhile, risk a fine of up to \$2,000.

What's more, if the illegal lottery is being held in a hotel or club licensed to operate gaming machines, such a conviction could also lead to the loss of that licence.

If you are planning to run a lottery at your club or hotel, and are unsure about the legal conditions required by the Act, check our website or contact Gaming Licensing for two useful brochures: 'Gaming: A General Guide' and 'How to Run a Raffle'.

# Ongoing issues and gaming review update

We are presently researching a number of issues affecting gaming machine societies, including site rentals, Racing Clubs and authorised purposes.

In addition, the Gaming Law Reform Bill has now been reported back by the select committee and is awaiting further consideration by the House. The gaming machine part of the Bill is now called the Gaming and Lotteries (Gaming Machines) Amendment Bill.

You will be aware that the government has commissioned a Gaming Review, to be conducted by the Department. The timetable for the review has been set as follows:

- February 2001: Release of public discussion document
- March/April 2001: Public submissions on discussion document
- May/June 2001: Analysis of public submissions on discussion document
- July 2001: Cabinet decisions on the gaming review
- August/September/October 2001: Law drafting
- November 2001: Introduction of legislation
- March 2002: Enactment of legislation

We will keep you advised of the progress of the Gaming Review and of issues arising.

## Few plaudits for audits

**It's a year on since the new audit model was introduced, and the results don't always make for happy reading**

Last year, the Gaming Compliance Unit introduced a new audit model process. The model includes annual audits for gaming machines and gaming machine sites, as well as gaming machine investigations.

The basic premise of the model is to identify high priority audit areas, which fall under general headings. For both machine and site audits, these headings are: site compliance, meter recording, banking of proceeds, return to player and the grants process. Payment of expenses is another high priority area for gaming machines.

### The audits

In the gaming machine category, 181 societies were audited (20% of all societies). Of those, an alarming 143 societies had high priority failings. 154 site audits were also carried out (7.5% of all sites). Of those, 107 had high priority failings.

By far the most common failing was banking of proceeds, either banking the wrong amount, or not banking on time. This suggests that people either don't understand the concept of turnover minus total wins, or

they are choosing to disregard this fundamental requirement. Other common failings were in meter recording and grants processes.

### Consequences

As this was the first year of the audit model process, our main intention was to identify failings and give societies a chance to correct their faults. If similar failings are found in future audits, however, societies' licences will be in jeopardy.

In future, for the more fundamental failures (banking, record keeping, conflict of interest) there will be a stand-down period of two weeks, or until the Gaming Compliance Unit is convinced the society can get things right. Similarly, where there is a proven 'conflict of interest' situation in the grants process, there will be a stand-down period of three months. Repeat offending will not be treated so leniently, however, and cancellation of the licence is more likely.

### The way forward

On a positive note, the inspectors found the new audit model gave them a valuable opportunity to offer

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advice and assistance to societies and their sites. They also feel that it provides a win/win situation: the inspectors get to know what the issues are for the operators, and the operators become more aware of what is required of them.

There is no getting away from the fact that certain requirements must be met, but societies and operators need not fear the audit process as long as they comply with the licence conditions.

# Visit our website

In addition to adding the lists of sites to our website (see earlier article), we have updated and added a number of other pages.

For example, the latest licence conditions and guidelines are now available on the website ([www.gaminglicensing.dia.govt.nz](http://www.gaminglicensing.dia.govt.nz)), as are the updated application, renewal and personal information forms. There is a new page with our recent brochure about internet gaming.

We have also now published the latest official gaming machine statistics on the site. The statistics show the numbers of and types of societies currently licensed to operate gaming machines and the numbers of gaming machines and sites operated by the societies. The information presently on the site is drawn from current licences, as at 1 October 2000. The information will be updated on a quarterly basis.

In the near future we will make the Blue Book available and it is intended that Gaming Compliance will publish material relevant to its area of operation.

A wee technical hint: many people want to get copies of forms or other documents available on our website, but sometimes they report difficulties in doing so. For example, you open one of the documents and start to print it out while you are still on-line, but it stops printing before the document is complete. Usually this occurs because your computer has 'timed-out' its connection to the internet during what it sees as a long period of inactivity. To avoid this problem, simply open the document, save it to your hard drive and then print it out later when you are off-line.



# Power to the people

**The things people do for their communities really impress Gaming Licensing Officer Mike Schwass**

Unusual requests, such as people wanting to raffle their house or car so they can give some of the proceeds to their club or church, are all in a day's work for Mike Schwass – though he tends to remain sceptical on such occasions. "Mostly, people have their own reasons for wanting to do something like that, and it's our responsibility to make sure they comply with the legislation," he says.

As a Gaming Licensing Officer, Mike's priority is to ensure that all gaming activities are undertaken purely

to raise funds for the community, and never for personal gain. However, he is keen to point out that the job is not about getting people tangled in governmental red tape. "We try and keep bureaucracy to a minimum," he explains. "Gaming in New Zealand has served the community for years and years, and for me the most important thing is for people to comply with that spirit."

He may only have been in the job for five months, but Mike is already familiar with all the basic 'products' of the post: gaming machine licences, amendments and renewals, and licences to work in casinos, or to play games of chance, lotteries and housie. Mike also recently took over responsibility from colleague Daryl TeWhiti as relationship manager for one of the national trusts.

As we go to press, he's still fully engaged in the latest round of gaming machine licence renewals. He and his colleagues consider hundreds of forms, making sure each applicant has raised sufficient funds for authorised purposes, and is operating legally, before reissuing the licence for another year. Mike reports that progress with renewals is really good this year and it appears that the department's key messages seem to have

got through to applicants, although there are still a few problem cases.

It's the gaming machine licence amendments, says Mike, that often call for the most personal contact – an aspect of the job he particularly enjoys. "That's when I get to know what the weather's doing from Palmerston North to Kaitaia," he says of his conversations with societies and clubs across the country. "The things people do to raise funds for their communities really impress me."

Having worked as a freelance journalist, for the engineer's union, and on the legal services board, Mike should know by now what gives him ultimate job satisfaction. "I'm a public sector person at heart. I like to help people achieve their goals and I place my institutional knowledge at their service for that purpose."



## TO CONTACT US...

### **Gaming Licensing**

Tel: 04 494-0700, 0800 257-887

Email: [gaming.licensing@dia.govt.nz](mailto:gaming.licensing@dia.govt.nz)

Postal: PO Box 10-095, Wellington

Fax: 04 494-0656

### **Gaming Compliance**

#### *Christchurch*

Tel: 03 353-8303, Fax: 03 353-8309

#### *Wellington*

Tel: 04 494-0503, Fax: 04 495-7214

#### *Auckland*

Tel: 09 357-5437, Fax: 09 307-1198