

## **GAMBLING ACT 2003:**

### **ELECTRONIC MONITORING SYSTEM FEES REGULATIONS**

This consultation document is issued by the Department of Internal Affairs. It invites comments on proposals to make regulations for fees to meet the costs of implementing and operating an electronic monitoring system (EMS) for class 4 gaming machines.

20 July 2005

# Consultation on EMS fees regulations

## BACKGROUND

### Gambling Act 2003

The Gambling Act (the Act) became law on 18 September 2003 (although many of its provisions did not take effect until 1 July 2004). The purpose of the Act is to:

- (a) control the growth of gambling; and
- (b) prevent and minimise the harm caused by gambling (including problem gambling); and
- (c) authorise some gambling and prohibit the rest; and
- (d) facilitate responsible gambling; and
- (e) ensure the integrity and fairness of games; and
- (f) limit opportunities for crime and dishonesty associated with gambling; and
- (g) ensure that money from gambling benefits the community; and
- (h) facilitate community involvement in decisions about the provision of gambling.

The Act includes various key measures to help achieve these objectives. However, it leaves a lot of the detail to regulations. Regulations can't change what the Act already says, but they do fill in the particulars.

The following paragraphs outline briefly the provisions of the Gambling Act 2003 relating to an electronic monitoring system (EMS). It is not exhaustive and is not a substitute for the Act. Copies of the Gambling Act 2003 are available from Bennetts Government Bookshops, and copies can also be downloaded from the Department's website: [www.dia.govt.nz](http://www.dia.govt.nz).

**Section 86 of the Act specifies that class 4 operators must connect gaming machines to an EMS by a date notified by the Secretary for Internal Affairs and no later than 3 ½ years after Royal assent, ie by 19 March 2007. The section also sets out that the operator must meet the costs of preparing gaming machines and the venue for the implementation of EMS and states that gaming machines not connected to EMS on the due date cannot be operated.**

Section 87 sets out the functions of an EMS and requires the Secretary to make statistical information publicly available on the Department of Internal Affairs' website. Section 88 states that the Secretary may appoint one person (which may be a company) to implement and operate an EMS.

Section 370 authorises the making of regulations prescribing fees or charges payable to enable the recovery of the direct or indirect costs of the Department in enforcing and monitoring compliance with the Act and doing anything else authorised or required by the Act.

## ELECTRONIC MONITORING SYSTEM

The introduction of EMS is expected to provide the following benefits for gaming machine operators:

- savings through reduced and more accurate paperwork;
- automated accounting processes;
- accurate financial and security information; and

- consolidated reports on game and machine performance which will be of direct benefit to the operators in the decision-making process.

From a regulatory perspective, inaccurate record keeping and incorrect banking are the most common problems found in audits carried out by the Department of Internal Affairs. EMS will help prevent this. It will improve accountability for the money spent in gaming machines and enable better monitoring of the machines and the collection of information that supports policy development.

EMS will:

- ensure the integrity and fairness of games played on gaming machines;
- limit opportunities for crime and dishonesty in connection with the operation of gaming machines;
- enable the Department to track and monitor the operations of gaming machines;
- provide daily automated and accurate meter readings for each gaming machine;
- record the profit made on each individual machine and at each venue. This includes the requirement to record details of jackpot wins that are awarded. Through analysis of money spent on a machine-by-machine, regional and national basis, daily meter readings will also provide a useful tool in contributing to studies into problem gambling.

### **The Monitor - Intralot**

The Department has selected European gambling technology company Intralot as its preferred partner for providing EMS services. Intralot is a leading supplier of integrated gaming and transaction processing systems, innovative game designs and value added services to state-licensed gaming organisations and financial services providers worldwide. It will operate locally through its subsidiary, Interlot New Zealand Limited (the Monitor).

Due diligence has been undertaken, and the Department has recently signed a contract with the Monitor. Audit New Zealand has reviewed and assured each stage of the procurement process.

The contract between the Department and Intralot covers the design, build, rollout and operation of an EMS through to March 2012. The cost of the EMS through to the end of June 2012 year is \$42,032,578 (GST exclusive) – comprising \$35,929,871 of contract costs and \$6,102,707 of departmental costs (including fee collection costs).

### **Connecting to EMS**

Operators of class 4 gaming machines must ensure that all gambling equipment and venues are upgraded to enable gaming machines to be monitored. A standard specifying how this is to be done has been published. The standard requires that:

- all gaming machines are QCOM capable;
- a fibre optic loop is installed to connect all gaming machines to the site controller;

- the venue has an appropriate modem connection, if the telecommunication process is land based, a dedicated phone line, and a dedicated electrical power supply for the site controller.

The Monitor will supply all necessary equipment for the monitoring system up to and including the site controllers. Venues and societies will be able to access their data on a password protected website.

The following is an indicative timeline for the implementation of EMS. The final timing will depend on the final contract implementation programme:

- 2005 – planning, testing;
- late 2005/ early 2006 - ‘pilot phase’ at some venues;
- throughout 2006 - training for societies and venues;
- throughout 2006 - gradual roll out of connection to EMS at all venues.

It is planned that the roll out will begin with the larger societies in 2006 and will end with the connection of the smaller societies such as clubs. All venues must be connected to the system no later than 19 March 2007.

## **FEES PROPOSAL**

### **A fee for each day a machine is operated**

The primary function of an EMS is to collect information from gaming machines for auditing and compliance purposes. As the EMS will retrieve data from each venue on a daily basis an accurate record will be available of which machines have been operated since the previous day. It will therefore be practical to charge a monitoring fee for each day of the month that a society’s gaming machines have operated.

Many clubs, which tend to rely on voluntary labour and have a low turnover, will not see the full benefit of savings that flow from automating financial and security information under an EMS. At the other end of the spectrum, large hotel-based trusts will find an EMS of significant benefit. A fee for each day a machine is operated would most closely reflect the benefit that each society will derive from an EMS and therefore is the preferred method of payment.

The proposed fee per machine per day would be approximately **\$1.14 (GST inclusive)**. For a club operating 4 days a week the monthly fee per gaming machine would be about \$20 – at the lower end of the level indicated to the Government Administration Committee in 2002. For a society operating 7 days a week the monthly fee would be about \$35 per gaming machine.

The Department proposes to issue each society a single monthly invoice for its venue(s) with a requirement that payment be made by the 20<sup>th</sup> of the month following. Remember that an EMS monitoring fee will only be charged to an operator once its gaming machines are connected to the system.

Two other methods of payment, a fee per gaming machine per month and a monthly charge per venue, were considered but neither of these options reflects the benefit that each society will derive from an EMS.

## 5% penalty for late payment

Most of the Department's fees relate to licences or approvals, which can be withheld if the fees are not paid. A monthly monitoring fee is different because the Department can't disconnect a society's gaming machines for late payment. It is therefore proposed that a 5% penalty apply to the outstanding monthly balance of EMS related fees. This is the same penalty that applies to the late payment of casinos' annual fees.

## Late connection fee for venues

It is proposed that there should be an ability to charge a late connection fee, in circumstances where a date is notified by the Secretary for the monitor to connect machines to the EMS and the venue is not ready as a result of an action or omission by the society or venue.

The purpose of this fee is to reflect the additional cost of the Monitor departing from the approved work programme and/or returning to a site to set up and configure a site controller (approximately 2-hours work). It is proposed that this fee be set at \$250.

<b>Costs for Period to 30 June 2012 (GST Exclusive)]</b>	
Monitor's costs	\$35,929,871
DIA Implementation and Fee Collection costs	\$6,102,707
<u>Total EMS Costs</u>	<b>\$42,032,578</b>
<b>Fee per gaming machine per day operated</b>	<b>\$1.01 (GST excl)</b> <b>\$1.14 (GST incl)</b>
<b>Penalty for late payment</b>	<b>5% of balance owed</b>
<b>Late connection fee</b>	<b>\$250.00 (GST incl)</b>

*We are interested in any comments you have on the proposed fees. Are the fees appropriate? What impact will they have on your society?*

*Are the proposals for a 5% penalty and a late connection fee fair?*

*Are there other funding options that you think the Department of Internal Affairs should consider?*

## Future use of EMS

While EMS has clear advantages for societies in terms of their record keeping and correct banking, it may also be possible to use EMS to simplify the calculation of gaming duty and problem gambling levy. Currently the Inland Revenue Department (IRD) provides an on-line calculator and filing process for gaming duty and problem gambling levy. Paper records of gaming machine profit back these returns.

The IRD has shown interest in supporting amendments to the Gaming Duties Act 1971 and the Gambling Act 2003 so that, in future, it can use EMS data to generate monthly invoices for gaming duty and problem gambling levy. This would simplify the process for gaming operators by abolishing gaming duty returns, reducing errors and tax evasion. Compliance costs would be reduced in the long term. Indications are that there would be administrative savings to Inland Revenue.

*What are your views on this possible use for an EMS?*

## SUBMISSIONS

You are invited to make a submission on the proposed electronic monitoring system fees regulations.

Please note that all submissions may be made publicly available. Even if you request confidentiality, we might have to release your submission at a later date if someone makes a request under the Official Information Act.

Please send us your submission by **30 September 2005**. Your submission can be sent in the following ways:

by email: [david.aitchison@dia.govt.nz](mailto:david.aitchison@dia.govt.nz)

by fax: 04 494 0567  
Attn: Gaming Policy

by post Gaming Policy (Level 10, SIB)  
Department of Internal Affairs  
P O Box 805  
Wellington

by hand-delivery: Reception  
Department of Internal Affairs  
46 Waring Taylor Street  
Wellington  
(Attn: Gaming Policy, Level 10, SIB)

If you have any questions, feel free to contact David Aitchison on 04 4940511, or fax – 04 4940567, or email [david.aitchison@dia.govt.nz](mailto:david.aitchison@dia.govt.nz)