

Class 4 Venue Costs: Frequently Asked Questions

- **How do I know what is included in each category on the venue costs schedule?**

Each category is explained in the “Reference Paper: Guidelines on Venue Costs under the Gambling Act 2003”.

- **Why are there four different limits?**

The previous limits (made under the Gaming and Lotteries Act) expressed payments only in terms of amounts per machine per week. This did not effectively identify the true cost of operating machines at venues. For example, some costs are not related to the number of machines but stay constant as machine numbers increase.

Work done in developing the limits identified the following:

- Some costs increase as the hours that gaming machines operate increase, the number of machines increase, or both – for instance, electricity, and some labour costs such as dealing with patrons. Limit A is a limit on these costs
- Some costs increase as the number of machines increases (but do not change significantly with changes in operating hours) – for instance, labour costs such as starting the machines at the beginning of the day. Limit B is a limit on these costs
- Some costs are caused solely by the fact that there are gaming machines on a venue, but don't change much if operating hours or the number of machines change. Security costs are an example. Limit C is a limit on these costs.

The purpose of Limit D is to set a cap on the total amount that societies can pay venues (so they don't end up paying the maximum to all their venues).

- **Why are 'Labour Costs' part of Limit A, B and C? Shouldn't labour costs simply be one cost under one of the limit categories?**

Labour costs make up a major part of class 4 venue expenses. The limits recognise the diversity of tasks that qualify as labour and allow those to be claimed for tasks completed on an hourly basis (limit A), a weekly basis (limit B) and on a per venue basis (limit C). Societies cannot claim the labour cost associated with one individual task under more than one limit.

Venues and societies need to know what is involved in **each task** where labour is required to run a gambling operation in a venue, and the **amount of time** each task takes. Venues and societies also need to understand **how frequently** those tasks are performed. This will help to ensure that the tasks and the time claimed to perform them can be proved to be actual, reasonable and necessary. The number of tasks and the time taken to perform each task will differ from venue to venue because of factors such as the size of the gambling operation and the number of patrons.

- **Are the maximum costs for Limits A, B, C and D, GST exclusive or GST inclusive?**

All limits are GST exclusive, including limit D.

- **Is the 16% cap (Limit D) on a cash or accrual basis?**

It is on an accrual basis.

- **Does paying a portion of the rental of the venue (relative to the size of the gaming room area) include a portion of the rates, building insurance and also 'body corporate' costs?**

The answer to this question depends on the lease agreement or other document governing rent. A portion of the rates, building insurance and body corporate costs (relative to the size of the gambling space) can be included in the reimbursement of the rental cost, as long as there is no double counting of costs. This means that if the rent, as set in the lease agreement, *already* includes rates, building insurance or body corporate costs, such items cannot be counted again as an additional item in the rental paid by the society.

- **What items or equipment are not captured under Limit C – Capital Costs?**

The purchase cost of gaming machines and gambling equipment are not covered by the *Gazette* Limits. It is the Department's view that this is extended to ancillary items necessary to provide a fundamental infrastructure common to all venues to operate the machines such as a gaming machine base, cabling (including EMS cabling requirements) and gaming machine stools. All other costs are around the area of enhancements, maintenance and development of the "gambling space" (e.g. carpet, paint, lighting, air conditioning, structural changes) would be captured under Limit C - Capital Costs.

- **What are 'management fees'? Why are there fees in each of Limit A, B and C?**

Under the former Gaming and Lotteries Act, societies could not remunerate venues for managing the gambling operation other than through reimbursement for actual labour hours spent on the specific tasks. This was an area of some difficulty as it appeared, in some cases, that management were claiming a high hourly rate, for tasks that could be performed by staff at a lower cost.

Under the new rules, societies can pay venues limited fees, in recognition that they provide a service that involves effort, skill and risk in the management of that operation. The fee also covers minor costs (such as telephones, stationery, postage and photocopying) that are too small to justify having a separate subcategory.

Fees can be paid under each limit category (A, B and C). The fees provide venues with a level of return on the operation of gaming machines. The *Gazette* Notice caps this level of return at a maximum of 25% (which was at the upper level of the range suggested in the independent accountants' report commissioned by the Department) of the input costs in each category. The total paid within each category (including fees) must not exceed the limit.

- **What do we do if we have costs which don't seem to fit under Limits A, B and C?**

Societies cannot reimburse venues for costs which do not fit under Limit A, B or C. Venues cannot be paid for the "opportunity cost" of running the gambling operation as opposed to another activity.

- **Where a society has a general service contract for the maintenance and repair of gaming machines, is this a cost covered under the *Gazette* Notice limits?**

The cost of a service contract or the individual cost of engaging a service technician to repair a gaming machine at a venue would be considered a general administration cost by the society and therefore not covered by the *Gazette* Notice.

- **In relation to the hourly labour cost (limit A), is it the hours the venue is open for business or the hours on the liquor licence?**

The hourly labour cost for specific gaming machine tasks is not related to the hours on the liquor licence or the hours the venue is open for business. It relates to the hours the gaming machines are operating. If it reflects what occurs at the venue, the Department will accept up to a maximum of 2 additional hours per day of operation outside of opening hours.

- **Is the finance interest on the purchase of an air conditioner a legitimate cost under the new venue payments policy?**

The finance interest is a legitimate cost captured under limit C. Finance costs must be actual, reasonable and necessary. If this is included, it must be explained in the workspace section of the venue costs schedule.

- **Some societies use an electronic management system at their venues, where the society supplies a dedicated computer and telephone line to operate the system. Is this a society administration cost or is it covered by the *Gazette* Notice limits?**

This is considered a society administration cost, and therefore is not covered by the *Gazette* Notice.

- **Are computer costs and internet charges for access to EMS covered by the *Gazette* Notice?**

The capital cost of a computer (where a venue does not already have a computer) and internet connection is a fundamental part of the gambling operation and a society administration cost. The ongoing charges associated with connection to the internet (for EMS purposes only) are not covered by the *Gazette* Notice but, as a fundamental cost, can be incurred as a society administration cost.

- **Is the cost of dedicated EFTPOS covered by the *Gazette* Notice?**

Some venues have dedicated EFTPOS for the gambling operation. Where this cost is necessary, the capital cost of establishing this enhancement is covered by Limit C. However, the wording of the *Gazette* Notice does not make provision for any ongoing costs to be recouped. As such, the cost of a dedicated telephone line, if applicable, could not be reimbursed.

- **Why aren't key register checks and putting brochures in brochure holders categories under limits A or B?**

These tasks have not been included because they are too small to justify having a separate category.

- **What about setting staff rosters, reading Gambits, reading society literature, employing staff, completing licensing documentation?**

These tasks are spasmodic and are part of the effort and expertise needed to manage a gambling operation. To the extent these activities represent a cost to the venue operator they are covered by 25% management fee which appears under each limit.

- **Is the cost of cleaning materials and cleaning equipment covered by the *Gazette Notice*?**

The cost of cleaning is a labour task under the *Gazette Notice*. The cost of cleaning materials as it relates to the gambling area is an incidental cost and covered by the intent of the management fee as above. If a third party is contracted to do the cleaning at a venue, these costs will be included in the contracted price. It is considered impractical for societies to split out the labour component and materials component of that contracted price so can be covered to the extent it relates to the gambling operation.

- **Is the cost of completing a security survey of a number of venues (a survey in relation to security around hosting gaming machines), or a compliance audit (the society checking record keeping data produced by venues) by society staff, a society administration cost or is it captured by the *Gazette Notice* limits?**

It is the view of the Department that this exercise would be a society administration cost, as long as it is necessary to the operation.

- **Is the cost of a dedicated gaming machine toilet (directly accessed from the gambling area) an allowable cost?**

This is not an allowable cost under the *Gazette Notice* Limits.

- **Do the *Gazette Notice* limits fairly reflect the costs for operating gaming machines in hotels based in the Auckland region? The costs (e.g. labour, rental and particularly security) are significantly higher than similar operating costs in the South Island (e.g. Timaru or Invercargill), although captured by the same cost limits.**

The cost limits were set in the *Gazette Notice* to reflect the range of venue costs incurred on a national basis. That is why there is a wide range of possible amounts that can be paid. We would not usually expect a venue in a lower cost area to receive as much as one in (say) central Auckland.

- **Some rural hotels bank gaming machine money on a daily basis (for security reasons) into their own account because the society's bank does not have a branch in their local town. Is the cash handling fee, charged by banks for counting the money, a society administration cost or would it be captured by the *Gazette Notice* limits?**

Cash handling costs are a labour cost and captured by the *Gazette Notice* limits. Handling money associated with gaming machines is core to the venue's operation. However, any costs associated with mileage or taxi fares for banking are not covered by the *Gazette Notice* limits.

- **Does the society have to constantly amend venue agreements (in relation to itemised costs) to reflect minor cost variations such electricity?**

The Department does not expect the society to constantly amend its venue agreement to reflect minor cost fluctuations, such as where a hotel closes early one week and there is small decrease to its normal opening hours. With respect to electricity, if a society has decided to pay a weekly amount, which reflects the average monthly electricity bill (to capture seasonal fluctuations) then this would be considered reasonable. However, where there are significant and/or ongoing changes to operating costs, then the venue cost schedule should be amended to reflect those cost changes (e.g. a significant reduction in operating hours, a major capital purchase, or an increase or reduction in gaming machine numbers).

- **Some venues are unable to obtain insurance because of a history of robberies and burglaries. Can those venues be paid a ‘self insurance’ payment?**

No.

- **Where a society wants to do a review of venue payments is this a society administration cost or is it covered by the *Gazette* Notice limits?**

This is considered a society administration cost.

- **If a society changes the venue costs schedule, does it have to notify the Department?**

Yes. A change to a venue costs schedule is an amendment to the venue agreement between a society and venue operator. The Department is required to approve all venue agreements and be satisfied that societies are minimising operating costs and maximising net proceeds.

- **How do societies and venues prove costs?**

Under regulation 5 of the Gaming Machine (Net Proceeds) Regulations 2004, societies must retain source documents and data on costs relating to the conduct of class 4 gambling, including venue expenses. This information must be up-to-date and accurate. The Department will use this information to verify venue costs. Examples of some of the documents which should be retained by societies are bank statements, invoices, receipts, payroll records and financial statements.

The Department recommends that societies work with venues to calculate and evidence venue costs in detail. Failure to have documentation that accurately verifies the costs claimed could lead to sanction action by the Department.

- **How will the Department check that venue payments are actual, reasonable, necessary, and kept to a minimum?**

The Department will check the detail of venue payments, including source documentation and data that was relied upon to determine the validity of venue costs, through licensing, compliance audits and investigations of societies.

- **How will electronic monitoring (EMS) affect venue payments?**

The Department is of the view that cabling (including cabling for EMS) for gaming machines is a fundamental requirement for the operation of gaming machines and therefore falls outside the *Gazette* Notice limits.

EMS fees are a cost to the society (not the venue) and will not be included within the gazetted limits.

- **Are structural costs which are required for compliance with the Act a venue cost?**

All costs that are incurred by societies must be necessary for conducting the gambling or legal compliance. All structural changes associated with class 4 gambling at a venue are development costs under limit C and, if they are essential for legal compliance, can be incurred.