

10 December 2008

To the Chairperson/Chief Executive

Dear Sir / Madam

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Venue Expenses: The Way Forward

The Department has reviewed its Licensing and Compliance processes for assessing venue related costs. This follows the findings of the Venue Expenses Working Party, concerns expressed to the Department about inflated venue expenses resulting in increased competition within the sector, and concerns about the Department's monitoring of the expenses regime

The Department knows that societies and venues are frustrated by the venue costs issue. The key to addressing these frustrations is to ensure consistent and equal treatment through robust, defensible data leading to reform of the Gazette Notice if appropriate. We now have an opportunity to achieve that consistency with data indicating reasonable timeframes for labour activity.

This letter will explain:

- The work the Department has done following the recommendations of the Venue Expenses Working Party;
- The additional work that will be conducted to support the licensing process, expectations of societies' compliance with those processes, and to progress a basis for consultation on the current Limits; and
- Timeframes for achieving the above outcomes.

Venue Expenses Working Party and Departmental Actions

The Venue Expenses Working Party of representatives from the Department, Charity Gaming Association, and the Hospitality Association of New Zealand recommended:

- The Department progress consultation around adjustments to the Gazette Notice including Consumer Price Index (CPI) adjustments, GST clarification and an adjustment to Limit A
- Further investigate Limits B and C
- Regularly review The Gazette Notice, including the impact of inflation
- The Department communicate compliance actions including the benchmarking of acceptable individual expenses.

As you will be aware, the Department has amended the Gazette Notice to clarify the position of GST. This amendment was an important first step in seeking to ensure societies reimburse venue related costs on a consistent and equal basis.

In line with the above recommendations, the Department also conducted a project to benchmark class 4 venue labour costs. Labour costs are the largest component of venue related costs claimed by venue operators and have been the most inconsistent area of costs reflected in venue payment schedules. By observing and identifying class 4 related labour activities (in particular activities which can be termed 'transactional' in nature) the Department's licensing and compliance teams would have information on the



reasonableness of labour costs claimed. In turn, this would also result in the sector being more consistent in costs claimed. A copy of this report is attached.

Other objectives of the benchmarking project were to provide data to compare with the Colmar Brunton Survey on labour costs, commissioned during the Working Party process, look at the classification of labour activities under the limits in the Gazette Notice, identify any efficiency savings that could be made, and evaluate as far as possible whether the current gazetted limits can accommodate best practice labour activities.

The recommendations of the Working Party need to be progressed in light of the benchmarking project. The Working Party recommended that CPI adjustments be made, Limit A be adjusted, and Limits B and C be further investigated. These recommendations were made with the best information available at that time. However, with the conduct of a significant benchmarking exercise aimed at clarifying an area of venue costs that is both the most significant and volatile aspect of costs claimed, it was appropriate to await that outcome prior to progressing further consultation.

The project identified that, on many levels, the results of the Colmar Brunton Survey were appropriate, some costs are being attributed to the wrong limits (e.g. some Limit A costs should be ascribed under Limit B), and in the main, there were no obvious labour inefficiencies identified at the venues visited. The project also found that, provided activities are ascribed to the correct limits, there was nothing to suggest Limits A, B and C could not accommodate the cost of best practice labour activities.

Next Steps

The Department does not deny that costs have increased since the Gazette Notice was first prescribed. However, for the Department to be able to advance any consultation robustly, we need consistency within the sector to obtain reliable data. Without evidence, the Department cannot meaningfully progress consultation on the adequacy of the limits. We are now in a position where we have the opportunity to gather that evidence.

As you will be aware, there have been very different approaches to venue costs claimed between societies and even between venues under the same society. Ending this inconsistency provides not only a basis for any future consultation but is also in line with concerns expressed by some stakeholders that the Department should be doing more work to stop the alleged payment of inducements to venues to switch societies. This type of competition is unhealthy in terms of the scheme of the Act and causes significant and legitimate frustration for those societies and venues that try to "play by the rules".

The Department has been looking at some venue agreements with a more critical eye but has been hampered without a benchmark for labour costs. To this end, the Department will be taking the following steps:

- Take the findings of the Class 4 Venue Labour Costs Benchmarking Report and develop a set of reasonable labour timeframes for completing tasks associated with the gambling operation for use throughout the sector;
- Provide a copy of those reasonable timeframes to the sector for comment;
- Revise the venue expenses claim form and require all societies to utilise this form (along with society based forms if desired) to ensure costs are identifiable and being attributed to the correct Limit;
- Clearly specify details around the nature of the costs category claimed (especially labour costs) to achieve consistency in interpretation and treatment;
- Revise the Guidelines on Venue Costs Reference Paper to reflect the above;


- Implement a universal licensing strategy and new licence condition (see attached document); and
- Collate the data from all approved venue agreements to provide a robust base from which to develop and analyse any future changes to the Gazette Notice.

Simply, if there is to be consistent treatment by the Department, societies also must be consistent in how they categorise costs. The Department must provide the means to achieve that consistency.

The Department intends to complete the set of labour activity timeframes, reference material and "universal" venue expense claim form by the end of January 2009. Once in place and the Department is assessing itemised cost schedules against that material, there will be a significant and reliable body of data to inform any consultation on amendments to the Gazette Notice. It is expected that the Department will be in a position to analyse that material and draw appropriate conclusions by mid-2009. The sector will be kept informed during that process.

The Department looks forward to your co-operation over the next six months in achieving an outcome that will be to the benefit of every part of the sector.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mike Hill', enclosed within a hand-drawn oval.

Mike Hill
Director
Gambling Compliance Group