The Way Forward

This issue of Gambits comes to you as work progresses on the Gaming Review. Minister Hawkins has already announced that no more casino licences will be issued and has signalled new measures for non-casino gaming machines, including greater audit coverage by gaming inspectors. Read on for a more detailed update on the Gaming Review.

In the meantime, non-casino gaming machines continue to operate under the Gaming and Lotteries Act 1977, which says that the purpose of gaming is to raise money for the community. The department issues licence conditions to give effect to the Act and updates them every year. We met with stakeholders on 9 August to develop a set of licence conditions that will come into effect on 1 October 2001.

In this issue, we bring you an update on Gaming Licensing’s “e-licensing” project, some more information about site payments and an introduction to Gerald Scanlan, our new Acting General Manager.

Thanks to all of you who contributed to our Gaming Licensing survey — we have some feedback on the results — and to everyone who has complimented us on the Gaming Licensing website. You can get up to date information on non-casino gaming machine statistics there and the addresses of the societies and sites for applications for grants.
Audit Coverage

The Minister for Internal Affairs announced increased audit coverage of gaming machine societies, at the Problem Gambling Conference in Auckland on 28 July.

This is because of Government concern that the right proportion of gaming machine revenue may not be going to community purposes. Government was also concerned about the high number of audit failings of societies licensed to operate gaming machines. It wanted an increase in the audit cycle (at present, every five years).

In future, societies will be audited every two years and site visits will step up as well. This move follows the growth in machine numbers over recent years, which unfortunately has been associated with an increase in levels of non-compliance.

The new programme of audits is being funded from a 27 percent increase in the Gaming Machine Fee, from $200 to $254 per machine per year (GST inclusive). The increase comes into effect on 1 October 2001. No change to the 33 percent minimum return to authorised purposes is planned in light of this change.

Please make sure you read the Licence Conditions and the Blue Book. You need to know the rules surrounding the operation of gaming machines so you do not run the risk of audit failure. Contact your closest Gaming Compliance unit office if you have any concerns about your current gaming machine operations.

New Face, Same Space

Gaming Regulation in the Department of Internal Affairs is to have change of leadership.

As we went to press, DIA's Chief Executive, Peter Hughes, announced that Janice Calvert has been appointed General Manager of the group responsible for the department's human resources and communications. Janice's temporary replacement, while a new manager is appointed, is Gerald Scanlan, whose normal job involves running the chief executive's office, as well as the department's legal, research and internal audit teams.

Gerald's background includes several years as manager of the team responsible for the department's strategy development, business planning and performance reporting. He has also worked in the State Services Commission and the Audit Office, and in the voluntary sector.

After two weeks as acting General Manager, Gerald says he has acquired a deeper appreciation of the challenges and complexities facing all those working in the gaming sector.

"I now understand more clearly why the Gaming Review is so important and timely," he says. "With the main decisions from the review only weeks away, the whole sector, including the regulators, needs to prepare for the changes that will take place after the eventual reform bill is passed into law."

In the meantime, Gerald intends to focus his energies on strengthening the department's relationships with the rest of the sector, on all sides of the arguments that the review is considering.

"The department will continue to regulate the existing law to the best of its ability, until that law changes. But effective regulation is a two-way street. I am looking forward to meeting as many of the groups involved in the gaming sector as possible, and discussing how to strengthen the mutual understanding and trust needed for the public to have confidence in the sector."
SITE PAYMENTS

The Gaming and Lotteries Act has no specific provisions for the payment of site rentals and expenses for gaming machine site operators. Payments are provided for under Licence Condition 55 which says that society expenses must be the actual, reasonable and necessary expenses associated with the operation of gaming machines.

It seemed to us that some societies were struggling to come up with a reasonable framework for site expenses and that some very high, and sometimes unlawful, payments were being made without any justification. While the requirement that societies return at least 33 percent of their gaming machine income will act in part as a brake on inflated site expenses, we do expect societies to negotiate a lawful package with their site operators. Gaming Licensing will not approve any payments that are unjustified or excessive so please make sure you have grounds for any payments before you submit them to the department.

Here’s what we told societies in a recent letter.

- Total site payments cannot be directly linked to machine throughput. That would amount to payment by commission;
- Societies can reimburse site operators for reasonable labour costs on the site (this is reimbursement for time spent on gaming machine duties at site level, at the appropriate hourly rate for the individual doing the work);
- Societies can reimburse site operators for the reasonable, itemised expenses associated with the operation of gaming machines on the site. A list of acceptable expenses was attached to our letter of 19 June to all societies.
- The site rental component must be justified. The justification for a high site rental is likely to be the profitability of a site — ie its capacity to generate significant amounts for the community. Societies might also reasonably take into account the efficiency and reliability of site personnel — ie do they follow the operator’s manual (the Blue Book) and ensure that all their site systems meet a very high standard?

Societies have to return at least 33 percent of their income to authorised purposes, and adjust their expenses accordingly. High site payments will not be good grounds for a failure to give away at least 33 percent to the community.

The total per machine per week payment must be set out in the site agreement. This is the maximum amount that could be paid, but it is not necessarily the amount that has to be, or will be, paid every week. A lesser amount might be payable on quieter weeks.

Site payment details and amounts can be set out as a schedule to the site agreement and this schedule can be amended from time to time. In these cases, societies must submit a new payment schedule to Gaming Licensing before they increase the total per machine per week payments.

RENEWAL TIME

It’s nearly time for most societies to renew their gaming machine licences. Gaming Licensing plans to send out the renewal packs later this month. If your licence expires on or about 30 September, and you haven’t received your pack by 15 September, please ring Gaming Licensing and we’ll send you one. Here are some things we’d like to tell you about so we can process your application faster.
Published Lists of Grants

It's essential that you attach a copy of the published list of grants to your renewal application form. We've pointed out, in the last Gambits and in the 18 June letter to all societies, that Licence Condition 54 requires societies to publish annually a list of all grants made from gaming machine profit.

This is a really important licence condition. It goes to the heart of what gaming is all about (ie raising money for authorised purposes). The list of grants is a public statement of a society's ability to make grants to the community. For this reason, the department must treat failure to publish lists of grants as a serious breach of licence conditions. Sending us a copy of the published list of grants shows that money is being distributed to the community (in the case of national trusts and hotel-based trusts), and spent on club purposes set out in the authorised purpose statement on your licence (in the case of clubs).

Clubs publish statements about their expenditure on their Authorised Purpose(s) in their newsletter, annual report or on their club notice-board. National trusts and hotel-based trusts send us a published list of grants. Most societies will find that the total amount on the published list of gaming machine payments that they send us will match the total amount reported on their current renewal form.

Societies whose financial reporting year is the same as the licensing year (ie 1 Oct to 30 Sep) should send us a published list of grants for the period covered by the previous licensing year, as this will match the amount they stated on their gaming machine account summary for that period. Please contact Helen Baylis, on (04) 494 0557 if you have any questions about this.

We hear on the grapevine that some societies are planning to ignore this licence condition and not publish lists of grants. We must advise that this may well lead to loss of licence. Licence Condition 54 has now been in place for two years. Societies have had time to make arrangements for grant publishing, and many, in fact, have done so. We encourage societies to comply with this very important licence condition at once if they haven't already done so.

Applications in on time

Under the Gaming and Lotteries Act, your application has to reach us in Gaming Licensing before 30 September 2001. This allows your current licence to remain in force after its expiry date while the application is being processed.

Gaming Machine Account Summary

A couple of important pointers about your gaming machine account summary:

It isn't possible to achieve a return to authorised purposes of 33 percent by carrying forward a deficit into the next financial year — ie you cannot distribute more in grants than is available as profit once your expenses have been met. Societies that appear to achieve a minimum 33 percent return by carrying forward a deficit do not in fact comply with Licence Condition 46.

The undistributed funds brought forward from last year must be the same as the undistributed funds carried forward to this year. Please attend to this detail, as we cannot process your application without it.

Amendments with Renewals

Some societies submit amendments with renewals to save on amendment application fees. That's fine, but please be aware that Gaming Licensing has a turnaround time of 10 working days for all applications except for renewals. Because we get so many renewal applications at once, we process them in date order to be fair to those societies that get their renewal applications in promptly. We can't give priority to some applications just because they include amendments. Our message is that if your society has amendments to be actioned, and you want them processed within 10 working days, you are advised to send these amendments in as separate applications. But non-urgent amendments can certainly be submitted as part of the renewal application. They will be processed as promptly as possible, but outside the 10 day turnaround time that applies to all other licence applications.

You can help us process renewal applications promptly by including all the information needed with your application form.

You can find more information on these and other topics in past issues of Gambits. Copies are available on our web page — just click on “Gambits” on the web page to find them. And please phone us on 0800 257 887 or (04) 495-7200 if you have any questions, particularly once you get your application pack.
E-Government is the way of the future. For Gaming Licensing this means receiving your applications and issuing licences over the Internet — a process we’ve called e-Licensing. Gaming Licensing is taking a staged approach to e-Licensing. Stage one will allow gaming machine societies to submit machine amendments (but not site amendments), renewals and notifications through the Internet. Stage two will be full e-Licensing for all types of gaming machine licence, lottery, housie, games of chance and prize competition applications.

Stage one Gaming e-Licensing will enable you to:

- View your society’s information, licence and schedules
- Delete gaming equipment
- Remove sites
- Amend the site operator or society’s principal officer’s contact details
- Add new gaming machine equipment
- Convert existing gaming machine equipment

Early next year, you will also be able to renew your society’s gaming machine licence through the Internet.

Work on the project began in 1999 when we explored the concept of e-Licensing. In May this year we began to build the database. Development of the system is nearing completion and user acceptance testing is scheduled for the first half of August. Some gaming machine societies will be helping us with this testing - thanks for that! We are providing training sessions in the week of 27-31 August for societies that want to use e-Licensing. The system will go live in early September for processing notifications and gaming machine equipment amendments. Electronic renewals will start in the New Year.

We’ve sent a survey to all societies to see if they’re interested in using e-Licensing and whether they’ll be attending the training sessions. Already we’ve had a good response and more than half of those who responded think they’ll use e-Licensing in the next 12 months.

The national trusts, which operate about half of all gaming machines, have previously indicated their intention to register for Gaming e-Licensing.

What do I need to use e-Licensing?
To use this system a society will need a computer and modem and will need to join up with an Internet service provider. No special software is needed, as the system will work with a standard Internet browser such as Internet Explorer or Netscape Navigator. When a gaming machine society registers to use this service they will be given a login name and password. This will prevent users other than those from a particular society from viewing or entering information relating to that society. There will be a link to Gaming e-Licensing on the DIA website.

We expect that distributors will provide societies with evidence of ownership in the form of an electronic file such as a Microsoft Word document. This file should then be attached to the amendment application for adding new gaming machines.

How will Gaming e-Licensing benefit my society?
For gaming machine societies, e-Licensing will provide:

- Immediate access to society and licence details and licence schedules
- Validation of machine and game details as they are entered. This means the user will know straight away if they have entered incorrect information or have missed something essential
- Processing of machine amendments will be quicker since documents will be processed electronically instead of the current manual system.
- Your society will be able to check on the progress of your application by logging into the system.
“Problem Gambling Levy not an authorised purpose?”

In recent months, some societies have asked if the problem gambling levy can be included in the return to authorised purpose, since it is used to fund a service that might be classed as charitable. We have to tell them “no”, for the following reasons:

Societies are licensed under the Gaming and Lotteries Act to make money for the community purposes set out on their licences. This means that as much money as possible must be returned to the community. It may vary from year to year because the amount of revenue from the gaming machines, and the level of expenses, will not be the same each year. Societies must make sure that they distribute or apply at least 33 percent of their profit to authorised purposes, but this is the minimum return allowable and returns generally fluctuate from year to year, from 33 percent to a higher return.

The problem gambling levy, on the other hand, is a fixed and mandatory payment that has to be paid by every gaming machine licensee. The levy is a debt to the Crown rather than a grant or other expenditure to particular purposes. It falls into the same category as the licence fee or gaming machine duty. Therefore it isn’t an authorised purpose.

Jackpot Installations and Machine Integrity Checks

DIA inspectors discovered a problem with a Jackpot Link installation when checking gaming machine equipment at a site in Christchurch recently. This link had not been installed correctly and didn’t comply with DIA installation standards. The inspectors recommended that the link be turned off until the installation met DIA standards.

Fortunately for the site, the manufacturers were able to rectify the problem on the spot so the jackpot link did not have to be turned off.

This is a timely incident. Inspectors will be carrying out random physical checks, as part of the standard audit programme, to confirm that gaming machine equipment - gaming machines, jackpots, site wiring etc - conforms to certain Machine Specification, and installation and operational requirements; for example, machine securely fixed to base, hopper cover fitted, external wiring in conduit, internal components secure, compliance plates affixed, no bare wires, current notices on display etc.

These are just some of the checks that will enable an inspector to assess whether equipment is operating as approved and in conformance to licence conditions. A society will be notified of any non-compliance issues resulting from the machine checks. If the problem can be remedied on the spot by authorised technicians, that’s fine. If not, the inspector will require the offending gaming machine equipment to be immediately switched off until remedial action is completed. Note that this could (as in the incident described above for jackpot non-compliance) include all gaming machines connected to the jackpot particularly if the site is not able to close down the jackpot separately.

Please talk to your manufacturer and/or technicians if you have any concerns about your site installation.
Membership Lotteries

An ongoing debate about the legality of jackpotting membership draws has been resolved. Earlier this year, the department, chartered clubs, RSAs and sports clubs agreed to a type of membership lottery that would fall within the Act and would also allow clubs to lawfully operate what has been a regular feature for most of their members.

Since the new membership lottery format was introduced, Gaming Licensing has received a steady stream of applications for licences (when total prizes exceed $500) and s34 exemptions (when total prizes are $500 or under). Licensing officers are able to process them promptly when they follow the new format. Unfortunately, delays are unavoidable when applications involve old, jackpotting draws that cannot be licensed under the Gaming and Lotteries Act.

Here's a quick way for you to design a membership lottery that can be licensed under the Gaming and Lotteries Act. It may help you decide whether or not you need to apply for a licence. A prize pool over $500 requires a licence, under $500 requires an exemption. It doesn’t matter whether you decide to run a licensed draw, or apply for an exemption, the framework is the same for both.

A: Total prize pool $ _________
   (total amount club wishes to put up as prize money) - must not be more than $5000

B: Number of Draws _________
   (Number of draws to be conducted during the lottery) - can’t run longer than 6 months

C: Draw Prize Pool _________
   (Amount available to give away each draw)

D: First Prize $ _________
   (This can jackpot if not struck)

E: Second Prize $ _________
   (Must be given away each draw)

And to check if you’ve done everything properly, use this handy formula. If the answers are the same for both calculations, you’ve probably got it right.

(A)____________ ÷ (B)__________=_______ (C)
(D)____________+ (E)_______ ___=________(C)

This gives you a standard membership lottery framework.

We suggest you use this standard because you can be sure that it’s lawful. It may mean you have to change what you did in the past, but if you do it this way we can issue your licence and there shouldn’t be any problems with the Gaming Inspectors when they visit your club!

Feedback on Client Survey

Gaming Licensing conducted a client survey in February 2001. Thank you to all of you who responded to our survey. 486 of the 827 questionnaires we sent out were returned, which was a very good result.

Here’s a brief synopsis of the survey results.

Satisfaction was identified on a scale of 1-5 with 1 depicting the least satisfaction level and 5 the highest. A “Not Applicable” option was also available.

When we collated all the responses we found that the majority of societies responded 3, 4 or 5 to most questions, indicating most of our clients are satisfied to fully satisfied with our service.

Here are some of the things you told us:
• Good personal contact over the phone
• Brilliant service when in need of immediate action

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Setting Licence Conditions

On 9 August we met with representatives of National Trusts, NZ Chartered Clubs, RSAs and large multi-site societies, to hold consultations with your representatives on draft 2001-2002 licence conditions. It was a very useful and constructive event. The department had the opportunity to air some difficult issues with stakeholders and get their feedback and suggestions about sensible solutions.

The requirements for gaming machine operators are not set out in the Gaming and Lotteries Act. The department sets licence conditions for the operation of non-casino gaming machines, and they cover everything from return to authorised purposes to banking requirements. Feedback from stakeholders is an integral part of the process since societies have the “coal face” experience of the system.

Licence conditions don’t suddenly appear. The process of arriving at the final set of licence conditions and guidelines is one of mutual exchange of ideas and views. We review, amend, add or delete conditions to give societies a clear set of directions so you can operate your machines efficiently and lawfully.

The licence conditions we issue this year will be clear and will address some of the contentious issues associated with non-casino gaming machine operations at present. While some problems need to wait for the review, others can, and must, be addressed under current legislation. We do not believe our licence conditions are achieving all the objectives of the Gaming and Lotteries Act at present. The set we issue on 1 Oct will be more effective and precise.