<table>
<thead>
<tr>
<th>Goals of reforms</th>
<th>Gambling (Gambling Harm Reduction) Amendment Bill</th>
<th>Supported by the Government?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase proportion of proceeds that the community receives</td>
<td>Require territorial authorities to take over distribution of gaming machine proceeds. Would not affect clubs (that apply proceeds to their own authorised purposes)</td>
<td>No - but transparency of current grants system could be improved</td>
</tr>
<tr>
<td>Simplify compliance for societies, venues and DIA</td>
<td>Require territorial authorities to take public sentiment and harm into account when developing their Class 4 venue policies, and enable territorial authorities to remove venues (currently Class 4 venue policies only apply to new venues, or existing venues that want to increase gaming machine numbers)</td>
<td>Vast majority of submissions' comments were in opposition</td>
</tr>
<tr>
<td>Develop a way for gambling proceeds to be generally distributed in the area raised</td>
<td>Distribute 80 per cent of proceeds to territorial authority district/council ward where raised. Implemented through a mandatory Class 4 licence condition</td>
<td>No - does not add significantly to existing criteria for developing policies. Removing venues would impact unfairly on operators and businesses.</td>
</tr>
<tr>
<td>Enhance protections for problem gamblers</td>
<td>Harm minimisation devices (player tracking, pre-commitment) could be required in gaming machines. Implemented through a discretionary licence condition</td>
<td>There was mixed response for/against the additional criteria. The majority of submissions opposed the proposal to allow venue policies to remove venues</td>
</tr>
<tr>
<td>Increase transparency around grant decisions and better address conflict situations</td>
<td>Remove racing as an authorised purpose for Class 4 gambling proceeds</td>
<td>Potentially - but formulation of 80 per cent and implementation method is not supported as licence conditions can be challenging</td>
</tr>
</tbody>
</table>

The Minister is committed to working with the Māori Party on further reform

NEW REGULATIONS - If Cabinet agrees, a consultation document on proposals below would be released in mid-2013

In addition to the Gambling (Gambling Harm Reduction) Amendment Bill, new regulations would make changes in the areas of:
- Transparency - expanding and standardising the information reported by societies about their grant-making (including whether decision-makers have any interests in the grant recipients) to give communities better information on these decisions
- Minimum rate of return to authorised purposes - the rate is set in regulations and the proposal is to increase this from the current 37.12 per cent

NEW BILL - If Cabinet agrees, new bill introduced before the end of 2013, depending on legislative priorities

In addition to the Gambling (Gambling Harm Reduction) Amendment Bill, a new bill would make some further changes (a new bill is needed as the changes would not be within scope of the Amendment Bill). The changes would be:
- A new regulation-making power to prescribe a system for compensating venue operators for their costs - to help reduce compliance costs. There is a commitment by the Minister to consult the Māori Party on the options, for example, a commission-based system or a fixed per-gaming machine calculation
- Strengthen conflict of interest provisions - to capture and prosecute more cases
- Powers to audit management companies - to help ensure these costs are not inflated, unreasonable

If Cabinet agrees, the Bill would be reported back in June 2013 with:

Proposal to provide territorial authorities with the ability to allow the transfer of Class 4 venues in their districts through their Class 4 gambling policies. When developing their policies, territorial authorities would need to have regard to the social impact of gambling in high deprivation communities.

Territorial authorities would need to consult their communities on this aspect of their venue policies in the usual way. For example, policies may specify that transfers were permitted after a transfer year to a CBD location. If territorial authority Class 4 venue polices allowed for transfers, the venue operator that wished to transfer could initiate this and consent to the specific relocation by the territorial authority would be required.

New regulation-making power to prescribe requirements of the distribution of proceeds that takes into account where the proceeds were generated

The Minister has made a commitment to the Māori Party to proceed with new regulations as a matter of priority following the passage of legislation

New regulation-making power to prescribe the use of pre-commitment, player tracking or other harm minimisation devices in gaming machines

Development of regulations would take place once there is better information on the costs/benefits of such devices, and work will be undertaken in this area.
**CLASS 4 GAMBLING**

Allocation of gross gaming machine proceeds

Class 4 gambling expenditure is approximately $850 million per annum

Societies licensed under the Act to operate Class 4 gambling are exempt from income tax

Range of rates of return achieved by non-club societies

<table>
<thead>
<tr>
<th>Non-club societies grouped (loss bands based on Gaming Machine Proceeds)</th>
<th>Total Gaming Machine Proceeds (GMP)</th>
<th>Total Gaming Machine Proceeds (GMP)</th>
<th>Average rate of return across a band</th>
<th>Lowest rate of return by a society in a band</th>
<th>Highest rate of return by a society in a band</th>
</tr>
</thead>
<tbody>
<tr>
<td>$30 million to $50 million</td>
<td>$401,976,412</td>
<td>$162,955,830</td>
<td>40.53%</td>
<td>38.51%</td>
<td>40.05%</td>
</tr>
<tr>
<td>$10 million to $30 million</td>
<td>$94,843,923</td>
<td>$37,889,405</td>
<td>39.33%</td>
<td>37.49%</td>
<td>40.16%</td>
</tr>
<tr>
<td>$4 million to $10 million</td>
<td>$52,876,144</td>
<td>$22,915,673</td>
<td>42.41%</td>
<td>37.93%</td>
<td>51.76%</td>
</tr>
<tr>
<td>$1 million to $4 million</td>
<td>$24,953,594</td>
<td>$10,012,323</td>
<td>40.45%</td>
<td>30.59%</td>
<td>51.82%</td>
</tr>
<tr>
<td>less than $1 million</td>
<td>$3,330,199</td>
<td>$1,357,860</td>
<td>40.13%</td>
<td>38.42%</td>
<td>51.53%</td>
</tr>
</tbody>
</table>

Note: Not all licensed non-club societies are included due to varying financial years

The Department's compliance functions relating to Class 4 gambling

The Department has 66 Gambling Inspectors and investigates on Class 4 gambling. These Gambling Inspectors are also responsible for investigations under the Private Security Personnel and Private Investigators Act 2010. This figure excludes Gambling Inspectors who work in the casino sector.

The current annual costs of regulating Class 4 gambling (excluding GST) are:

<table>
<thead>
<tr>
<th>Department</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Affairs</td>
<td>$8.67 million</td>
</tr>
<tr>
<td>Third party electronic monitoring system provider</td>
<td>$7.53 million</td>
</tr>
<tr>
<td>Gambling Commission</td>
<td>$0.56 million</td>
</tr>
<tr>
<td>Total</td>
<td>$16.76 million</td>
</tr>
</tbody>
</table>

These costs are funded through third party fees (licensing fees, complaint fees).

Current venue cost regime

Actual, reasonable and necessary

Societies can deduct the "actual, reasonable and necessary" costs of conducting gambling from their gaming machine proceeds (GMP). Actual, reasonable and necessary means:

- **Actual**: the society and venue operator must be able to show that the costs were actually incurred.
  - For example, labour costs must be based on the actual pay rates in use at the venue, and the hours worked.
- **Reasonable**: the costs must be in proportion to the size of the operation, and should take into account normal market values or prices for the goods and services provided.
- **Necessary**: the costs must be necessary to the conduct of gambling and legal compliance. The Gambling Commission has held that "necessary" falls between "expenditure or desirable on the one hand or essential on the other".

Gazette Notice limit on venue costs

The Department can set limits on venue costs that may be incurred by a society through a Gazette Notice. The current venue cost limit sets four limits on venue costs that non-club societies can incur (including an overarching requirement that operating costs across all venues do not exceed 16 per cent of total GMP).

The Gazette Notice sets the following limits on a society's costs:

- **Hourly Operating Costs (Limit A)** – this covers labour and electricity required to operate the machines, and fees for managing those services at not more than 25% of the total cost of these;
- **Weekly Operating Costs (Limit B)** – this covers labour for the weekly management of the machines, and fees for managing these payments to host venues, insurance and interest costs, and fees for these services at not more than 25% of the total cost of these;
- **Venue Operating Costs (Limit C)** – this covers labour required for the weekly provision of the venue, security, developments, maintenance of the venue, and fees for these services at not more than 25% of the total cost of these;
- **Total costs associated with venue costs must not be more than 16 per cent of gaming machine profits in any 12 month period (Limit D)** – the Department checks each society's individual costs schedule (there are over 1,100 non-club venues in New Zealand) and the supporting evidence provided to verify the costs. There is also a declaration made by the society that the costs are actual, reasonable and necessary. This process can create substantial compliance costs for societies and venues. A simplified venue-based approach would mean lower compliance costs for societies and venues.

The Department has also set limits on venue costs that may be incurred by a society through a Gazette Notice. The current Gazette Notice sets limits on venue costs that non-club societies can incur (including an overarching requirement that operating costs across all venues do not exceed 16 per cent of total GMP).

The Gazette Notice sets the following limits on a society's costs:

- **Hourly Operating Costs (Limit A)** – this covers labour and electricity required to operate the machines, and fees for managing those services at not more than 25% of the total cost of these;
- **Weekly Operating Costs (Limit B)** – this covers labour for the weekly management of the machines, and fees for managing these payments to host venues, insurance and interest costs, and fees for these services at not more than 25% of the total cost of these;
- **Venue Operating Costs (Limit C)** – this covers labour required for the weekly provision of the venue, security, developments, maintenance of the venue, and fees for these services at not more than 25% of the total cost of these;
- **Total costs associated with venue costs must not be more than 16 per cent of gaming machine profits in any 12 month period (Limit D)** – the Department checks each society's individual costs schedule (there are over 1,100 non-club venues in New Zealand) and the supporting evidence provided to verify the costs. There is also a declaration made by the society that the costs are actual, reasonable and necessary. This process can create substantial compliance costs for societies and venues. A simplified venue-based approach would mean lower compliance costs for societies and venues.