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Do poker machines represent a net gain or loss to the Tasmanian economy?

Discussion paper

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Summary

The Tasmanian Joint Select Committee on Future Gaming Markets is currently considering the future of poker machines in Tasmania, including a possible reduction in the number of machines and whether to retain the monopoly position of Federal Group (set to expire in 2023). The Committee has received 148 submissions and held six days of public hearings.

This paper looks at some historic estimates of the impact on employment and state GDP from a phase out of poker machines, and provides recent alternative data from the ABS and the Productivity Commission.

Our research finds that under most models, the cost of poker machine-related problem gambling (up to $153.3 million in 2011 dollars) far exceeds revenue from poker machine-related gambling taxes and fees ($53.4 million in 2016).

Previous estimates of the impact of phasing out poker machines on employment are inconsistent with recent ABS statistics. ABS data suggests gambling employment in Tasmania of around 1,500 people, rather than over 4,000 as calculated in the most recent government-commissioned social and economic impact study.

Venue operators estimated that half of their staff were employed "directly as a result of gambling", and say that they employ low-skilled people who might otherwise struggle to find a job. In contrast to this, the 2010 Productivity Commission found that although the gambling industry employs many people, in its absence those people may easily find employment elsewhere. The Commission further noted that modelling undertaken on behalf of the gaming industry found "no long-run effect on national employment from even full prohibition of the gambling industries".[1]

Figures relied upon to estimate impact to the State's GDP may also be over-estimated as scenarios were also limited to considering the end of the Tasmanian gambling industry as a whole rather than just the phase out of poker machines.

[1] Productivity Commission (2010) *Gambling,* volume 1, s 6.28

The Tasmanian gambling industry overview

In Tasmania, poker machines (also known as electronic gaming machines or EGMs) are found in three types of business:

- In clubs and hotels
- In the two casinos (Hobart and Launceston)
- On the Spirit of Tasmania vessels

90 hotels have a total of 2,248 machines and seven clubs have a total of 127 machines,[2] for a total of 2,375 (there is a cap of 2,500 for hotels and clubs).[3] There are 1,185 casino poker machines and 36 on the Spirit of Tasmania vessels.[4] This is a total of 3,596 machines.

Poker machines are the only gambling currently operating on the Spirit of Tasmania; clubs and hotels and casinos also run keno games and the casinos have table games as well.

The Tasmanian Liquor and Gaming Commission estimates that player expenditure on gambling was $277.7 million in 2015-16. Of this, $76.9 million was on poker machines in casinos and Spirit of Tasmania vessels and $114.2 million was on poker machines in hotels and clubs (for a total of $191.1 million, or 69% of total player expenditure).[5]

Among Tasmanian gaming venues in a 2014 survey, 73% of revenue comes from food and beverage sales and only 14% from gambling (mostly poker machines). Only 17% of licensed (alcohol-serving) venues are gambling venues.[6]

[2] Tasmanian Liquor and Gaming Commission (2016) *Annual Report 2015-2016,* p 14

[3] Tasmanian Department of Treasury and Finance (n.d.) *Gaming and Wagering Industry Data,* http://www.treasury.tas.gov.au/liquor-and-gaming/legislation-and-data/gambling-industry-data/gaming-and-wagering-industry-data

[4] Tasmanian Department of Treasury and Finance (n.d.) *Gaming and Wagering Industry Data,* http://www.treasury.tas.gov.au/liquor-and-gaming/legislation-and-data/gambling-industry-data/gaming-and-wagering-industry-data

[5] Tasmanian Liquor and Gaming Commission (2016) *Annual Report 2015-2016,* p 10

[6] ACIL Allen Consulting (2015) *Third Social and Economic Impact Study of Gambling in Tasmania,* volume 1, p 47, http://www.treasury.tas.gov.au/Documents/20150109SEISVolume1FINAL.PDF

Harm caused by gambling

In 2013, the Tasmanian Gambling Prevalence Survey estimated that 38.8% of Tasmanian adults are non-gamblers, 54.9% are non-problem gamblers, 3.9% are low risk gamblers, 1.8% are moderate risk gamblers and 0.5% are problem gamblers.[7]

People living in low SES local government areas are twice as likely to be problem gamblers.[8] This is reflected in the distribution of poker machines, which are more frequent in lower SES Local Government Areas than their higher SES comparison areas.[9]

The average annual expenditure from problem gamblers is $14,210, compared to $2,810 for moderate risk gamblers, $3,167 for low risk gamblers and $606 for non-problem gamblers.[10]

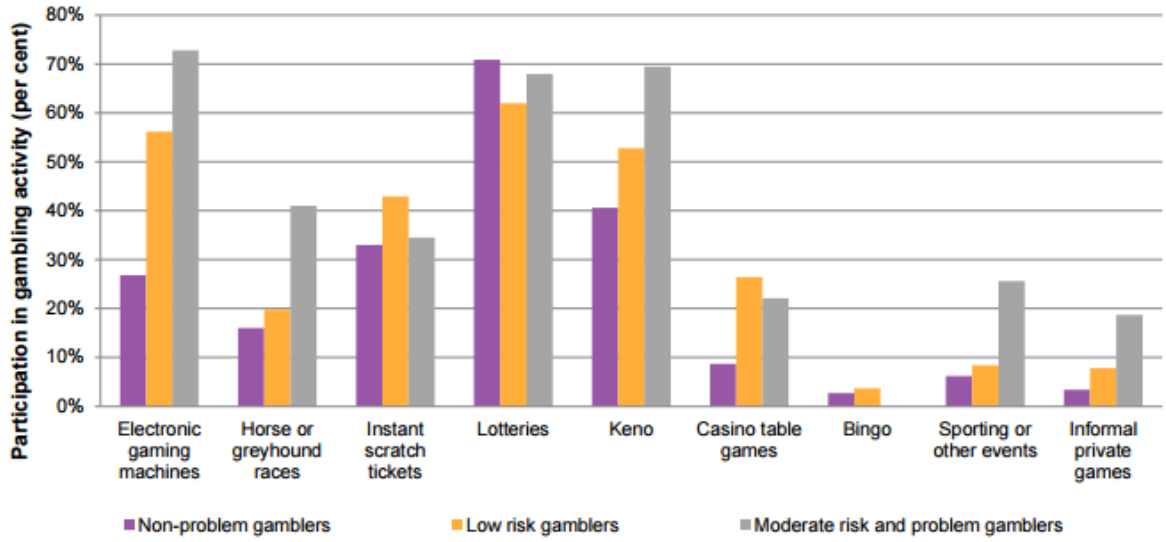
In Tasmania, 20.5% of total gambling expenditure is from moderate risk/problem gamblers, 20.5% is from low risk gamblers and the remaining 59.0% is from non-problem gambling.[11]

Poker machines are the most popular form of gambling for problem gamblers. Poker machine gambling expenditure is 60% at-risk gambling, in contrast to non-poker machine gambling expenditure which is less than 40% at-risk gambling (see Figure 2, below). Among those seeking support for their gambling, 80% identified poker machines as their "primary gambling activity". That 80% is made up of 56% identifying poker machines in hotels and clubs and 24% identifying poker machines in casinos.[12]

The 2013 Tasmanian Gambling Prevalence Survey had similar findings, although due to small sample sizes the moderate risk and problem gambler categories have been combined:

[7] ACIL Allen Consulting (2015) *Third Social and Economic Impact Study,* volume 1, p 31-32, 34
[8] ACIL Allen Consulting (2015) *Third Social and Economic Impact Study,* volume 1, p 31-32, 34
[9] ACIL Allen Consulting (2015) *Third Social and Economic Impact Study,* volume 1, p 92
[10] Note the counterintuitive statistic that low risk gamblers lose more on average than moderate risk ones. ACIL Allen Consulting (2015) *Third Social and Economic Impact Study,* volume 1, p 31-32, 34
[11] ACIL Allen Consulting (2015) *Third Social and Economic Impact Study,* volume 1, p 31-32, 34
[12] ACIL Allen Consulting (2015) *Third Social and Economic Impact Study,* volume 1, p 64

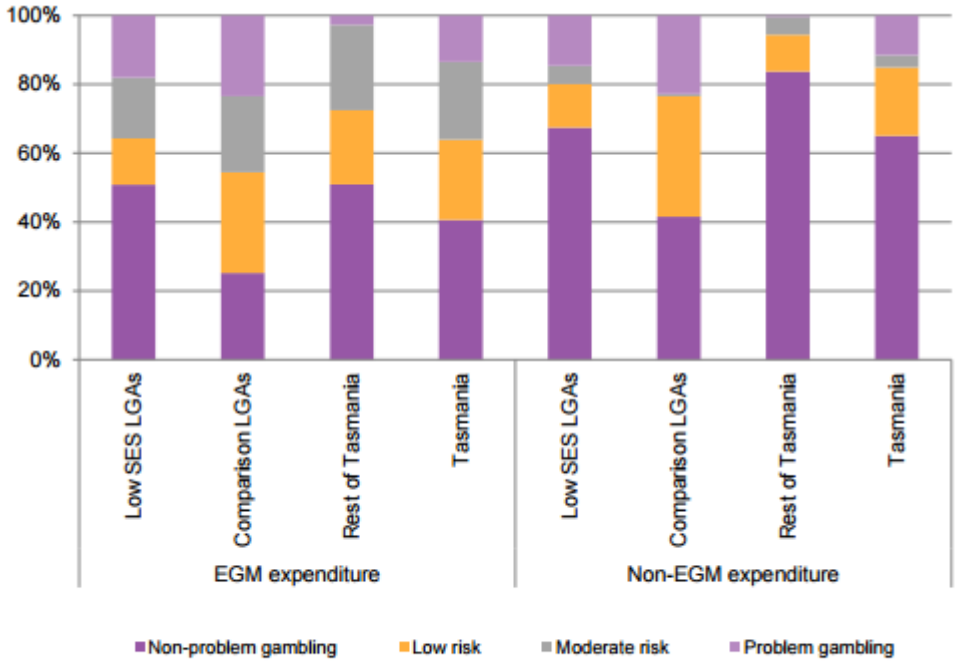
Figure 1: Gambling activity by gambling severity (PGSI), 2013



Note: Moderate risk and problem gambling Bingo results were suppressed due to Relative Standard Error>50% or privacy concerns but included in totals where applicable. 'Any other activity' and 'Day trading' is not reported due to limited publishable data.
Source: 2013 Tasmanian Gambling Prevalence Survey, Q.s - B1 and E1.

Source: ACIL Allen Consulting (2015) *Third Social and Economic Impact Study of Gambling in Tasmania, volume 1,* p 34

Figure 2: Proportion of poker machine and non-poker machine expenditure by gambling severity and LGA category



Source: ACIL Allen Consulting

Source: ACIL Allen Consulting (2015) *Third Social and Economic Impact Study of Gambling in Tasmania, volume 1*, p 144

State government revenue from Poker machines

Gaming machines are variably taxed:

- 25.88% of annual gross profit for poker machines in hotels and clubs and casinos, plus a further 4% Community Support Levy for poker machines in hotels and clubs
- 17.91% of annual gross profit for TT-Line poker machines (i.e. the poker machines on the Spirit of Tasmania vessels)[13]

In 2015–16, the Tasmanian Liquor and Gaming Commission identified taxes from gambling of $85.1 million, and a further $11.3 million revenue in licence fees and penalties (for a total of $96.4 million).

Poker machine-related line items are:

- Taxation from gaming machines in casinos and Spirit of Tasmania vessels, $19.8 million (99% of all gambling taxes collected from casinos)
- Taxation from gaming machines in hotels and clubs, $29.6 million (93% of all gambling taxes collected from hotels and clubs)
- Casino and Spirit of Tasmania vessel licence fees of $3.6 million
- Hotel and club fees of $0.3 million
- Casino and hotel and club penalties of less than $0.1 million

This represents a total of $53.4 million in revenue from poker machine taxes and licence fees and penalties from casinos and hotels and clubs (where poker machines represent the majority of gambling expenditure). This is 55% of state government gambling revenue.

Note that poker machines represent 69% of total player expenditure, but only 55% of state government gambling revenue. Collecting the taxes and licence fees is also expensive compared to other taxes. It costs about $5 million per annum for the Tasmanian government to collect poker machine taxes and fees,[14] over 5% of total gambling state revenue.

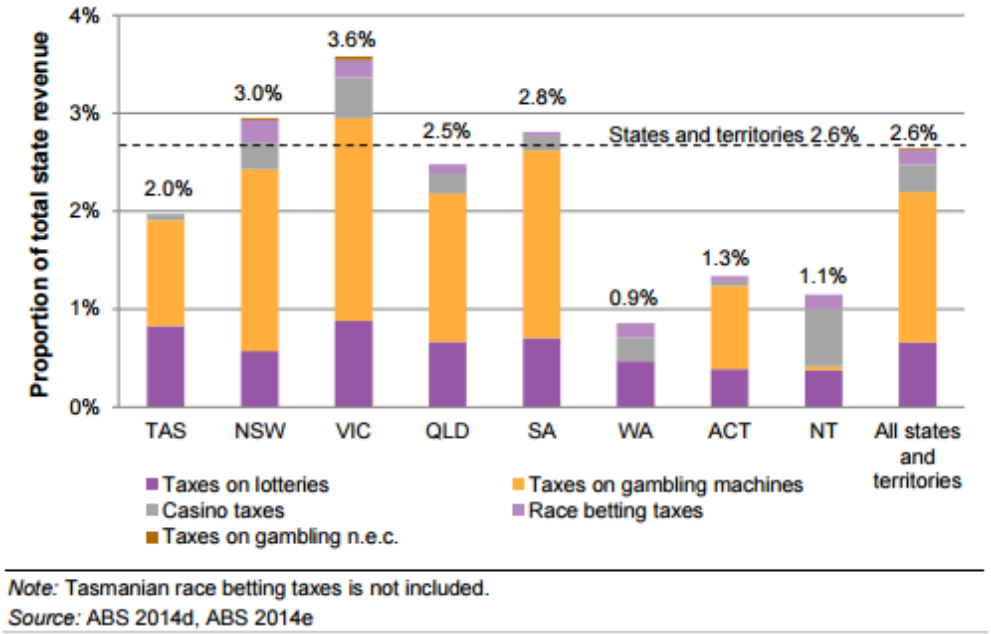
[13] Tasmanian Liquor and Gaming Commission (2016) *Annual Report 2015-2016,* p 9

[14] Boyce (2017) *Losing Streak: How Tasmania Was Gamed by the Gambling Industry*

These figures accord with the Tasmanian budget forecast of $56.4 million in casino tax and licence fees for 2016-2017, out of a total $97.7 million from gambling taxes.[15] So although the budget line item of casino tax and licence fees includes keno and table gaming, it accords closely with the figures for just poker machines.

Less of Tasmania's total state revenue comes from gambling taxation overall and less specifically from poker machines in particular than most other states, as demonstrated in the chart below:

Figure 3: Gambling taxation as a proportion of total state revenue, by jurisdiction, 2012-13



Source: ACIL Allen Consulting (2015) Third Social and Economic Impact Study of Gambling in Tasmania, volume 1, p 110

COMMUNITY SUPPORT LEVY

The Community Support Levy raises about $5 million per annum.

For poker machine operators, the Community Support Levy is paid by licensees on top of other taxes. It does not come out of government revenue. Other arrangements exist for Internet gambling, but most of the Levy comes from poker machines.

[15] Tasmanian Government (2016) *Tasmanian 2016-17 Budget Paper No 1*, p 88, http://www.sro.tas.gov.au/domino/dtf/dtf.nsf/LookupFiles/2016-17-Budget-Paper-No-1.pdf/$file/2016-17-Budget-Paper-No-1.pdf

It is levied at 4% of annual gross profit of poker machines in hotels and clubs (but not on poker machines in casinos).[16]

Half of the Community Support Levy goes to a variety of problem gambling measures, with the other half going to charitable and sport and recreation organisations.

[16] Tasmanian Liquor and Gaming Commission (2016) *Annual Report 2015-2016,* p 9

Social costs lead to a net loss

The Second Social and Economic Impact Study of Gambling in Tasmania (by the Allen Consulting Group) in 2011 applied Productivity Commission survey results to Tasmania, to estimate the social costs of problem gambling in Tasmania.[17] They considered the costs of problem gambling among moderate-risk and problem (i.e. high-risk) gamblers under three scenarios: where the rate of moderate gamblers experiencing the same costs as high-risk gamblers is 25% (the "narrow application"), where it is 50% (the "moderate application") and where it is 75% (the "broad application").

Allen Consulting found that in the narrow application, problem gambling costs $37–$104 million per year, in the moderate application $51–$144 million and in the broad application $64–$184 million (all 2011 dollars).

Social costs were calculated by Allen Consulting by considering how many problem gamblers experienced negative social impacts – including financial, productivity and employment, crime and legal and personal and family impacts – and then assigning a monetary value to those impacts. For example, 6.5% of problem gamblers had seriously considered suicide in the past twelve months, and 1.5% had attempted it. This was assessed as a social cost of $10–$35.7 million. Similarly, 74.5% of partners and 47.8% of parents were adversely affected by their problem gambler partner or child, causing $17–$110.3 million in emotional distress to immediate family and parents and $3.1–$16.8 million in emotional cost of divorce.

Poker machines are responsible for the vast majority of these costs: $30.7 million out of $37 million in the lowest figure and $153.3 million out of $184 million in the highest figure. Explaining the skewing of results to poker machines, Allen Consulting wrote:

> One finding that is consistent across all cost estimates is that the large majority of estimated costs are attributable to [poker machines]. This is because the large majority (83 per cent) of total gambling expenditure by moderate risk/problem gamblers is on [poker machines]. In comparison, a smaller share (55 per cent) of total gambling expenditure is on [poker machines]. In other

[17] The Allen Consulting Group (2011) *Second Social and Economic Impact Study of Gambling in Tasmania,* volume 1, p 129-136, http://www.treasury.tas.gov.au/Documents/Volume1secondgamblingSEIS.PDF

> words, [poker machines] tend to be associated with higher participation by problem gamblers and, therefore, higher gambling related social costs.[18]

The same study found that the estimated benefits of gambling in Tasmania in 2011 were $174.2–$221.9 million, of which poker machines accounted for $80.7–$106.9 million. Social costs of problem gambling were not accounted for in these figures, so at the higher range of estimates the social costs of poker machine-related problem gambling far exceed the total benefits of poker machine-related gambling.

The costs of poker machine-related problem gambling (between $30.7 million and $86.7 million even in the narrow application, and as high as $153.3 million in the broad application, in 2011 dollars) in most estimates are much higher than State revenue from poker machine-related gambling taxes and fees, which was $53.4 million in 2016.

The social costs of poker machine-related problem gambling are highly likely to exceed State revenue from poker machine-related gambling taxes and fees, and may also exceed the entire estimated benefit of poker machine-related gambling in Tasmania.

[18] The Allen Consulting Group (2011) *Second Social and Economic Impact Study,* volume 1, p 135-136

Employment

It is difficult to calculate the number of people employed by an industry like gambling, which often takes place as part of an existing, separate business – like a hotel, pub or club. It is even more difficult to figure out what share of this employment is generated by poker machines, rather than other forms of gambling. However, it seems likely that the figures provided in the Third Social and Economic Impact Study of Gambling in Tasmania are overly-optimistic, and that gambling is a minor employer in the state.

The Third Study estimated in 2015 that poker machine and keno gambling employed 3,170 Tasmanians, out of a total 4,061 Tasmanians employed in the industry (i.e. 78% of Tasmanians employed by the industry are in poker machine and keno gambling). The 3,170 figure consists of 2,778 licensed premises gaming operatives, 43 gaming operators and 349 technicians. These are not full-time equivalent figures. Overall, ACIL Allen estimates that Tasmania's gambling industry employs about 2% of the workforce.[19]

The inclusion of all licensed premises gaming operatives is controversial. As noted later in the Third Study, because many hospitality staff provide gambling services as only part of their duties, and because only a minority of employees are full-time, it is difficult to calculate the full-time equivalent jobs in the gambling industry. Of surveyed venue operators, only 19% of employees were full-time, and of full-time equivalent employees, only 19% were playing a role in the gambling category.[20]

The First Social and Economic Impact Study acknowledged this gap by multiplying the (then) 2,509 hotel and club staff by the rate of those with gambling roles, which was 15%. This resulted in a figure of 390 hotel and club staff with gambling roles, for a total employed by gambling of 1,395.[21] This represented 0.7% of employment in Tasmania at the time, in contrast to the ACIL Allen figure of 4,061 employed by gambling, or 2% of the workforce.

Multiplying the 2015 figure of 2,778 licensed premises gaming operatives by the 19% rate reported by venue operators gives 528 hotel and club staff with gambling roles.

[19] ACIL Allen Consulting (2015) *Third Social and Economic Impact Study,* volume 1, p xvi, 122

[20] ACIL Allen Consulting (2015) *Third Social and Economic Impact Study,* volume 1, p 119

[21] The First Study noted that this is an underestimate since other employees also carry out gambling-related activities. SACES (2008) *First Social and Economic Impact Study into Gambling in Tasmania: Volume 1,* p 126.

This would reduce the total employed by poker machines to 920, and the total employed in gambling to 1,811.

These figures are closer to national figures reported by the ABS. The ABS labour force survey showed 23,600 gambling workers nationwide in May 2017.[22] Since Tasmania is 1.57% of the Australian economy, we would expect total gambling employment in Tasmania in the order of 370 people.

Similar figures emerge from the ABS survey of Australian industries, which found that 'gambling activities' in Australia employed 35,000 people, paid $1,864 million in wages and earned an operating profit before tax of $2,050 million.[23] Multiplying by Tasmania's 1.57% share of the economy gives a Tasmanian workforce of 548, wages bill of $29.2 million and operating profit of $32.1 million.

A similar analysis can be applied to the national accounts tourism satellite figures, which find that in 2015–16 $966 million was spent on casinos and other gambling services with a value added of $529 million, employing 2,600 people as part of the direct tourism component of the gambling industry.[24] Tasmania's share would be about $15.1 million and $8.3 million respectively, and 41 people employed for the tourism component of gambling.

It is also possible to use the ABS input–output tables to calculate indirect employment from gambling. Since the total intermediate goods for gambling in Australia are $6,008 million, and the private sector employs a worker for every $101,500 in value added,[25] we would expect indirect employment of 926 people associated with the supply of the Tasmanian gambling industry.

Taken together, this data suggests gambling employment in Tasmania of around 1,500 people, rather than over 4,000 as calculated in the Third Study.

Venue operators have suggested that gambling jobs are higher paying than jobs elsewhere requiring the same skill level, or they employ people who would otherwise be unemployed. Venue operators estimated that half of their staff were employed "directly as a result of gambling", and say that they employ low-skilled people who might otherwise struggle to find a job. Federal Group says that it pays employees

[22] ABS (2017) Labour Force, Australia, Detailed, Quarterly, May 2017, cat no 6291.0.55.003

[23] ABS (2017) Australian Industry, 2015-16, Cat no 8155.0, 26 May

[24] ABS (2016) *Australian National Accounts: Tourism Satellite Account, 2015-16*, Cat no 5249.0, 21 December

[25] ABS (2017) *Australian National Accounts: Input-Output Tables - 2014-15*, Cat no 5209.0.55.001, 27 June.

better than the average for the hospitality industry.[26] Federal Group employs 1,792 Tasmanians across its business and says that harm minimisation measures have led to 150 employees losing their jobs.[27]

However, this self-reporting does not accord with independent findings. In 2010, the Productivity Commission considered the effects of the liberalisation of the gambling industry across Australia. It found that although the gambling industry employs many people, in its absence those people may easily find employment elsewhere:

> the people employed in the gambling industries mostly live in major urban areas and have highly portable skills that are sought after across the service sector generally.[28]

The Productivity Commission noted that modelling undertaken on behalf of the gaming industry and other modelling on behalf of the Australian Hotels Association has found "no long-run effect on national employment from even full prohibition of the gambling industries".[29] In addition to this, Tasmania is currently experiencing a workforce shortage that would help absorb displaced workers. According to a 2016 Department of State Growth study, almost one third of Tasmanian tourism and hospitality businesses experience recruitment difficulties[30]

The employment figures from the Third Study are generous. Using arithmetic found in the First Study or applying nationwide ABS gambling industry data to Tasmania suggests that gambling employment is responsible for employing less than one percent of the workforce, under 2,000 people. Poker machines in turn are responsible for only part of gambling employment.

[26] ACIL Allen Consulting (2015) *Third Social and Economic Impact Study,* volume 1, p 116
[27] ACIL Allen Consulting (2015) *Third Social and Economic Impact Study,* volume 1, p 116-117
[28] Productivity Commission (2010) *Gambling,* volume 1, s 6.27
[29] Productivity Commission (2010) *Gambling,* volume 1, s 6.28
[30] Stenning and Associates (2016)*Tasmanian Tourism and Hospitality Industry* http://www.stategrowth.tas.gov.au/?a=136546

Impact of phasing out poker machines to the State budget

More work needs to be done into the specific cost of a total phase out of poker machines. Forecasting done in the past looked at a cessation of the gambling industry as a whole rather than limiting the analysis to poker machines only. The scenarios, undertaken by ACIL Allen Consulting in the Third Social and Economic Impact Study also made some surprising assumptions that require further investigation, if policy makers are to continue to rely upon it.

SCENARIOS

In the Third Study, ACIL Allen Consulting considered three scenarios where the gambling industry (not specifically poker machines) was reduced, finding in each a reduction of GDP and employment.

> *Scenario 1 Cessation of gambling industry with substitution to 'offshore' gambling:* This scenario led to a reduction in real GDP by 1.10 per cent and 1.26 per cent reduction in employment relative to the base case.
>
> *Scenario 2 Cessation of gambling industry, with substitution to other goods and services:* This scenario led to a reduction in real GDP by 0.66 per cent and 0.73 per cent reduction in employment relative to the base case.
>
> *Scenario 3 Problem gambling in Tasmania halves:* This scenario led to a reduction in real GDP by 0.07 per cent and 0.10 per cent in employment.[31]

Each of the three scenarios were modelled and presented in the Third Study.[32] This included a breakdown of the impacts on output by industry. The modelling produced some surprising results. Note too that the findings of a reduction in employment run counter to the Productivity Commission's assessment that those in gambling employment may easily find work elsewhere.

[31] The term "problem gambling" is apparently used in the ACIL Allen report in this context to mean at-risk gambling, which includes low risk, moderate risk and problem (i.e. high risk) gambling. ACIL Allen Consulting (2015) *Third Social and Economic Impact Study,* volume 1, p xvii

[32] ACIL Allen Consulting (2015) *Third Social and Economic Impact Study,* volume 1, Chapter 9

Scenario 1 saw the largest fall in GDP. This scenario assumed that gambling ceased in Tasmania but the amount and type of gambling was unchanged because Tasmanians substituted for offshore gambling suppliers. As might be expected most industries saw their output fall as the gambling money left Tasmania. However, the likelihood of this scenario occurring is inconsistent with the majority of academic research showing a low rate of transference from poker machines to other forms of gambling.

Even if we follow the assumption that all gambling expenditure transfers offshore, the kinds of industries forecast to be impacted most is surprising. It might be expected that the largest impact would be in industries that are co-located with gambling, such as restaurants and retail trade. But instead the biggest impact was forecast in construction and business services.

Another surprising result was that some industries saw their output increase. These included agriculture, mining, education and transport. How the substitution of gambling from Tasmania to other jurisdictions could cause the mining industry to increase output is not explained.

Scenario 2 saw a more moderate fall in GDP as gambling ceased in Tasmania but people substituted for other goods and services. In this scenario it is surprising that GDP falls as much as it does as money previously spent on gambling is now spent on other goods and services. The modelling again breaks down the change in output by industry.

The industries that increase their output by the most under this scenario are ownership of dwellings and banking, finance and insurance. These are also surprising results. There is no clear analysis to explain them and it is difficult to see the logic between a decrease in spending on poker machines, particularly in low SES areas translating to an upsurge in finance and insurance.

The industry that saw one of the biggest fall in output was construction. This is also surprising particularly when paired with the biggest increase being to expenditure on ‘ownership of dwellings’. Ownership of dwellings is not an industry per se, but rather a notional return to the owner of a dwelling based on the imputed rental value of the dwelling.

Scenario 3 saw the smallest impact on GDP. This is the scenario that assumed a halving of problem gamblers. The industries that were impacted by this were broadly similar to those that were impacted in scenario 2, although by smaller amounts. The industry that saw the biggest increase was ownership of dwellings and one of the biggest losers was construction.

What the industry breakdown highlights is that the model does not seem to consider what kinds of substitutions are taking place. The model seems to give little consideration to what people might do with their income if they were not gambling or where gambling outside Tasmania. This calls into question the usefulness of the modelling results, particularly for the impact on employment and income.

The modelling does not appear to be a particularly sophisticated attempt to understand the impacts on changes in gambling spending on the Tasmanian economy.

Conclusion

With the existing monopoly license of poker machines in Tasmania drawing to an end, the State has an opportunity to phase out poker machines with minimum disruption to the State's economy and workforce.

Less of Tasmania's total state revenue comes from gambling taxation than most other states. The impact on employment would be minimal with a current boom in tourism and an identified shortage of workers in the tourism industry further assisting in relocating any workers displaced through the transition.

More detailed forecasting should be undertaken by the government to assess the impact to the state budget of phasing out poker machines, disaggregating them from the gambling industry overall.