

ACT GOVERNMENT

PAPER – GAMING MACHINE REALLOCATION SCHEME



Discussion Paper

Gaming Machine Reallocation Scheme and Gaming Machine Cap

May 2009



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1. Introduction

In 1998 the *Gaming Machine Act 1987* was amended to set the maximum number of gaming machines in the Territory at 5,200. In December 2006, this maximum number, often referred to as the cap, was reached.

As a result, in January 2007, the then Treasurer, Mr Jon Stanhope MLA, requested that the Gambling and Racing Commission (GRC) conduct a review into the maximum allowable number of gaming machines in the ACT. As part of the review, the GRC conducted public consultation to obtain the views of interested stakeholders, including the industry and the community, on whether the maximum number of gaming machines permitted in the ACT should increase. (A copy of the review is available at the GRC's website at www.gamblingandracing.act.gov.au/TheCommission/LegislativeReview.htm.)

In reaching its recommendations, the review noted that the ACT has the highest number of gaming machines per capita in Australia, with the second highest per capita expenditure on gaming machines. However, it was also noted that expenditure per machine in the ACT is the lowest of any Australian jurisdiction and that this expenditure is spread unevenly across venues with a number of machines in smaller venues attracting little activity.

Therefore, the review recommended that the Government not change the cap but investigate and develop a scheme that allows for the redistribution of machines between gaming venues, without creating a predatory environment that would provide an incentive for larger clubs to takeover smaller ones.

The Government agreed to consider a reallocation scheme and at ClubsACT's 2007 Annual Conference the Chief Minister, Jon Stanhope MLA, announced "I have therefore asked the ACT Treasury, in consultation with the Gambling and Racing Commission, to develop a scheme that allows for the redistribution of machines between gaming venues, without creating a predatory environment that will lead to the swallowing of small clubs by larger ones. I want to spread the number of available machines more equitably, without leading to pressure to increase the overall number."

The Government, partly as a result of the analysis in GRC's review which outlined the relatively large numbers of gaming machines in the ACT and their relatively low utilisation, has subsequently decided to consider options to reduce the number of gaming machines in the ACT.

1.1 Consultation and Submissions

The ACT Government is seeking submissions from stakeholders and interested members of the community on options to allow for the reallocation of gaming machines and the reduction of the gaming machine cap.



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Submissions may address the issues covered in this Discussion Paper or other related issues that the respondent considers appropriate.

There is no set structure for submissions and participants may comment on any matter they consider relevant to the topic. This could range from a short letter outlining your views on the topic to a more substantial document covering a range of issues. Where possible, you should provide data and/or references to support your views.

Submissions by email are preferred. However, submissions can also be accepted by post or fax. Track changes, editing marks, hidden text and internal links should be removed from submissions before sending.

Submissions for the consultation are to be forwarded to be received by close of business on Friday 17 July 2009. Submissions will be treated as public documents unless a participant specifically requests that their submission is treated as confidential.

Submissions should be addressed to the following:

Email: gamingmachinereview@act.gov.au

Post: Gaming Machine Review
ACT Treasury
PO Box 158
Canberra City ACT 2601

Fax: 02 6207 0267

For further information relating to this review or about the process, you may contact either Ms Melanie Hay on telephone 02 6205 7165 or Mr Eric Swan on telephone 02 6207 9016.



2. Discussion

The ACT, like the other States and Territories, allows gaming machines on a regulated basis, although Western Australia only allows gaming machines in its casino. The ACT is unique in that it does not allow machines in its casino; it also restricts the type of machines that are available to hotels and taverns, reflecting a Government perspective that gaming machine revenue should essentially be linked to funding for the community.

2.1 The Regulatory Environment

The *Gaming Machine Act 2004* (the Act) provides for the licensing, control and regulation of all aspects of gaming machines in the ACT. Gaming machines in the ACT are approved in clubs, hotels and taverns. The *Casino Control Act 2006* prohibits gaming machines in the casino.

The Act is administered by the Gambling and Racing Commission (GRC). The GRC is an independent statutory authority established under the *Gambling and Racing Control Act 1999*. The GRC administers the *Gaming Machine Act 2004*. Although the GRC operates independently, the Minister has the power under the *Gambling and Racing Control Act 1999* to issue a direction to the Commission.

The GRC, through a club's licence, regulates the number of machines a club may operate. For a club to increase the number of gaming machines it is licensed to operate it must apply to the GRC to amend the licence. Under the Act clubs are the only establishments who can have Class C gaming machines in the ACT. Class C gaming machines have a wide variety of options and features and are the most profitable gaming machines permitted in the ACT. Hotels and taverns are restricted to limited numbers of Class B machines.

Section 35(1) of the Act restricts the number of gaming machines in the ACT. The restriction is a global cap in that it applies to all licensed premises (clubs, hotels and taverns). It was initially set at 5,200 and remains at this level today. There is no maximum number of gaming machines specified for a club. However the maximum number of gaming machines permitted in individual hotels and taverns are 10 and 2 respectively.

The Minister may change the maximum number of gaming machines in the ACT as long as he or she takes into account the Commission's recommendations about the maximum number of gaming machines. The Commission's recent report recommended that the cap not be changed.

Gaming machines currently cannot be directly transferred from one club to another. They can instead be indirectly reallocated by being surrendered to the GRC, then other clubs can apply to the GRC on a first come first serve basis to obtain the machines subject to meeting all statutory requirements. There is no reward for surrendering machines and only a nominal fee to acquire them.



2.2 Social Regulatory Framework

Underlying the ACT Government's regulation is a Social Regulatory Framework aimed at:

- ensuring machines are located where there is a demonstrated need;
- ensuring the social cost of the machines do not outweigh benefits to consumers and local community;
- ensuring that one particular area or region does not have a disproportionate number of gaming machines;
- promoting harm minimisation and addressing problem gambling; and
- reducing the negative impact on people living in close proximity to a licensed gaming machine venue.

In practice, under the provisions of the *Gaming Machine Act 2004*, when an existing club seeks additional gaming machines or a new club seeks the introduction of gaming machines an application must be made to the GRC including undertaking a social impact assessment.

The assessment provides an objective analysis of the likely economic and social impact of the operation of the gaming machines at the venue. The assessment provides the basis upon which the GRC can make informed decisions on the impact that the additional gaming machines may have in the community where they are being introduced.

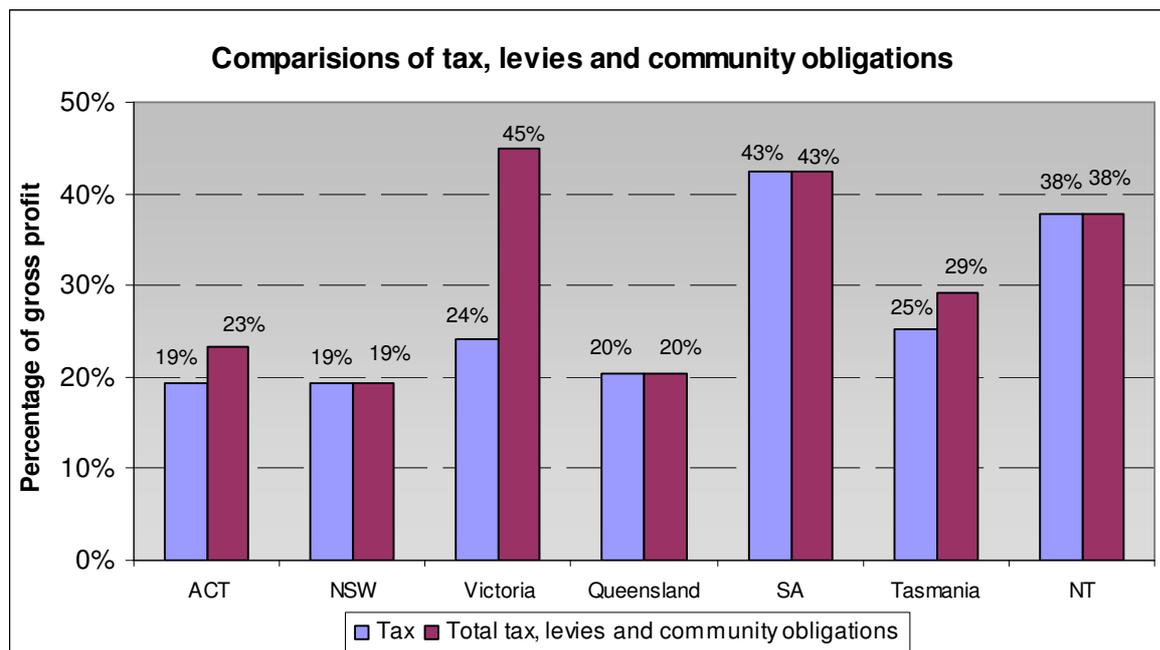
As part of the application process Clubs are required to:

- justify the need for additional machines;
- state the expected gaming machine revenue in the next three years;
- state the expected community contributions in the next three years;
- identify the gambling harm minimisation measures proposed to be taken in relation to the introduction or increased number of gaming machines; and
- state the likely impact (both negative and positive) on affected entities and institutions in both the local community and the broader Canberra community.

2.3 Taxation and Community Contributions relating to Gaming Machines in the ACT

Gaming machines in the ACT are taxed under the *Gaming Machine Act 2004*. Tax is based on gaming machine gross profits (turnover less returns to players) and paid monthly.

The ACT club gaming tax rate compares favourably to other Australian jurisdictions. Treasury analysis indicates that for clubs with turnover equivalent to those in the ACT, the ACT tax rate is the lowest, with NSW, amongst the States and Territories. Additionally, from this perspective, the ACT has the third lowest combination of taxes, levies and community contributions, and also has the lowest rate for large clubs. The table below compares the ACT to the other States on this basis.



Source: ACT Gambling and Racing Commission.

The Act also requires a club to provide a minimum percentage of the club’s net gaming machine revenue for the financial year to eligible community contributions. The minimum required percentage is currently 7 per cent. For a hotel or tavern licensee, it is not compulsory for them to make contributions although it is compulsory for them to keep records and report the details of any contributions made.

Contributions to certain areas are encouraged through incentive schemes. For contributions to be eligible under the problem gambling incentive scheme they need to be specifically directed to:

- recognised external counselling and support services, for example, Lifeline, Clubcare, Salvation Army, Anglicare;
- recognised training or other information courses or seminars that specifically and predominantly relate to problem gambling recognition, resolution or general awareness;
- public awareness, education or advertising that specifically and predominantly relates to problem gambling recognition, resolution or general awareness; and
- recognised research or data collection that specifically and predominantly relates to problem gambling recognition, resolution or general awareness.

Contributions to women’s sport are also the subject of an incentive scheme.

The commitment of local clubs to the ACT community has been demonstrated by the fact that community contributions have increased from 11.7 per cent in 2006-07 to 14.6 per cent in 2007-08, well above the legislated 7 per cent.

The ACT community contribution by clubs is the highest percentage in Australia. The Northern Territory clubs contribute the second highest – this is done through a required



10 per cent contribution from gross gaming machine profit. Western Australia and South Australia have a voluntary scheme for clubs, hotels and casinos to donate to the community. New South Wales has a different scheme where registered clubs are provided with a tax rebate (up to 1.5 per cent of their gaming machine profits over \$1 million) when they spend an equivalent amount on community development support.

2.4 Clubs and Gaming Machine Utilisation in the ACT

There is a total of 63 clubs licensed in the ACT to operate gaming machines. A number of the clubs are owned and operated by larger clubs such as the Southern Cross Club, the Labor Club, the Vikings Club and the Canberra Raiders Sports Club.

Clubs in the ACT have a monopoly on Class C gaming machines. Clubs are non-profit entities, with profits from their gaming machines generally used to provide facilities for members and community organisations. Club gaming machine profits in the ACT total around \$175 million per annum. Clubs have effectively embedded themselves in the Territory as essential providers for many community services, such as facilitating junior and semi-professional sport.

Although they have exclusive access to Class C gaming machines, there is still competition between the clubs. Clubs in the ACT vary greatly in their levels of gross gaming machine profits:

- the smallest 14 clubs each earned less than \$175,000 between July 2007 and June 2008 in gross gaming profits and paid no tax as they were under the relevant threshold;
- the middle 22 clubs each earned less than \$1.75 million between July 2007 and June 2008 in gross gaming profits and were taxed an approximate average of \$52,000 per club; and
- each of the largest 27 clubs earned between \$1.75 million and \$17.5 million between July 2007 and June 2008 in gross gaming profits and taxed an approximate average of \$1.2 million per club.

Over the last few years a number of small clubs have amalgamated and others have surrendered their licence or ceased operations. The recent reduction in the number of small clubs, and high profitability of the larger clubs, appears to reflect that consumers of clubs' services, including gaming machines, are tending to be more attracted to the larger venues in recent years.

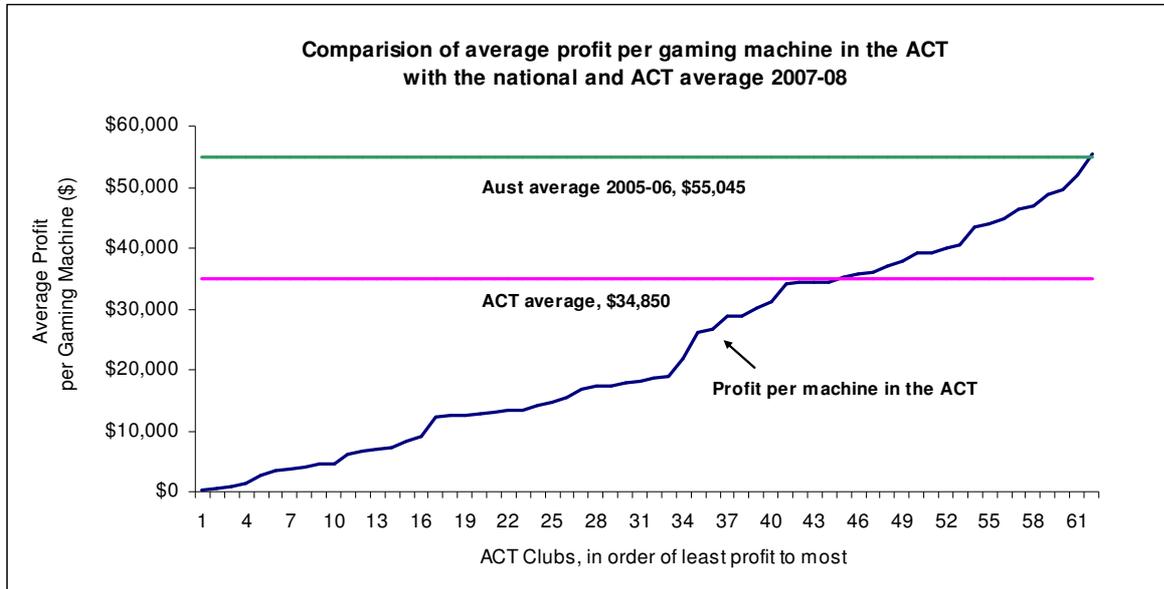
The utilisation (measured by average gross profit) of machines varies greatly between clubs. The level of utilisation of a club's gaming machines in the ACT tends to reflect whether the venue is a large multi-service club or a small special interest club (such as a bowling club) and to a lesser extent the number of gaming machines in the surrounding area.

The average annual gross profit per gaming machine in each club in the ACT, although relatively low, varies dramatically, from around \$150 per machine to around \$55,500. The



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graph below shows the annual average profit per gaming machine for each premise and the average profitability of machines throughout Australia and the ACT.



Source: ACT Gambling and Racing Commission and Queensland Government Office of Economic and Statistical Research 2005-06.

Note: Australian average is from 2005-06 as it is the most recent data available whereas the ACT data is for the 12 months to June 2008.

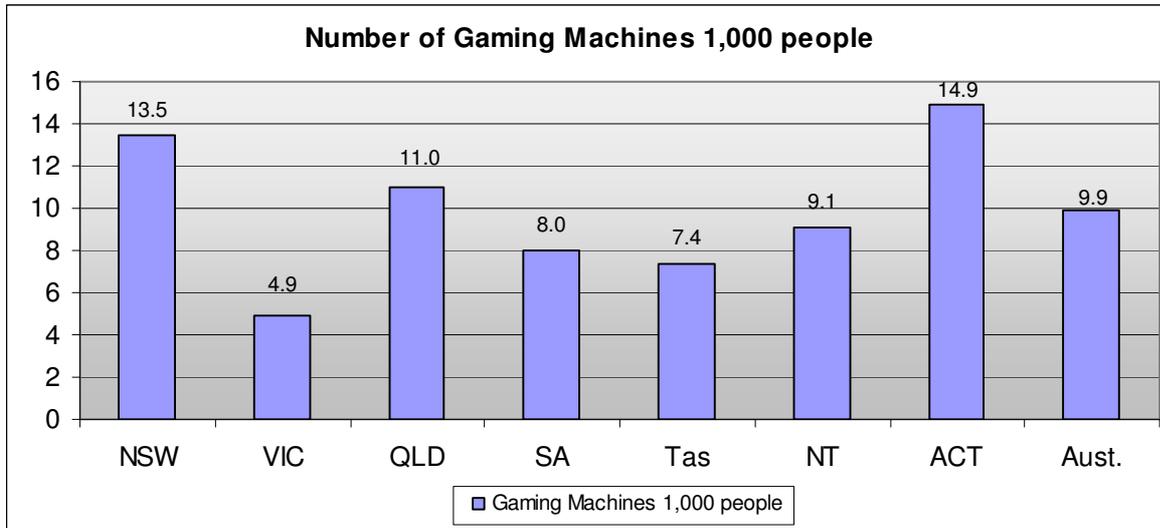
The graph shows that gaming machines in the ACT are much less utilised than machines in the other jurisdictions. The average profit per gaming machine in the ACT is \$34,850, compared with \$55,045 nationally. Only one club in the ACT exceeded the national average.

The low utilisation partly reflects that machines have little ongoing costs to a club once they are purchased. Clubs have little incentive to surrender gaming machines even if the machines earn negligible revenues. Clubs can maintain machines purely as a service for their members rather than as a significant revenue source.

Similarly, the ACT has a relatively high number of machines on a per capita basis. The graph below outlines the number of gaming machines on per capita basis in the Australian States and Territories. The table shows that the ACT has the highest number of gaming machines per 1,000 people of all Australian jurisdictions, well above the national average.

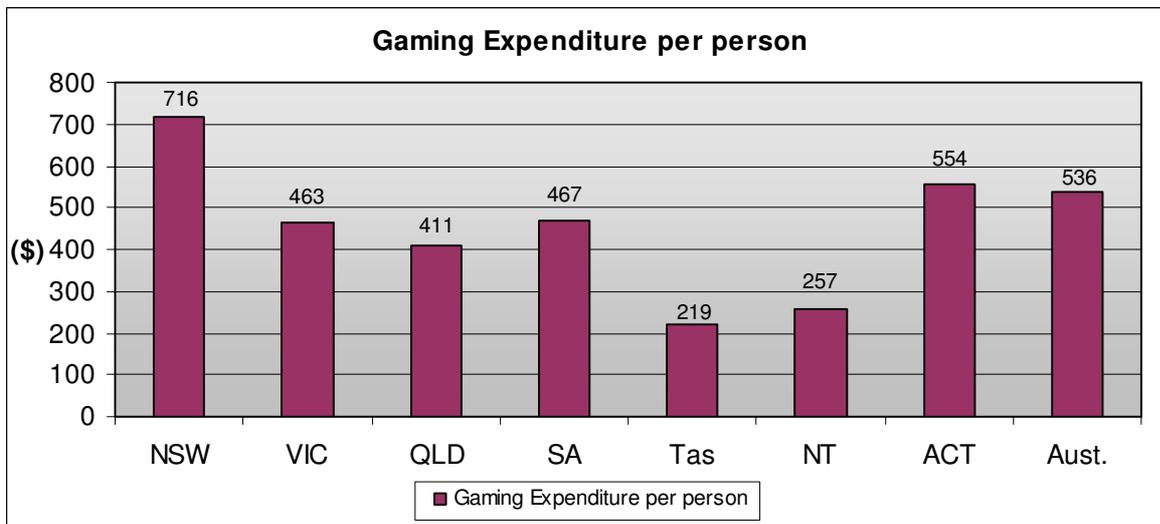


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Source: Various State and Territory Offices of Gaming.
 Note: Excludes WA as it only allows gaming machines in its casino.

The following graph shows annual per capita expenditure on poker machines in the ACT is \$554, the second highest of all the States and Territories behind NSW. This, however, is only slightly higher than the national average of \$536 (excluding Western Australia).



Source: ACT Gambling and Racing Commission and Queensland Government Office of Economic and Statistical Research 2005-06.
 Note: Excludes WA as it only allows gaming machines in its casino.

However, compared to their income, expenditure by ACT residents on gaming machines is relatively low compared to the rest of Australia. Per capita expenditure on gaming machines represents 1.5 per cent of ACT household disposable income which is below the national average of 1.6 per cent, but it is significantly below the New South Wales percentage of 2.3.



2.5 Problem Gambling

Gambling is an enjoyable recreational activity for many people. However for a small proportion of persons, gambling creates significant problems which can lead to socially destructive behaviour.

It is difficult to know precisely what the level of problem gambling is in the community. Defining exactly who is a problem gambler is one difficulty and relying on persons to self-report on this issue can also be problematic. Some researchers in this field claim that self-reporting surveys significantly underestimate the true level of problem gambling in the community. However, despite these difficulties research conducted by the Australian Institute for Gambling Research in the ACT in 2001 entitled *Survey of the Nature and Extent of Problem Gambling in the ACT* estimated that around 1.9 per cent of the ACT's adult population (5,300 people) were problem gamblers. This level of problem gambling is consistent with surveys conducted in other Australian jurisdictions.

Irrespective of the problems facing researchers in this field of accurately measuring the level of problem gambling, it is widely acknowledged by all stakeholders, including the gambling industry, that there is a level of problem gambling that is of concern to the community. From a public policy perspective State and Territory Governments acknowledge this position and have accordingly implemented a wide range of harm minimisation measures. ACT Government efforts to reduce problem gambling are discussed in section four of this Paper.



3. Reallocation Scheme Options

In order to allow for people throughout the ACT, including in future areas of development, to have access to a local club and its community services, including gaming machines, without an increased cap (or under a lower cap), a reallocation scheme of some kind is required. The reallocation of machines between clubs can be undertaken in a number of ways. It is necessary that such schemes are assessed on the basis of policy objectives.

The Government's major policy objectives for any reallocation scheme are the following:

- allocation of gaming machines would remain subject to social impact assessment and the approval of the GRC;
- gaming machines should be spread equitably across the Territory so that people in all residential areas, including in future areas such as Molonglo, would have access to a local club and its community services;
- due recognition is given to the overall impact on smaller clubs;
- the scheme does not create a predatory environment that would encourage the takeover of small clubs by larger ones; and
- the current social regulatory framework is maintained.

3.1 Reallocation by Trading

Trading between clubs could allow for the reallocation of gaming machines in response to demand. This could be undertaken by private negotiations between sellers and buyers or by more formal processes such as an auction.

3.1.1 Private Trading

If the ACT Government allowed clubs to trade their machines privately, to align the scheme with Government objectives, it would need to ensure that a premise would not be able to operate additional machines unless they obtain the regulatory approval of the GRC under the current social regulatory framework. This reflects that the ACT Government's view that it does not want an environment where a club could simply buy additional machines in an unrestricted manner.

A major advantage of such a scheme is that trading of gaming machines leaves choice to potential sellers and buyers. A club would not be forced to participate and would only do so if it considered it was beneficial. Trading also allows most flexibility, as clubs would be able to buy gaming machines in a timely manner that suits them. Consumers benefit as gaming machines are transferred to where they are most demanded in a timely fashion.

Allowing trade would result in the determination of a market price for machines, which would effectively result in creating a capital asset for clubs. A club with under-utilised machines would have the option of maintaining its gaming machine revenue or selling some of its gaming machine assets. It is likely that some smaller clubs would be able to sell



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one or two gaming machines without materially affecting their total gaming machine turnover, given their existing low utilisation.

It is difficult to predict with certainty the price at which gaming machines would trade. A club wishing to buy a machine would have to approach the club or clubs from which it wishes to purchase gaming machines and negotiate the terms of the sale privately. NSW implements a relatively unrestricted trading scheme under which prices for gaming machines are well over \$100,000.

3.1.2 Auction Trading

An auction is another method to facilitate the trading of gaming machines. The ACT Government, as it would for any reallocation option, would not allow clubs to operate additional machines unless they obtain the regulatory approval of the GRC under the current social regulatory framework, so clubs with sufficient financial resources could not simply buy additional machines in an unrestricted manner. An auction trading scheme is already in place in Queensland.

Using auctions to reallocate machines has many of the same benefits as privately trading the machines. Having the Government as an intermediary would remove some of the costs associated with clubs finding buyers and sellers including the negotiating time that may be required to transfer a gaming machine under the trading option. Also, under an auction scheme, there would be no direct negotiations between large and small clubs, where, due to their lower level of resources, smaller clubs could be at a disadvantage. The Queensland Government auctions have proved highly popular with both buyers and sellers and they have recently been increased to three times a year for hotels in the metropolitan area.

Running the auction would impose administrative costs, which could be funded through imposing auction fees on sellers. Forcing premises to sell through a government auction rather than allowing private trading may reduce the number of buyers and sellers because auctions may not be timely, particularly in a small jurisdiction such as the ACT where turnover may not be large.

3.2 Reallocation by Regulation

The Government could simply compel clubs with under-utilised machines to surrender them and then it could reallocate them to clubs with higher expected utilisation rates. The reductions could be enforced by regulation, although another option would be to use a fee structure, such as through an annual fixed fee per machine, to financially encourage clubs to surrender low performing machines. However, the introduction of such a fee would necessarily place an additional financial burden on small clubs, an outcome which conflicts with the ACT Government's policy objectives.

A regulatory scheme provides a Government with complete control of where gaming machines are located and therefore allows the Government to place gaming machines where it considers it is most appropriate, such as in newly developed areas.

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However, a major problem with such a scheme is that its compulsory nature means clubs required to give up gaming machines would receive no financial compensation, even though they value the machines and wish to keep them. The scheme would lead to small clubs effectively being forced to pass their gaming machines to large clubs.



4. Addressing Problem Gambling

The challenge for the ACT Government is to balance the legitimate opportunity for individuals in the community to utilise gaming machines while maintaining its ongoing responsibility for the overall welfare of the community.

The ACT Government invests in programs and initiatives to address problem gambling issues including funding for counselling programs, new self-help brochures and information websites and undertaking research into gambling and problem gambling issues.

In 2002, a mandatory Code of Practice was introduced for all ACT gambling licensees incorporating a wide range of responsible gambling and harm minimisation initiatives. The Code includes such matters as:

- restrictions on cash facilities, cashing cheques and cash payments by licensees;
- the provision of clocks, signs and minimum standards of lighting in venues;
- restrictions of advertising, promotions and inducements;
- the exclusion of persons with gambling problems; and
- providing a gambling contact officer for each venue.

The provisions within the Code provide some protection for all patrons by ensuring that a minimum level of consumer information is available. It also provides additional protections for those patrons who have difficulties in using gambling products in a controlled manner. The Code has undergone reviews and continues to be a national leader in the field of harm minimisation for gambling patrons.

In addition, gaming machine licensees have been encouraged to increase their contributions to help tackle problem gambling in the community by being able to claim \$4 towards their community contributions obligations for every \$3 they spend to assist with problem gambling concerns.

The ACT also imposes a cap on the maximum number of machines. A cap can be considered a response to the negative externalities associated with gaming machines. It is generally poor economic policy for a government to limit the supply of a good. However, in the case of gaming machines it can be viewed as one way of addressing the negative externalities. If it were left to the market to decide the number, then too many gaming machines would be provided, as a free market would not incorporate the negative externalities.

A cap can be justified if there is a link between the number of machines available and the degree of problem gambling. The Productivity Commissions 1999 inquiry into Australia's Gambling Industries, noted that Western Australia had the lowest incidence of problem gambling. This was attributed to the long standing WA Government policy of prohibiting the licensing of electronic gaming machines outside of its casino.



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The Productivity Commission concluded that there is a strong link between the liberalisation of gambling and the creation of either new problem gamblers or more severe problems among people with existing problems.

Research indicates that the majority of problem gamblers tend to use gaming machines compared to other gambling products. Lifeline Canberra Inc reports that around 70 per cent of its problem gambling clients exclusively gamble on gaming machines.

Due to such concerns, some States have strategies in place to reduce the number of their machines. The NSW *Gaming Machine Act 2001* was designed to reduce opportunities to use gaming machines, by a progressive reduction in numbers, shut down periods and other methods such as signage and self exclusion schemes.

In turn NSW recently announced that from 31 January 2009 the State-wide cap on poker machines would be reduced by 5,000, from 104,000 to 99,000, and that red tape is cut to further encourage poker machine forfeitures which could see a reduction in machine numbers by a further 3,000 over the next five years.

South Australia has also recently reduced the gaming machine cap by 3,000 and Victoria is reducing the number of gaming machines permitted in lower income areas most of which are regional. Queensland also announced in April 2008 that a cap will be introduced on the number of gaming machines in clubs which will lead to a reduction in the number of gaming machines. A cap is already in place for hotels but an agreed figure is yet to be confirmed for the cap on gaming machines in clubs.

The ACT Government is also looking at possible options of reducing the gaming machine cap, not only to address problem gambling but also to address the under-utilisation of gaming machines in the ACT. The Territory's high number of machines per capita clearly indicates that there is scope to reduce the overall number of machines in the ACT.

To put the ACT on par with the other States and Territories the cap would need to be reduced to 3,461. This would achieve the same average per capita outcome across the States and Territories (WA with its limited number of machines is excluded from this calculation). However, any new cap also needs to take into consideration the future growth and development of the ACT.

The table below identifies the number of gaming machines per state and territory and the cap that is imposed.



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	<i>New South Wales</i>	<i>Victoria</i>	<i>Queensland</i>	<i>South Australia</i>	<i>Western Australia</i>	<i>Tasmania</i>	<i>Northern Territory</i>	<i>Australian Capital Territory</i>	<i>National</i>
No. of approved Gaming Machines (06/08 to 03/09)	95,545	26,279	47,683	12,900	1,500 ⁴	3,680	2,014	5,159	194,760
Gaming Machine Cap	99,000 ¹	30,000	20,000 ²	12,006 ³	1,500	3,680	1,190 for clubs and hotels ⁵	5,200 ⁶	N/A ⁷

1. This cap was announced in January 2009.
2. This cap is for hotels. A cap on clubs was announced in April 2008 but a figure is yet to be released.
3. This cap was announced in December 2004 and the number of gaming machines is still being reduced to below this number.
4. Gaming Machines are only permitted in the casino in Western Australia.
5. There is no cap on the number of gaming machines in Casinos.
6. A reduction in the cap is being considered.
7. It is not representative to give a national cap figure because there is no cap on gaming machines in casinos in NT and there is currently no cap on gaming machines in clubs in Queensland.

The number of machines in a jurisdiction can be reduced through the Government effectively taking machines away from clubs through regulatory enforcement. An alternative is to link the reduction of machines to when they are traded. A third scheme could involve the removal from the cap of those machines that are surrendered (ie. surrendered machines are not made available for reallocation).

4.1 Reduction through Trading

Gaming machines can be reduced through imposing conditions on trading. One potential option is a ‘three for two’ trading scheme. Under this scheme every time a trade of gaming machines occurs, for every three machines traded, one must be forfeited to the GRC. This option is in line with the scheme implemented in NSW. South Australia has a scheme where one out of every five machines traded is relinquished.

If such a scheme were introduced in the ACT, any unallocated machines (there are currently 41 gaming machines unallocated, representing the balance of the machines surrendered since the cap was reached in December 2006) could also be extinguished, resulting in an immediate reduction to the cap (see also section 4.3 of this Paper).

The benefit of this scheme is that it gives clubs a choice as to whether they participate. It will encourage the removal of machines from under-utilised clubs and will allow the reduction to occur incrementally.

A potential problem with this approach is that it could create a predatory environment as larger clubs may have an incentive to purchase smaller clubs to obtain their machines and by-pass the requirement to forfeit machines. However, the ACT Government would include provisions to avoid this in implementing such a scheme. Specifically, although clubs could still purchase smaller clubs, if statutory approval was given to transfer the machines from the smaller club to another club within the group, such as by meeting the additional



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machines requirements, they would still be required to forfeit one machine for every three machines transferred. This would ensure that clubs are not provided with an incentive to purchase smaller clubs to get around the scheme. Also, as noted, clubs will be subject to the social regulatory test applied by the GRC prior to being able to transfer machines.

One issue with this approach is that it only achieves incremental reductions and the time taken to achieve a targeted reduction is difficult to estimate with no guarantee of a target being achieved.

Another potential issue with the scheme from a harm minimisation perspective is that machines will be encouraged to move from low performing venues to those venues where they are likely to receive greater utilisation. This could potentially increase problem gambling. However, this argument could be countered by the observation that the overall number of machines would be reduced and the fact that the ACT has some of the most comprehensive harm minimisation strategies in place through its mandatory Code of Practice.

4.2 Reduction through Regulatory Enforcement

An alternative option to reducing the cap would be to enforce the reduction of the number of gaming machines held by all venues by a set percentage by a given date (for example, by 1 July 2010, all gaming machine venues would have to reduce their gaming machines by 5 per cent – subject to rounding). This would provide certainty for all stakeholders (including gaming machine venues and Government) but would result in the removal of both under-utilised and more highly utilised machines.

The advantage of such a scheme is that it would result in an immediate reduction in the cap, by a specified date, and provides certainty on the future number of machines. This option would be attractive to achieve large reductions in a short time period or to achieve a certain cap target by a particular date.

4.3 Reduction by Surrendering Machines

This option provides for existing licensees to voluntarily reduce their number of machines in order to reduce their operating costs and increase the utilisation and efficiency of their remaining machines. Machine reductions to increase efficiency could be achieved in the context that the surrendered machines would not be made available to other licensees as the cap would be reduced by the same number as was surrendered.

There are a number of variations available on this proposal, such as keeping machines in the pool for allocation only to new venues or in certain new areas such as developing or new suburbs.

The advantage of this scheme is it allows licensees to reduce the number of machines when they want without having to wait for a potential purchaser. The surrender of their machines would not advantage a licensee's competitors by making machines available for minimal cost through the pool of unallocated machines. The disadvantage of this approach is given

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that there is little incentive for clubs to surrender machines and would not result in a material reduction of machines in the near future.