
**SOUTH AUSTRALIAN
GAMING MACHINES ACT 1992**

LIQUOR LICENSING COMMISSIONER

ANNUAL REPORT

1995/96

Gaming Machines Act 1992 - Annual Report

Pursuant to Section 74 (2) of the Gaming Machines Act 1992, I submit this report on the administration of the Act for the financial year ended 30 June 1997.

W.A. PRYOR
LIQUOR LICENSING COMMISSIONER

September 1997

Introduction

The Gaming Machines Act 1992 established a structure in which all industry participants are licensed or approved to carry out specific roles in relation to the gaming machine industry in South Australia.

By the beginning of July 1994 all key industry participants had been licensed and arrangements were in place for the installation of gaming machines in licensed premises in South Australia. Gaming commenced in South Australia on 25 July 1994. The first year saw a phase of rapid growth in the number of gaming machines operating around the State. At the end of June 1995 there were 7372 machines operating in 307 venues.

The rate of installation levelled off in 1995/96. By the end of June, there were 417 venues operating a total of 9262 gaming machines, an average monthly increase of 157 machines compared to 153 in 1994/95 after the initial installation.

Continued cooperation and good will between industry participants has ensured that the South Australian gaming machine industry is at the forefront of best practice.

Gaming Machine Licences

As at 30 June 1996, 439 gaming machine licences were approved.

319	Hotel
72	Club
48	General Facility

Gaming Machine Monitor Licence

The monitoring system installed and operated by the Independent Gaming Corporation, the holder of the gaming machine monitor licence, continues to perform to specification.

The central computer monitoring system to which all gaming machines are connected is a prime source of control over the security and proper operation of gaming machines. The system also collects, processes and summarises gaming statistics for all venues and provides the basic information for the assessment and collection of gaming tax.

The gaming machine monitoring system has been upgraded during the year to maintain and enhance the functions provided to the operator. All modifications were approved by me prior to implementation. Approved modifications to the monitoring system include:

- Modification to the report module of the system allowing for the production of a significant win reporting facility;
- Considerable development and evaluation of the monitoring system was undertaken in 1995/96 in preparation for the introduction of the new net gambling revenue tax regime;

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- A back up site in a secure location was commissioned in September 1995. This site provides the necessary back-up should the I.G.C.'s primary facility suffer either an unrecoverable failure or be significantly damaged. The back-up site is tested periodically to ensure its reliability and functionability.

The popularity of 1 and 2 cent gaming machines interstate has stirred interest in their introduction in South Australia. While the gaming machine monitoring system is currently unable to accommodate machines with these denominations, discussions have been held with the Independent Gaming Corporation and its software supplier Video Lottery Corporation regarding modification to the system.

Also under consideration is the provision of a management information interface through the SC300 Site Controller. This modification would allow gaming machine operators to access electronically significantly more accounting and statistical information than is currently available, thus reducing the need for manual meter readings and analysis.

During the reporting year, the Independent Gaming Corporation provided \$1.5 million to the Gambler's Rehabilitation Fund which is administered by the Minister for Family and Community Services.

The establishment fee for new gaming machine operators was maintained at \$1,500. Regular line monitoring fees, which cover the cost of monitoring each gaming machine connected to the system, are charged on a monthly rate. Line fees represent the prime source of income for the Independent Gaming Corporation and must cover all operating costs of the Corporation. Accordingly, line fees which are approved by the Treasurer are reviewed on a regular basis. The Treasurer approved a reduction in the line fee from \$100 to \$65 per machine per month on 1 July 1995. This was further reduced to \$60 as from 1 July 1996.

The Directors of the Independent Gaming Corporation as at 30 June 1996 were:

- Mr Harry Maxwell Beck - Chairman
- Mr Peter John Hurley - Deputy Chairman
- Mr Ronald John Champness
- Mr Peter Laurence Brien
- Mr Colin Wayne Dunsford
- Mr Barry Francis Beazley
- Mr Robin James Guy

Mr Malcolm John Whitford resigned as Director on 28 March 1996 and was replaced by Mr Ronald John Champness.

Gaming Machine Supplier's Licence

The Gaming Machine Supplier's Licence is held by the State Supply Board.

The licence authorises the holder, acting through an approved agent, to purchase from a licensed gaming machine dealer, and to sell or supply to the holders of a gaming machine licence, approved gaming machines, prescribed gaming machine components and gaming equipment.

In effect the State Supply Board is the government intermediary between the sellers and buyers of gaming machines.

The cooperative and coordinated efforts of the Board, its agents and staff assisted greatly in the establishment of the industry. That level of service has been maintained for 1995/96. Again, I take this opportunity to thank the Board and its officers for their continued efforts.

As at 30 June, 1996 the approved agents of the Board under the Gaming Machine Supplier's Licence were:

- John Lawrence Staker
- Roger Alan Frinsdorf

Gaming Machine Service Licence

The Gaming Machine Service licence authorises the licensee to install, service and repair approved gaming machines, prescribed gaming machine components and gaming equipment.

The State Supply Board, as holder of the licence, has appointed approved agents to perform the work authorised under the licence.

Initially, Bull HN Information Systems Australia Pty Ltd were approved as the Board's agent for the installation, service and repair of gaming machines. Bull's operations were taken over by Wang Australia Pty Ltd in early 1995. A period of restructure followed during which the name of the agent was changed to Wang Information Systems Australia Pty Ltd. This company operated as a separate legal identity in South Australia.

Wang Australia Pty Ltd were approved as an agent to the State Supply Board in respect of the Gaming Machine Service Licence on 18 June 1996.

Persons in a position of authority and employees in the following companies have been approved as subcontractors to the approved service agent to provide for the installation, service and repair of machines in country areas:

- Oaklands Electrical
- Qtronics
- Darren Smith Electrical Pty Ltd
- Peters Electronics
- Green Triangle Electronics Pty Ltd
- David Bird Electronics
- Island Television Services
- Maxwell Electronics
- Mike Maylins Electrical
- Whyalla Computer Centre
- Spotlight Electrical
- Donna's Electrical Service
- Electec Pty Ltd
- GJ & JV Clark

As the service agent appointed for the installation, service and repair of gaming machines, Wang and its approved subcontractors have continued to provide a high level of service to the industry.

The Board appointed the Independent Gaming Corporation as its agent to service and maintain the gaming machine monitoring system. A condition of my approval of the Independent Gaming Corporation as an agent of the State Supply Board in respect of the monitoring system was that the Independent Gaming Corporation would not carry out service and maintenance of the system themselves, but would appoint approved subcontractors to perform these functions.

IBM remained as the prime contractor to the Independent Gaming Corporation this year. In addition, I have approved the following subcontractors to the Independent Gaming Corporation to perform other service and maintenance functions in relation to the gaming machine monitoring system and its ancillary equipment:

- Stratus Computers Pty Ltd
- Ferntree Computer Systems Pty Ltd
- Hewlett Packard Australia
- NCCS Pty Ltd
- Net Comm (Australia) Pty Ltd
- Telstra Corporation
- Wang Australia Pty Ltd

Gaming Machine Dealers

During the year, two additional gaming machine dealer's licences were granted. The new licensees are Mr David John Bolton, trading as Maximum Gaming, and Multinational Entertainment Pty Ltd.

As at 30 June, 1996 the following gaming machine dealer's licences had been granted:

- Aristocrat Leisure Industries Pty Ltd
- IGT (Australia) Pty Ltd
- Olympic Amusements Pty Ltd
- Datacraft Limited
- Pacific Gaming Pty Ltd
- Victorian Gaming Systems Manufacturing Pty Ltd
- Neo Interactive Systems
- Millwell Pty Ltd
- Paolo Annectini Amusement Machines Pty Ltd
- L & L Australia Pty Ltd (EMAIL)
- Precise Craft Pty Ltd
- Gaming Machines (SA) Pty Ltd
- BGI Australia Pty Ltd
- David John Bolton (Maximum Gaming)
- Multinational Entertainment Pty Ltd

Of these, nine have sought to market gaming machines in South Australia.

During the early stages of the establishment of the industry, there were significant problems with the unreliable delivery and poor quality of new gaming machines from manufacturers. As the acute demand for new machines has subsided, these problems are less common. However, there are some areas where improvement in the quality of the machines and associated equipment and the coordination of delivery would further enhance the efficiency of installation.

Problems still being encountered include:

- missing or incorrect door locks
- incorrect or missing gaming machine software
- late delivery of machines

These problems caused isolated delays in the installation and commissioning of gaming machines in venues. Discussions were held with the industry participants involved in an effort to minimise these occurrences.

Installation of Machines

By the end of the first year of gaming in South Australia, the industry had witnessed the rapid installation of 7372 gaming machines in 307 venues. This outstanding achievement was testimony to the cooperation, dedication and hard work of all those involved.

Now that the initial rush is over, the installation rate has stabilised, averaging around 9 new venues and 157 additional machines per month.

Inspectors from the Office of the Liquor Licensing Commissioner attend the installation of every gaming machine unless the venue is in a remote area and alternative arrangements are made. Following the initial establishment phase, inspectors dedicated to the gaming machine area have been incorporated into an integrated liquor and gaming inspectorate which is responsible for the installation function.

At 30 June 1996, there were 9262 gaming machines operating in 417 venues

Approval of Persons

As at 30 June 1996, a total of 5757 persons were approved in relation to various licences under the Act. Persons approved include gaming machine managers, gaming machine employees, committee members of licensed clubs, directors of licensee companies, shareholders, agents, subcontractors and employees of the holder of the gaming machine monitor licence and subcontractors and employees of the agent to the holder of the gaming machine service licence.

The Gaming Machines (Miscellaneous) Amendment Act 1996 provides for more flexible arrangements for persons approved as gaming machine managers. As of 1 July 1996, a person approved as a director or member of a governing body of a body corporate that holds the gaming machine licence is defined to be an “approved gaming machine manager”. Also, Section 37(2) was deleted, allowing a gaming machine manager to be approved in respect of more than one gaming machine licence simultaneously.

In response to problems with the production of ID badges for approved persons, the Office of the Liquor Licensing Commissioner implemented an in-house photo identification system to reduce the delays being experienced.

Testing and Evaluation of Gaming Machines

Schedule 1(a) under the Gaming Machine Act provides that only approved gaming machines, games and prescribed components may operate in South Australia. Section 40 of the Act then gives the Commissioner the power to approve machines, games and equipment.

Testing and evaluation of gaming machines has been conducted for me primarily by Techsearch Inc. (University of South Australia).

Techsearch's facility at Prospect was established in collaboration with Gaming Laboratories International (G.L.I.). G.L.I. is an American based testing organisation recognised in a number of gaming jurisdictions overseas.

As at 30 June 1996, 8 machines and 121 games had been approved.

A number of game approvals include more than one variation of the basic game, such as the return to player percentage, maximum bet and optional game features.

In addition, the Independent Gaming Corporation provides a certificate attesting to the fact that the game conforms to the monitoring system's communications protocol.

Amendments to Gaming Machines Act 1992

The Gaming Machines (Miscellaneous) Amendment Act 1996 was proclaimed by the Governor on 6 June 1996 to come into operation on 1 July 1996.

The legislation provides for the following:

New Gaming Tax Arrangements

A new gaming tax regime incorporating a progressive net gambling revenue based formula replaced the previous turnover tax system. The rate of taxation is as follows:

<u>Annual NGR</u>	<u>Tax Rate</u>
Up to \$0.9m	35%
Above \$0.9m	\$315,000 + 40% of excess

There is provision to amend the tax scale either by lowering the threshold or by introducing a further threshold and tax rate not exceeding 45% or by a combination of the above in order to produce minimum taxation revenue of \$146 million.

Creation of Specific Purpose Funds

Three funds were established under the legislation and specific amounts are to be paid to these funds out of gaming revenue.

Sport and Recreation Fund - \$2.5 million

The money paid into this fund will from time to time be applied, in accordance with the directions of the Minister for Recreation, Sport and Racing, in financial assistance for sporting or recreation organisations.

Charitable and Social Welfare Fund - \$3 million

The money paid into this fund will from time to time be applied by the Treasurer, in accordance with the directions of a board that must be established by the Minister for Family and Community Services for the purpose, in financial assistance for charitable or social welfare organisations.

Community Development Fund - \$19.5 million

The money paid into the fund will from time to time be applied by the Treasurer, in accordance with the directions of the Governor, towards:

- (a) Financial assistance for community development; and
- (b) The provision of government health, welfare or education services

Mandatory 6 hour closure period at all gaming machine venues

The legislation provides that gaming venues must close for 6 hours in each 24 hour period. This may be a continuous period of 6 hours or be split into two 3 hour periods or three 2 hour periods. All gaming machine licences have been amended to reflect this statutory requirement.

Prohibition of gaming on certain days

Gaming is prohibited in all gaming venues on Christmas Day and Good Friday.

EFTPOS Facilities

The legislation provides that a licensee must not provide a cash facility which includes an automatic teller machine, an EFTPOS facility or any other facility, prescribed by regulation, that enables a person to gain access to his or her funds or to credit.

I took the view that the intention of the legislation was to ensure that players wishing to access cash via a card facility would need to leave the gaming area to access their funds. In approving gaming layouts and the location of cash facilities in gaming venues prior to the commencement of this provision on July 1 1996, I had regard to the proposed location and proximity of such facilities to the gaming area within each licensed premises. There has been some opposition to my interpretation but I have received support from

the key industry associations. I intend to monitor the use of cash facilities to ensure that the spirit of the provision is not circumvented by 'smart practices'. I will also monitor technical development such as remote cash facilities.

Licensed Clubs - Joint Holding of Gaming Machine Licences

The legislation provides that a gaming machine licence may now be held jointly by the holders of two or more club licences, provided that no club can either separately or jointly hold more than one gaming licence.

This measure provides the potential for smaller clubs, whose resources may not be sufficient to allow entry to the gaming industry in their own right, to join with another club or clubs to obtain a gaming licence and operate gaming machines. No applications under this provision have been received.

Provisions in relation to approval of Gaming Machine Managers

Provision has also been made for a director or a member of the governing body or body corporate that holds a gaming machine licence to be deemed to be an approved gaming machine manager.

The amendment also allows a gaming machine manager to be approved in respect of more than one gaming machine licence.

This amendment addresses a number of difficulties experienced within the industry where persons were directors of body corporates holding licences for more than one venue. It also provides for greater flexibility for people employed within the gaming industry as managers to work in more than one gaming venue.

National Standards for Gaming Machines

As I reported in last year's annual report, work had commenced to establish uniform technical standards for all gaming jurisdictions in Australia and New Zealand.

South Australia has taken a major role in the development of uniform standards and agreement has been reached on hardware, artwork and submission standards. Agreement on the formal adoption of the first set of standards is expected later in 1996.

The standards will also cover game software and communications.

Live Testing Facility

During the reporting year work commenced on a proposal to establish a test facility housing a number of gaming machines connected to the central monitoring system.

Given the model for gaming in South Australia, in particular the separate and distinct roles played by industry participants I took the view that such a facility would offer an efficient and effective method of dealing with certain technical and operational problems that occur from time to time.

I expect that such a facility would be used and accessed by gaming machine manufacturers, testing laboratories, the I.G.C., Wang and officers of the Liquor Licensing Commission to identify, test and resolve technical issues that arise with the operation of gaming machines.

Work will continue in 1996-97 to develop this concept further.

Security of Gaming Venues

A number of gaming venues were broken into in 1995/96 and as there appeared to be a pattern I sought advice from the Commissioner of Police in relation to security issues or preventative measures the police considered appropriate.

On receiving this advice, I reviewed the criteria used to assess the arrangements proposed for the security of gaming premises and gaming operations.

In addition I placed the following condition on all gaming machine licences:

“The licensee is to provide this office with a certificate from a licensed security agent attesting to the adequacy of the security and surveillance system, in particular that all machines are covered by sensors”.

I also required all licensees to develop cash handling procedures which must be available for inspection by an authorised officer.

Gaming Machine Malfunction

In November 1995 as a result of an incorrect game approval certain Datacraft gaming machines malfunctioned causing the pay table to be grossly distorted.

The licensee at one venue exercised the right under Section 76 (1) of the Gaming Machines Act 1992 to withhold winnings from players on the basis that the gaming machines on the premises were not operating properly and that it would not be just or equitable to allow a particular player to redeem his or her winnings on the machine.

The players in turn exercised their right under Section 76 (2) of the Act to apply to the Commissioner for a review of the decision by the licensee to withhold winnings.

There was some dispute as to whether winnings had been withheld or in fact payments had been stopped. The Commissioner held three hearings, the matter was settled and the application for review was withdrawn.

Monitoring and Compliance

All gaming venues were inspected at least once during 95/96 for compliance with the provisions of the Gaming Machines Act . Indeed most were visited or inspected on more than one occasion for various reasons.

In addition to ensuring that all persons involved with the conduct of gaming were approved, particular attention was paid to the requirement that proper records and accounts of gaming activity were maintained.

While there is still room for improvement, a large number of gaming venues have installed in house or proprietary computerised accounting systems and this has significantly improved the level of accuracy and accountability.

In addition my officers maintain scrutiny over the operation of the central computer monitoring system to ensure not only the proper operation of the monitoring system but also the production of accurate reports and gaming tax calculations.

I wish to place on record that in my opinion, gaming venues in South Australia are of the highest standard.

Release of Information

1995/96 saw a significant increase in the demand for information in relation to the gaming industry. Requests came from many sources including the media, new entrants to the gaming industry, finance and business houses, other gaming jurisdictions and government and private organisations.

Meeting this demand has placed significant strain on the resources of this office.

Working Party Involvement

In recognition of the need throughout Australasian gaming jurisdictions for a more unified approach to common problems, South Australia has been represented on a number of inter jurisdictional groups examining and reporting on a variety of issues. In addition to the involvement in the development of uniform gaming machine standards, officers of this office have been involved in the following working parties.

- Gaming advertising code of practice
- Interactive home gaming
- Problem gambling and gambling addiction (including research)
- Exchange of information
- Mutual recognition of gaming licensing and approvals.

Organisation and Staffing

The organisation structure of the Office of the Liquor Licensing Commission is attached as Appendix 1.

The structure reflects an integration of related liquor and gaming functions which has proved to be not only cost efficient but also effective. I believe that the integrated liquor and gaming model reflects best practice.

Now that the gaming industry has been established I have had the opportunity to review the audit and monitoring requirements and to strengthen resources in these areas.

I take the opportunity to record my thanks to all staff for their continued efforts in 1995-96.

1995/96 Budget	1995/96 Actual
Average full time equivalent staff 24.0	Average full time equivalent staff 22.9

Budget Information

Actual expenditure for 1995/96 for gaming machine administration was \$1.363 M against a budget of \$1.776 M.

1995/96 Budget	1995/96 Actual
\$1.026M	\$0.88M Salaries
\$0.75 M	\$0.50M Goods and Services
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\$1.776M	\$1.363M Total

The variation in budget outcome was due primarily to carrying over \$300,000 allocated to the development of an integrated liquor and gaming management information system.