
**SOUTH AUSTRALIAN
GAMING MACHINES ACT 1992**

LIQUOR LICENSING COMMISSIONER

ANNUAL REPORT

1996/97

Gaming Machines Act 1992 - Annual Report

Under 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. By the end of June 1997, there were 484 venues operating a total of 10451 gaming machines.

The installation rate of machines has fallen significantly since the start up with the monthly average being 153 in 94/95, 157 in 95/96 and 99 in 96/97. Of particular note has been the dramatic fall-off in the second half of 96/97 during which the monthly average was 51.

Gaming Machine Licences

As at 30 June 1997, 507 gaming machine licences were approved.

360	Hotel
78	Club
69	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 this office to assess and collect gaming tax.

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

- An upgrade of the gaming machine monitoring system software to the latest release known as R4F. This upgrade provided fixes and enhancements to a number of functional areas of the system.
- Modification of the reports module in line with the introduction of the net gambling revenue taxation system in June 1996.
- Provision of a game information deletion utility to enable the removal of redundant or superseded game information records from the system.

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- Modification to the gaming machines monitoring system to accommodate gaming machines operating with a 1 or 2 cent credit value.
 - Upgrades to the remote polling station (RPS) software and firmware.

Interest in 1 and 2 cent gaming machines continued during the year, reflecting their increasing popularity interstate. As a result, the Independent Gaming Corporation Ltd., in conjunction with its software supplier Video Lottery Consultants Inc, provided a modification to the gaming machine monitoring system to cater for 1 and 2 cent machines. This enhancement to the system was implemented in June 1997. Since then, several licensed gaming machine dealers have applied to have games tested and approved for use in South Australia at 1 and 2 cent credit values.

A new version of software of the SC300 site controller has been developed. This software has been developed to provide for increased access to accounting information on gaming machine performance in venues. Changes to the software also reflect ongoing development of the monitoring system by the manufacturer.

IGC Ltd. has also undertaken to develop an electronic interface to the SC300 site controller known as the information data port. This facility will allow gaming machine operators to access significantly more accounting and statistical information electronically, thus reducing the need for manual meter reads and analysis. A large amount of development and testing of the new SC300 site controller software, which supports the functions of the information data port, has been completed during the year. However, the facility is still in the development stage and will only be available after final testing and my approval.

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. Line monitoring fees, which cover the cost of monitoring each gaming machine connected to the system, are charged on a monthly rate. Line fees are the prime source of income for the Independent Gaming Corporation and must cover all the Corporation's costs. 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 \$65 to \$60 per month on 1 July 1996.

The Directors of the Independent Gaming Corporation as at 30 June 1997 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

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.

As at 30 June, 1997 the approved agents of the Board under the gaming machine supplier's licence were:

- John Lawrence Staker
- Roger Alan Frinsdorf

The efforts of the Board, its agents and staff assisted greatly in the establishment of the industry and that level of service has been maintained in 1996/97.

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. was 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. was approved as the Board's agent in respect of the gaming machine service licence on 18 June 1996. During the latter half of this financial year, the Board sought expressions of interest for the service agents contract. The current contract expires on 12 January 1998.

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

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- Island Television Services
 - Maxwell Electronics
 - Mike Maylins Electrical
 - Whyalla Computer Centre
 - Spotlight Electrical
 - Donna's Electrical Service
 - Electec Pty. Ltd.
 - GJ & JV Clark
 - Tatiara Television
 - Halant Group
 - Westcoast Electronics

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 Independent Gaming Corporation is the Board's agent for servicing the gaming machine monitoring system. A condition of my approval of the Corporation as an agent of the Board was that the Corporation would not carry out service and maintenance of the system themselves, but would appoint approved subcontractors to perform these functions. I am currently reviewing this condition because I suspect that it is an artificial barrier to effective operations which incurs needless cost to the Corporation.

IBM remained the Corporation's prime contractor, until 29 July 1996, when Systems Services Pty. Ltd. took over this function. In addition, I have approved the following subcontractors to perform other service and maintenance functions.

- 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 Video Lottery Consultants Inc., and Macmont (NT) Pty. Ltd..

As at 30 June, 1997 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

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- Pacific Gaming Pty. Ltd.
 - Victorian Gaming Systems Manufacturing Pty. Ltd.
 - Neo Interactive Systems
 - Millwell Pty. Ltd.
 - Paolo Anecchini Amusement Machines Pty. Ltd.
 - L & L Australia Pty. Ltd. (EMAIL)
 - Precise Craft Pty. Ltd.
 - Gaming Machines (SA) Pty. Ltd.
 - BGI Australia Pty. Ltd.
 - Maximum Gaming Pty.. Ltd..
 - Multinational Entertainment Pty. Ltd.
 - Video Lottery Consultants Inc.
 - Macmont (NT) Pty.. Ltd..

Of these, seven are actively marketing new gaming machines in South Australia.

Delivery of machines is no longer a problem. However, problems with game software and quality of machines still arise.

A regular fortnightly Technical and Quality meeting of relevant industry participants has assisted in the identification and resolution of a number of the above problems.

Approval of Persons

As at 30 June 1997, a total of 6530 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.

A review of the procedure for approval of persons under the *Gaming Machines Act, 1992*, was conducted in 1996/97. The review was conducted in conjunction with the South Australian Police Department. As a consequence, it is now possible for a person who is currently approved in respect of a particular licence, to obtain approval with respect to a different licence without the need to lodge additional documentation.

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). However testing has also been undertaken by Bellamy, Miller and Moneypenny.

As at 30 June 1997, 11 machines and 134 games are currently 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 to the certification received from Techsearch that a gaming machine or game meets the South Australian Gaming Machine Technical Standards, the Independent Gaming Corporation provides a certificate attesting to the fact that the machine or game conforms to the monitoring system's communications protocol.

New Gaming Tax Arrangements

On 1 July 1996 a new gaming tax regime incorporating a progressive net gambling revenue based formula came into operation to replace the previous turnover tax system.

The 1996/97 tax structure was as follows:

<u>Annual NGR per venue</u>	<u>Tax Rate</u>
up to \$900,000	35%
Above \$900,000	\$315,000 + 40% of excess

Under this tax regime the hotel and club industry guaranteed the State Government a minimum of \$146 million in tax revenue for the 1996/7 financial year. The tax revenue actually collected during 1996/97 was \$134.5 million, resulting in an \$11.5 million shortfall. A new three tiered tax structure was introduced effective from 1 July 1997:-

<u>Annual NGR per venue</u>	<u>Tax Rate</u>
up to \$399,000	35%
\$399,000 to \$945,000	\$139,650 + 40% of excess
above \$945,000	\$358,050 + 45% of excess

An additional surcharge of 0.5% of NGR has also been applied to recoup the 1996/97 \$11.5 million shortfall and will be in place until recouped in full.

National Standards for Gaming Machines

Work has continued with other Australasian gaming jurisdictions to establish uniform technical standards for gaming machines. Standards have been developed covering hardware, software, artwork, game submissions and communications.

In developing these standards the working party, on which South Australian is represented, has consulted with the gaming machine manufacturers, testing laboratories and other industry participants.

Formal approval by the Australian gaming jurisdictions is expected in late 1997.

Security of Gaming Venues

Gaming venues have continued to be subject to break-ins in 1996/97. However the Commissioner of Police has advised that the number of break-ins was significantly lower in 1996/97 than in the previous year as higher quality security alarm systems have been installed in a number of venues. I have continued to monitor this issue in conjunction with the police and industry associations.

Generally the level of security and awareness of the problem has improved.

Gaming Machine Malfunction

In February 1997 advice was received that two Olympic gaming machines at a city venue had "paid out" a sum of money and that meter readings on these two machines did not balance. The game resident on these machines both at the city venue and all other venues was disabled. Subsequently, another game appeared to exhibit the same fault and that game was also disabled.

After extensive consultation with the test laboratory and the manufacturer and having regard to a similar incident in the Northern Territory all advice at that time linked the machine malfunction to the "Double Up" feature on the games.

The decision was taken to re-approve the two games without the Double Up feature.

Exhaustive testing was conducted by two test laboratories and the fault could not be replicated. The "Double Up" feature was then re-approved on the two Olympic games.

The meter imbalance then reappeared on a small number of machines.

On 28 May 1997 the fault was identified by staff of this Office. The fault, which could be exploited, involved a particular button hold strategy which in turn allowed wins to be collected and at the same time wagered on a "Double Up" bet. This fault was the same as that experienced in the Northern Territory. I thank the staff involved.

Monitoring and Compliance

All gaming venues were inspected at least once during 1996/97 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.

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. The availability of the proposed information data port should also assist licensees in record keeping and accounting obligations.

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

Release of Information

The demand for information in relation to the gaming industry continues to grow. 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. Requests for information from academics, university students and researchers have also increased significantly.

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.

•• Interactive home gaming

Following a meeting of Gaming and Racing Ministers in May 1996 a working party was established to develop a detailed regulatory model which would facilitate a national approach to the regulation of interactive home gambling.

Staff of my office were represented on the working party which prepared a draft regulatory control model for new forms of interactive home gambling. This draft was presented to a meeting of Gaming and Racing Ministers in May 1997.

The Treasurer released the draft national regulatory model for comment on 18 June 1997.

•• Problem gambling and gambling addiction (including research)

South Australia is the convenor of a working party comprising all States and Territories that is examining issues relating to problem gambling and gambling addiction.

To this end, a project officer was appointed to assist the working party in this task by undertaking an extensive review of research conducted in both private and public sectors and to

maintain this scrutiny on an ongoing basis. A paper was prepared that reviews and compares many such

studies and the approaches taken to the problem gambling question. This paper has been circulated to the working party members. A document reviewing policy issues has also been developed for future discussion by the working party.

It is envisaged that the working party will continue to ensure that member jurisdictions have access to the most up-to-date information on this subject, and to provide a forum for discussion of this issue.

•• Exchange of information

This working party, chaired by South Australia, has concentrated on protocols for the exchange of information between Australian jurisdictions. Such protocols have regard to the sensitivity of information to be exchanged and legislative and other restrictions that may apply to particular categories of information

◆ Mutual recognition of gaming licensing and approvals.

This working party, chaired by New South Wales, focussed on establishing the licensing criteria in each jurisdiction having particular regard to probity assessment criteria.

Collation of the licensing requirements is to be used by the working party to determine the flow of information on licensees between jurisdictions to facilitate mutual recognition principles.

Organisation and Staffing

The organisation structure of the Office of the Liquor Licensing Commissioner 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.

I take the opportunity to record my thanks to all staff for their continued efforts in 1996-97.

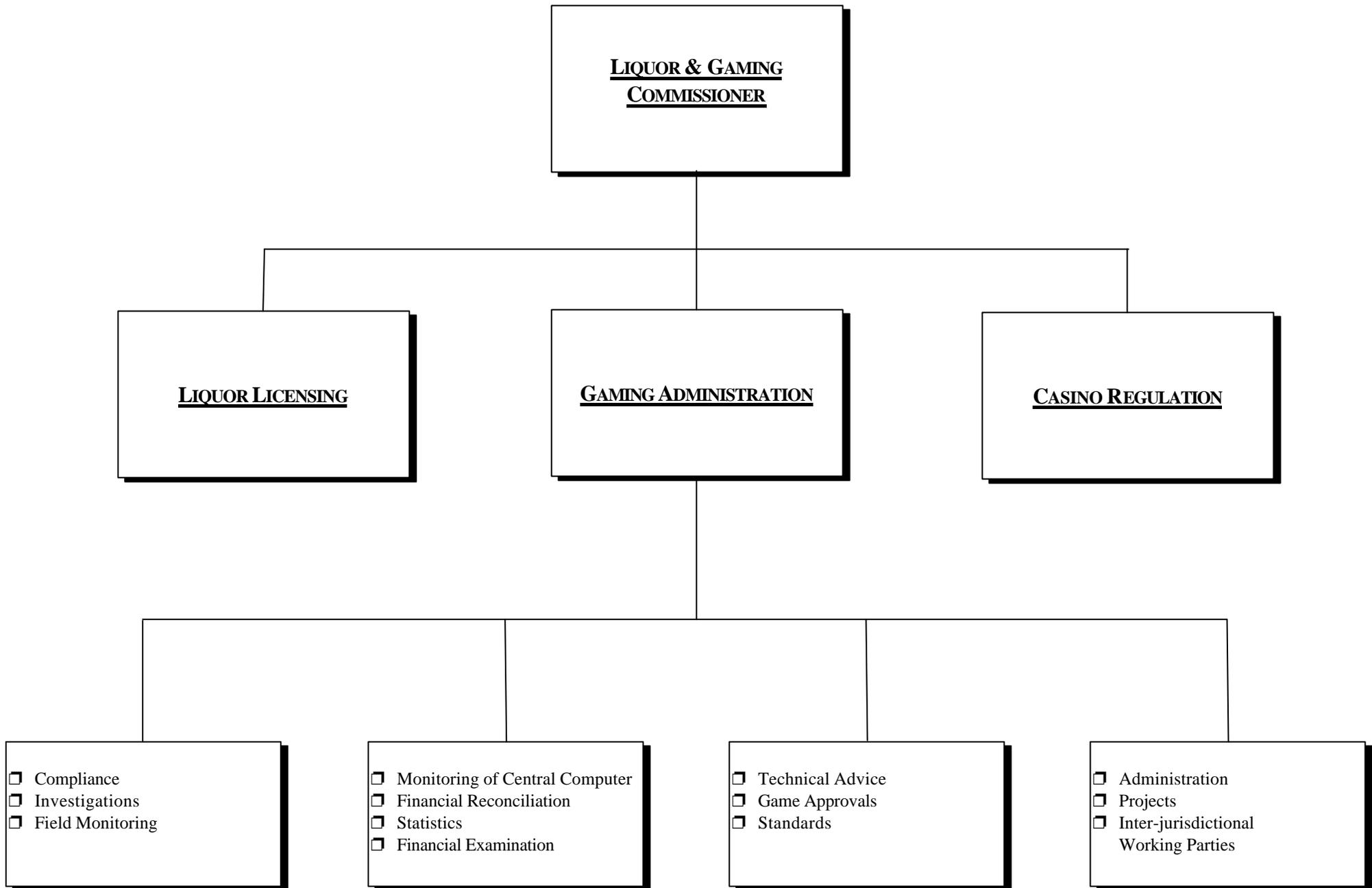
1996/97 Budget	1996/97 Actual
Average full time equivalent staff 24.0	Average full time equivalent staff 22.2

Budget Information

Actual expenditure for 1996/97 for gaming machine administration was \$1.424 M against a budget of \$1.964 M.

1996/97 Budget	1996/97 Actual
\$1.026 mil	\$0.938 mil Salaries
\$0.938 mil	\$0.486 mil Goods and Services
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\$1.964 mil	\$1.424 mil Total

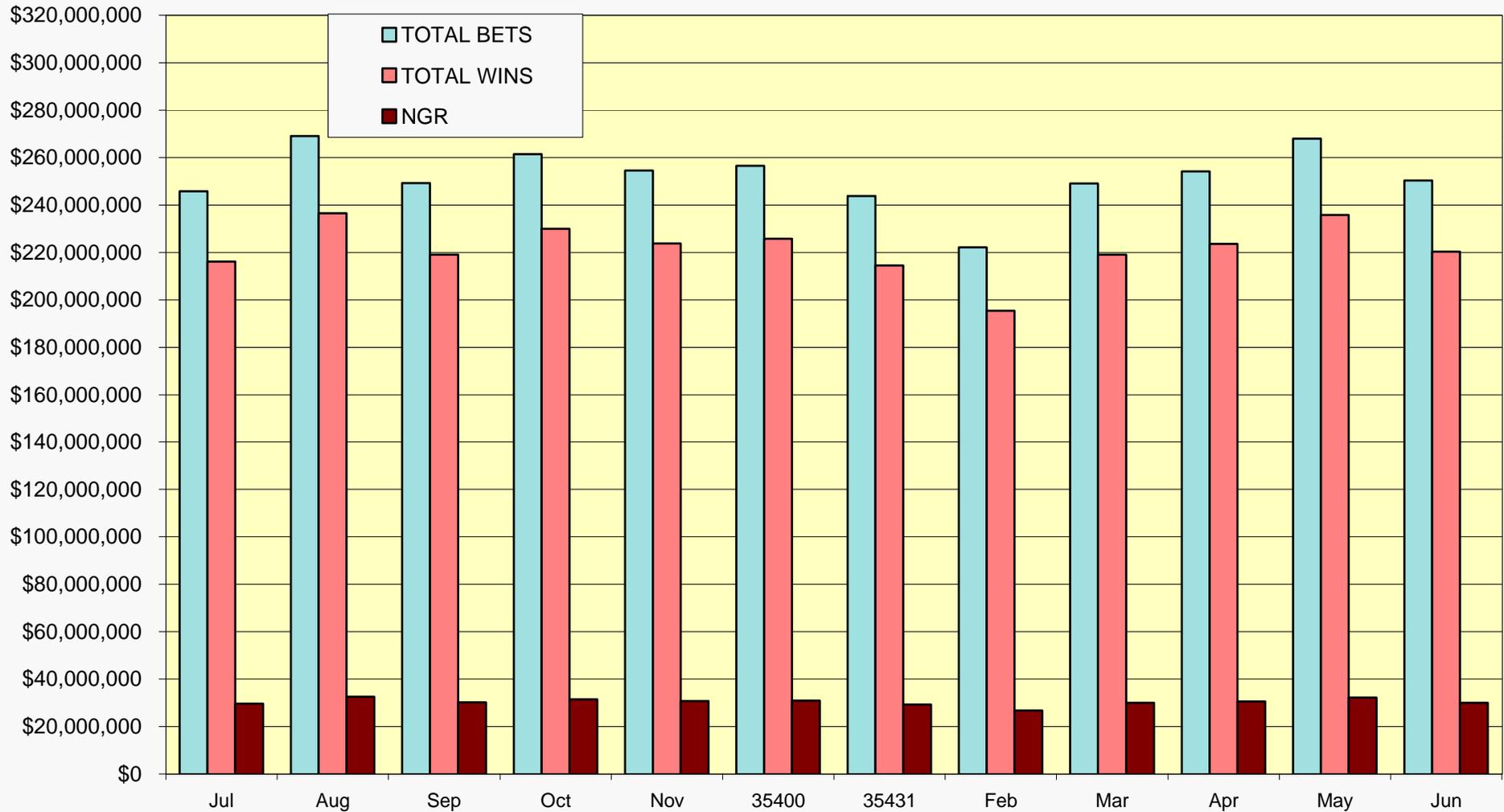
The variation in budget outcome was due primarily to carrying over \$300,000 allocated to the development of an integrated liquor and gaming management information system, and \$200,000 for police and fingerprints checking .



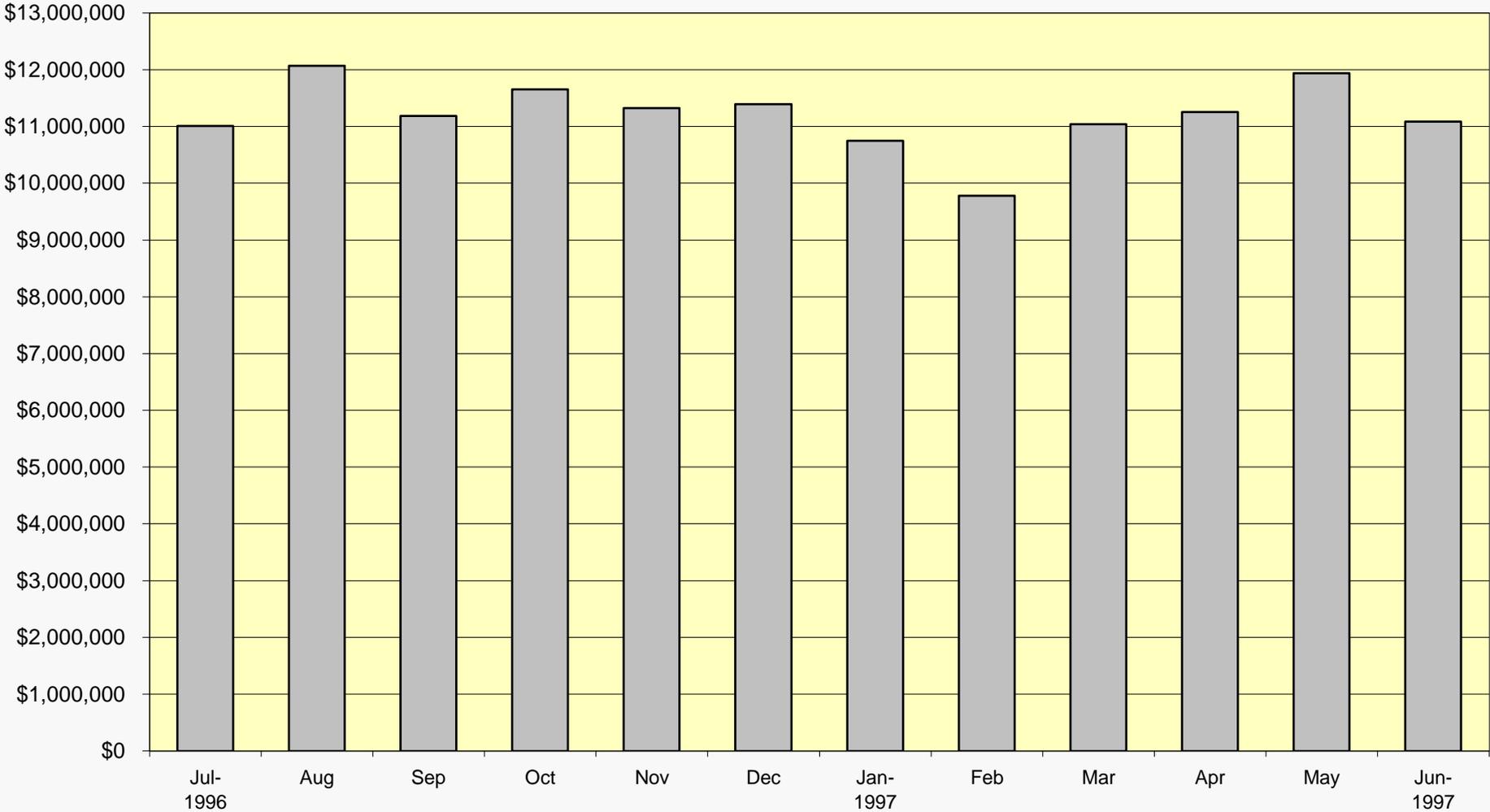
MONTHLY GAMING STATISTICS

Month	COIN IN	COIN OUT	TOTAL BETS	TOTAL WINS	NET GAMBLING REVENUE	TAX (incl fines)	VENUE SHARE
Jul-1996	\$ 85,912,744	\$ 56,177,069	\$ 245,853,737	\$ 216,119,217	\$ 29,734,520	\$ 11,011,692	\$ 18,722,828
Aug	\$ 94,373,493	\$ 61,898,707	\$ 268,992,756	\$ 236,518,954	\$ 32,473,802	\$ 12,070,430	\$ 20,403,372
Sep	\$ 87,722,019	\$ 57,494,511	\$ 249,171,398	\$ 218,943,148	\$ 30,228,250	\$ 11,186,956	\$ 19,041,294
Oct	\$ 92,083,661	\$ 60,619,671	\$ 261,464,910	\$ 229,993,874	\$ 31,471,037	\$ 11,655,126	\$ 19,815,911
Nov	\$ 89,829,544	\$ 59,157,430	\$ 254,483,290	\$ 223,813,175	\$ 30,670,115	\$ 11,324,195	\$ 19,345,920
Dec	\$ 90,352,634	\$ 59,487,922	\$ 256,561,067	\$ 225,700,794	\$ 30,860,273	\$ 11,394,527	\$ 19,465,746
Jan-1997	\$ 86,516,297	\$ 57,296,892	\$ 243,757,967	\$ 214,543,623	\$ 29,214,344	\$ 10,748,438	\$ 18,465,906
Feb	\$ 79,404,457	\$ 52,700,878	\$ 222,053,095	\$ 195,352,588	\$ 26,700,507	\$ 9,784,070	\$ 16,916,437
Mar	\$ 90,258,254	\$ 60,264,207	\$ 249,034,969	\$ 219,043,343	\$ 29,991,626	\$ 11,042,745	\$ 18,948,881
Apr	\$ 92,317,221	\$ 61,772,545	\$ 254,058,217	\$ 223,518,271	\$ 30,539,945	\$ 11,256,575	\$ 19,283,370
May	\$ 97,744,501	\$ 65,450,966	\$ 268,002,836	\$ 235,712,465	\$ 32,290,371	\$ 11,941,165	\$ 20,349,206
Jun-1997	\$ 92,247,223	\$ 62,166,733	\$ 250,312,148	\$ 220,231,898	\$ 30,080,250	\$ 11,084,155	\$ 18,996,095
96/97 Year	\$ 1,078,762,048	\$ 714,487,531	\$ 3,023,746,390	\$ 2,659,491,350	\$ 364,255,040	\$ 134,500,074	\$ 229,754,966

TOTAL BETS LESS TOTAL WINS = NET GAMBLING REVENUE



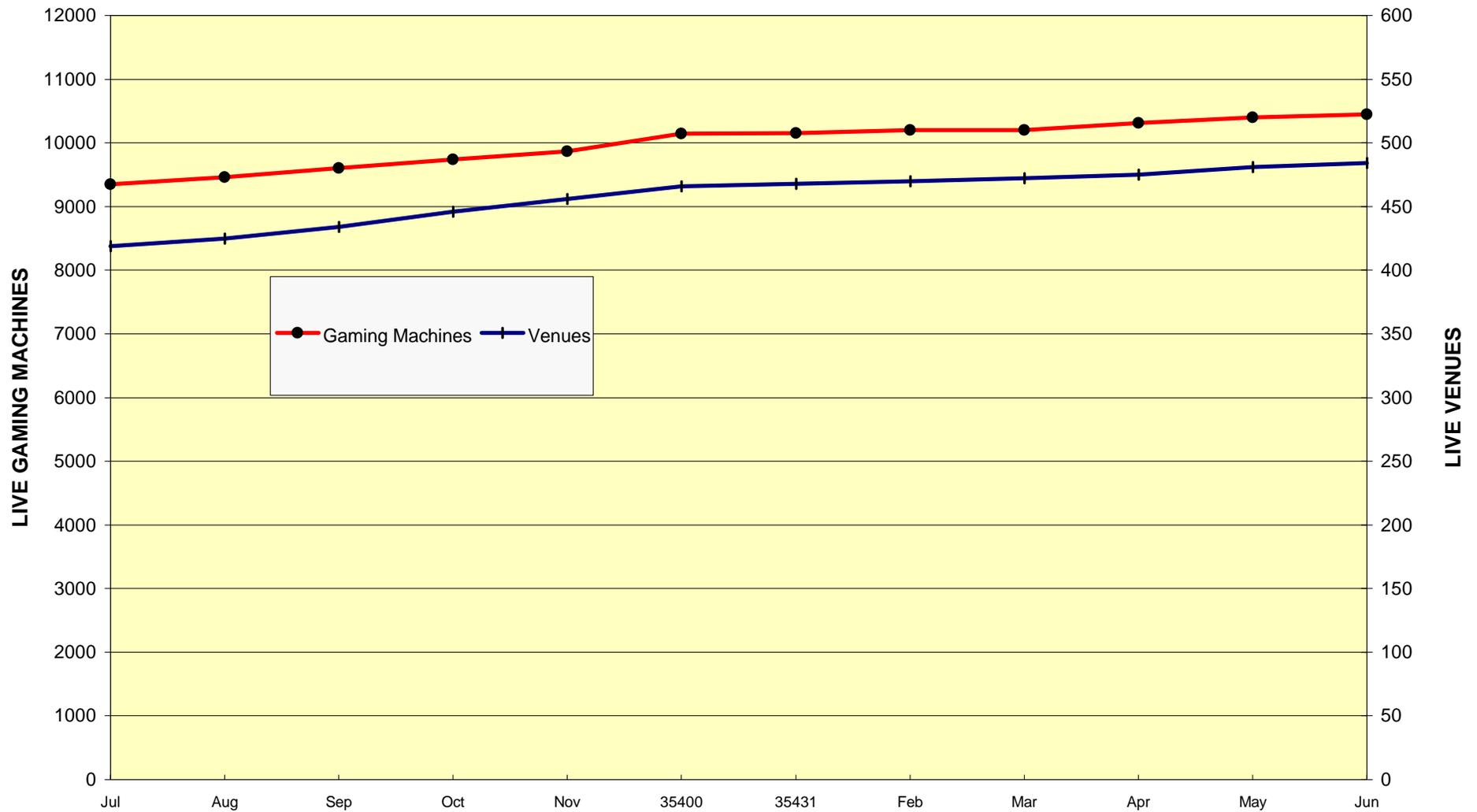
GAMING TAX EARNED PER MONTH



GAMING MACHINE AND VENUE INSTALLATIONS

MONTH	VENUES	GAMING MACHINES
Jul-1996	419	9348
Aug	425	9460
Sep	434	9601
Oct	446	9742
Nov	456	9863
Dec	466	10145
Jan-1997	468	10153
Feb	470	10199
Mar	472	10202
Apr	475	10309
May	481	10396
Jun-1997	484	10451

GAMING MACHINE AND VENUE INSTALLATIONS



MANUFACTURERS SHARE OF GAMING MACHINE MARKET
(June 1997)

MANUFACTURER	MACHINE COUNT	%SHARE
Aristocrat	6424	61.20%
IGT	1441	13.73%
Datacraft	941	8.96%
Olympic	1010	9.62%
VGS	376	3.58%
Pacific	244	2.32%
Vidco	61	0.58%
TOTAL	10497	100.0%

MANUFACTURERS SHARE OF GAMING MACHINES MARKET (June 1997)

