



Victorian Commission
for Gambling Regulation

Social and Economic Impact Assessment
Ninth Variation to the Casino Management Agreement

Prepared by the Victorian Commission for Gambling Regulation

October 2009

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GLOSSARY OF TERMS

ABS	Australian Bureau of Statistics
AGR	Australasian Gambling Review
CBP	Commission Based Play
CPGI	Canadian Problem Gambling Index
Crown	Crown Melbourne Limited, or Crown casino depending on context
DTF	Department of Treasury and Finance
EGM	Electronic Gaming Machine
Fourth Review	The Fourth Review of the Casino Operator and Licence
FY	Financial Year
HDI	Household Disposable Income
Heads of Agreement	Heads of Agreement Between the State of Victoria and Crown Melbourne Limited
MSD	Melbourne Statistical Division
RTP	Return to Player
SEIFA	Socio Economic Index for Areas
SOGS	South Oaks Gambling Screen
VCGR	Victorian Commission for Gambling Regulation
VGS	Victorian Gambling Screen
VIF2008	Victoria in Future 2008, Department of Planning and Community Development

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KEY FINDINGS

SOCIAL IMPACT ASSESSMENT

Impact on Problem Gambling

- The VCGR believes that the additional 150 table increase will not have a significant impact on problem gambling for the following reasons:
 - Research suggests that while a relationship between problem gambling and table games exists, the overwhelming majority of problem gamblers experience problems associated with EGMs.
 - Opportunities for problem gamblers to gamble at Crown already exist.
- Crown's commitment to responsible gambling and its problem gambling assistance services are of a high standard.
- The 2009 study "A Study of Gambling in Victoria – problem gambling from a public health perspective" (Hare 2009) estimates that the problem gambling prevalence rate among Victorian adults is 0.7%. This is consistent with a national decline in problem gambling prevalence estimates since the Productivity Commission's report in 1999.
- The relationship between problem gambling and table games is an area that would benefit from further research. Hare (2009) found that 25.01% of a sample of Victorian problem gamblers played table games at least once in the past 12 months. This participation rate was the 6th highest compared with other forms of gambling, with EGMs recording the highest participation rate of 91.04%.
- Office of Gaming and Racing statistics collected from problem gambling counselling agencies across Victoria show that 7% of clients cited table games as their primary problem, while 77% cited EGMs.

- The VCGR considered the introduction of fully automated table games which will remove the requirement for a dealer or croupier, effectively reducing the opportunity to observe patrons and to provide harm minimisation measures. While this aspect may be a cause of concern, the VCGR is of the view that the presence of staff trained in the responsible service of gambling in the Pit area, and the availability of responsible gambling liaison officers ameliorates this concern.

ECONOMIC IMPACT ASSESSMENT

Utilisation

- Through analysis of average annual expenditure and VCGR inspectorate audits, the VCGR has found that the peak periods of patronage are Friday and Saturday nights and that at these times Crown is operating a maximum capacity. The VCGR is satisfied that during peak times there is excess demand for gaming tables.
- Between 1997, when Crown opened its permanent casino complex on the Southbank site and 2032 (being the year where data is available closest to the current Casino Licence expiry), Victoria's adult population is expected to grow by 64.1%. This compares with the proposed table game increase from 350 to 500 tables (42.9%).

Gross State Product

- The VCGR considers that 150 new gaming tables and the capital investments being undertaken at Crown are unlikely to generate a significant amount of new consumption in the Victorian economy.
- It is anticipated that part of the increase in expenditure generated by the introduction of the additional 150 gaming tables will represent a net addition to Victoria's economic activity. It has not been possible to quantify the additional economic activity in this report, although it would be expected to be a small proportion of the additional gaming expenditure.

Tourism

- The addition of 150 gaming tables would assist Crown to maintain world class facilities and better places Crown to compete in international tourism and high roller markets.
- Further, it is likely that expanded capacity for poker tables will allow an increase in the size of poker tournaments. Bigger poker tournaments may attract more tourists, however the overall impact of this on the Victorian economy is unlikely to be significant.

Employment

- The VCGR believes that the proposed works at Crown will create an estimated:
 - 78 temporary full-time equivalent positions due to construction and supply chain employment; and
 - 500 full-time equivalent positions to facilitate the increase in gaming operations and other associated activity.
- The VCGR also recognises Crown's commitment and contribution to providing accredited training for its staff, including the construction of a replacement training facility, as well as the apprenticeships offered by Crown each year.

FINANCIAL ASSESSMENT

- DTF's financial assessment concluded that:
 - The premium for the additional table games (tax revenue from increased tax rates) is a minimum of \$416 million over 24 years. Compared to the premium paid in 1995 (\$138 million in 2009 terms for a 38 year period), this appears to represent reasonable value for money for the State Government.
 - The overall value to Crown for the phased implementation of additional tables will be between -\$5 million and \$335 million using DTF modelling assumptions over the licence period.

- The overall value to the Government of the deal (including the impact of the increased EGM tax rates and additional tax revenue flowing from the phased implementation of additional tables) will be between \$497 million and \$639 million using DTF modelling assumptions over the licence period.
- On this basis, it is clear that on reasonable assumptions, the overall value to the State of the 2009 negotiated agreement exceeds the value to Crown Ltd.
- Indeed under certain reasonable assumptions the deal is broadly financially neutral for Crown but still significantly positive for the State.

COMMISSION'S OPINION

Having regard to the matters set out in this report the VCGR is of the view that the net benefits associated with this proposal outweigh the detriments.

The positive features of the proposal, which are summarised in the key findings, include increased employment, some additional tourism, and increased comfort for recreational gamblers when the casino would otherwise be crowded due to high utilisation rates of gaming tables.

In addition the financial indicators show that in NPV terms the Victorian Government will derive between \$497 million and \$639 million over the remaining 24 years of the Casino Licence, whereas the overall value to Crown is estimated to be between - \$5 million and \$335 million.

Negative features of the proposal are not obvious or significant. The removal of a staff member from a semi automated table game so as to operate in fully automated mode will reduce the opportunities to observe patrons and to provide harm minimisation measures, but the presence of staff trained in the responsible service of gambling within the vicinity combined with Crown's other responsible gambling initiatives, such as the continuing operation of the Responsible Gambling Service Centre, lessen the impact of this change.

The VCGR does not consider that fully automated table games have characteristics that enable them to be compared with traditional EGMs and, as such, does not believe that players of fully automated table games would be at the same risk of problem gambling as players of traditional EGMs.

The VCGR considers that the introduction of an additional 150 tables is consistent with the increase in Victoria's adult population.

The VCGR reiterates its concern raised in the *Fourth Review* that Crown must remain vigilant to the possibility of table game's players having gambling problems and be more pro-active and effective in intervening where anomalies appear in an individual's gambling expenditure patterns. This concern, however, exists whether the number of gaming tables is 350 or 500.

The VCGR concludes that it is reasonable for the Government to enter into the Ninth Variation to the Casino Management Agreement.

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INTRODUCTION

BACKGROUND TO THE CASINO LICENCE AND AGREEMENTS WITH CASINO LICENSEE

Casino Licence

The Casino Licence was granted to what is now known as Crown Melbourne Limited (Crown) on 19 November 1993 under Part 2 of the *Casino Control Act* 1991.

The Casino Licence outlines:

- the terms and conditions upon which the licence was granted;
- the initial casino boundaries;
- the maximum and minimum numbers of gaming tables and EGMs allowed in the Melbourne Casino; and
- the requirement that Crown must comply with the Casino Management Agreement (see the *Casino (Management Agreement) Act* 1993) and the Casino Agreement.

There have been two amendments to the Casino Licence to date. They are:

- On 4 November 1994, the Casino Licence was amended to increase the number of gaming tables permitted in the Temporary (Galleria) Casino from 130 to 180.
- On 12 October 1995, the Casino Licence was amended to increase the number of gaming tables permitted in the Temporary (Galleria) Casino from 180 to 200 and to impose a limit on the number of gaming tables permitted at the Melbourne casino of 350.

Casino Agreement

The Casino Agreement between the VCGR and Crown is an agreement entered into under section 15 of the *Casino Control Act* 1991. The Casino Agreement was originally entered into on 21 September 1993 and has been varied eleven times, most recently on 22 October 2007.

The purpose of the Casino Agreement is to set out details of the Casino Licence conditions, some of the key features of which are:

- obligations relating to the development and completion of the Melbourne Casino;
- conditions relating to the company structure of the casino operator;
- disclosure requirements for the casino operator;
- exclusivity undertakings; and
- approval of games and operating practices.

Casino Management Agreement

The Casino Management Agreement between the Minister for Gaming and Crown is an agreement also required by section 15 of the *Casino Control Act* 1991. First entered into on 20 September 1993, the Casino Management Agreement has since been varied eight times, most recently on 8 July 2005.

The *Casino (Management Agreement) Act* 1993 ratifies the Casino Management Agreement for the Melbourne Casino. The key features of the Casino Management Agreement include:

- development conditions and construction obligations of the casino;
- use of the complex after completion;
- rights of termination;
- continuity of interest;
- force majeure/liquidated damages;
- fees and taxes; and
- exclusivity periods.

HEADS OF AGREEMENT BETWEEN THE STATE OF VICTORIA AND CROWN MELBOURNE LIMITED

Ninth Variation to the Casino Management Agreement with Crown

On 12 May 2009, the Treasurer on behalf of the State of Victoria signed the Ninth Variation to the Casino Management Agreement with Crown.

Consistent with the terms of this agreement, the VCGR indicated it would agree to increase the maximum number of table games (referred to hereafter as “gaming tables”) permitted to operate at the Melbourne Casino, as well as approve the redefinition of the casino boundaries. The VCGR’s agreement is subject to the legislative amendments and Ministerial approvals required to facilitate the proposed changes becoming law and being granted. Approval is also conditional on the VCGR receiving an application from Crown to redefine the casino boundary, and VCGR approval that the application meets the regulatory requirements for such an approval.

The terms of the agreement specifying these matters are reproduced below.

Increase in the Number of Gaming Tables

The maximum number of gaming tables available for gaming at any one time at the casino will increase from 350 to 400. In addition, up to 100 poker tables will also be allowed at any one time, enabling the casino to operate a maximum of 500 gaming and poker tables.

For convenience, this report will refer to the increase from 350 to 500 tables as “increase of 150 gaming tables”, rather than repeatedly specifying the breakdown between gaming tables and poker tables.

For the purpose of calculating the number of gaming tables, the number of fully automated gaming tables are included and counted (except for poker tables) by the number of each base unit to which multi terminal stations are connected. Each of these base units will be counted as one gaming table.

Similarly, for the purpose of calculating the number of poker tables in their fully automated form, each base unit to which multi terminal stations are connected will be counted as one poker table.

Limit on the Number of Fully Automated Gaming Tables

The Heads of Agreement specifies the meanings given to fully automated gaming table and table games and limits the number of fully automated gaming tables to a total permitted number of 200 multi terminal stations available for gaming (excluding poker).

The Heads of Agreement define fully automated table games as gaming tables. This means they will be counted under the gaming table cap of 400 gaming tables.

Redefinition of the Casino Boundaries

Relevant legislation will be amended and any necessary Ministerial approvals will be given to allow for the redefinition of the boundaries of the casino complex to accommodate the increased numbers of gaming tables. These redefinitions will be in accordance with plans submitted with an application by the casino operator to the VCGR for approval.

The State acknowledges that the redefinition of the casino boundaries may result in new areas of the casino which do not adjoin the current gaming area, and may increase the overall size of the gaming area beyond the maximum area approved by the VCGR at any previous time. Accordingly, the State has agreed to make any necessary legislative amendments to enable the VCGR to amend the Casino Licence and remove any limitation of the boundaries of the casino to being within the area of the "Site" as defined in the Casino Licence and approved by the VCGR.

Government's Policy and Intent

It is the stated policy and intention of the Brumby Labor Government that there will be no further amendments to the tax rate payable on gross gaming revenue at the casino, nor will any existing levy on the casino be amended or new levy imposed before 30 June 2022.

SUMMARY OF PROPOSED LEGISLATIVE CHANGES

Casino Legislation Amendment Bill 2009

The *Casino Legislation Amendment Bill* 2009 before the Parliament at the time of preparation of this report states the purpose of the proposed Act is:

- to amend the *Casino Control Act* 1991 to abolish the Health Benefit Levy from 1 July 2012; and
- to amend the *Casino (Management Agreement) Act* 1993 to ratify a Ninth Deed of Variation to the Management Agreement for the Melbourne Casino.

The explanatory memorandum to the *Casino Legislation Amendment Bill 2009* further explains that the ratification of the Ninth Deed of Variation is to more closely align the rate of taxation that applies to gaming machine revenue in Victoria between the casino and other gaming venues through imposing additional taxes on the casino's EGMs.

The changes to the taxation arrangements in respect of the casino's EGMs, specified in the Heads of Agreement and proposed under the *Casino Legislation Amendment Bill 2009* are set out below.

Phased Increase of 10.32% Base Tax Rate on EGMs

The rate of tax payable on gross gaming revenue of the casino's EGMs will be incrementally increased. The current rate of 21.25% will increase by 1.72% each FY for six years, commencing the month following ratification of the Ninth Variation to the Casino Management Agreement. The total rate of tax payable on gross gaming revenue of the casino's EGMs at completion of the phased increase will be 31.57% plus 1.0% Community Benefit Levy.

Adjustment to 'Super Tax' Base Amount

The Base Amount for the calculation of Additional Casino Tax will be adjusted as follows:

Table 1

Year ending	Addition to Base Amount (\$)
30 June 2010	5,000,000
30 June 2011	10,000,000
30 June 2012	40,000,000
30 June 2013	70,000,000
All subsequent years	75,000,000

For all subsequent years from 2013, the Base Amount will continue to be adjusted against the Consumer Price Index.

End Date for Health Benefit Levy

Section 114A of the *Casino Control Act* 1991 will be amended to specify that the Health Benefit Levy ends on 30 June 2012.

PURPOSE

The Minister for Gaming, the Honourable Tony Robinson MP, wrote to the VCGR on 25 August 2009 asking that it conduct a formal social and economic impact analysis of proposed amendments to the EGM taxation and table game arrangements for the Melbourne Casino, proposed in the *Casino Legislation Amendment Bill* 2009 before the Victorian Parliament at that time.

In particular, the VCGR was asked to produce a report providing:

- (i) social and economic impact analysis of the negotiated outcome, particularly with respect to the variation to table game arrangements; and
- (ii) a broad financial assessment of the impact of the arrangements on the State and Crown.

The VCGR's analysis with respect to these matters is contained in this report.

THE VICTORIAN COMMISSION FOR GAMBLING REGULATION

The VCGR came into operation on 1 July 2004 following the proclamation of the *Gambling Regulation Act* 2003. The VCGR assumed responsibility for the regulation of gambling in Victoria from its predecessor, the Victorian Casino and Gaming Authority.

As an independent statutory body, the VCGR aims to ensure a fair, responsible and crime free gambling industry for the benefit of all Victorians. To achieve this, the VCGR strives to be at the forefront of effective gambling regulation, guided by its legislative objectives as set out in the *Gambling Regulation Act* 2003.

PUBLIC SUBMISSIONS

Submission process

On 8 September 2009 the Government released a media statement copy provided at **Appendix 1** inviting members of the public, community groups and other interested organisations to make a submission on the social and economic impact of increasing the number of gaming tables permitted at the casino.

The public notice invited submissions on the impact of the proposal on:

- employment, including employment at the casino and in Victoria generally;
- tourism to the casino and Victoria generally, including Crown's capacity to offer world class casino and entertainment facilities and to compete with interstate and overseas casinos;
- the benefits to Victoria from increased tax revenue;
- recreational gamblers and those who can gamble without harming themselves or others problem and high risk gamblers, and any increase in gambling-related harm; and
- the local community, including impacts on any group that may be particularly vulnerable to the harm caused by problem gambling.

Interested parties were given until 5pm Friday 25 September 2009 to make a submission.

Submissions received by the VCGR

The VCGR received one public submission, a copy of which is provided at **Appendix 2**.

Submission No 1

Dr Mark Zirnsak, Chair

Victorian InterChurch Gambling Taskforce

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DEMOGRAPHIC PROFILE

GEOGRAPHIC AREA TO BE CONSIDERED

When assessing the social and economic impact of an application which would result in an increase in the number of EGMs in a municipality if it is approved, the VCGR considers the impact the approval would have on the municipal district¹ where the additional EGMs will be located. The VCGR will also consider the impact of any approval on surrounding municipalities determined by the VCGR to be within close proximity to the applicant venue and potentially impacted by a decision to allow an increase.

The VCGR has considered the geographic area to be taken into account when examining the economic and social impact of the proposal to permit an increase of 150 gaming tables at Crown. The spatial area to be examined in this report is larger than that it would generally consider when assessing an EGM increase application for a gaming venue.

In forming its opinion the VCGR cites a number of key factors, the immediate observation being recognition of Crown's unique operating position as the sole casino in the State. As the only casino authorised to operate in the Victoria, Crown is able to supplement the variety of entertainment options available at its complex by also offering patrons a broad range of gambling products not available elsewhere in the State.

The many and varied entertainment opportunities available at the Crown casino complex make it a destination choice for patrons drawn locally from the City of Melbourne and the Melbourne central business district, as well as attracting visitors from the broader MSD and across Victoria. In addition, its world class facilities and location on the waterfront in Melbourne's Southbank, considered as one of Melbourne's tourism hubs, make it a popular tourist destination attracting visitors from around Australia and abroad.

In light of the above considerations, the geographic area examined by the VCGR in this report includes information on the demographic profile of the City of Melbourne (the municipal district in which the Melbourne casino is located) and, when required extends to the MSD, the State of Victoria and Australia.

¹ Defined in the Local Government Act 1989 as the district under the local government of a Council.

POPULATION PROFILE

Total population - Victoria

VIF2008 population projections compiled by the Department of Planning and Community Development assert that although Victoria is the smallest mainland State of Australia it is the second most populous.

VIF2008 estimates Victoria's population as of 30 June 2009 to be 5,381,146 people. Projecting forward from 2009, this figure is estimated to grow by 32.6% to 7,135,572 by 2032. According to VIF2008, Victoria's population is expected to grow at the same rate as Australia's over the next 30 years. However, whilst Victoria's population is estimated to increase annually from 2009 to 2032, the annual growth rate is expected to decline from 1.6% for 2009-10, to 1.0% for 2031-32.

An ageing population will be the most significant demographic change over this period in both Australia and Victoria.

Total population - MSD

The MSD, which incorporates the metropolitan area of Melbourne, the surrounding urban fringe and rural areas including the Dandenong Ranges, the Yarra Valley and the Mornington Peninsula, is the second largest city in Australia and is reported in VIF2008 as having more than 73% of Victoria's population. According to VIF2008, population in the MSD has been growing at a significant rate. For the year ended 30 June 2008 the MSD experienced the largest annual growth in population since 1985-86.

The current MSD population is expected to grow to 5,331,243 people in 2032, representing an increase of 35.0% from the 30 June 2009 estimate of 3,947,730. VIF2008 predicts that the annual growth rate for the MSD will largely mirror that of Victoria and Australia in that it will fall slightly from 2009 to 2032, declining from 1.8% for 2009-10 to 1.0% for 2031-32.

As with Victoria generally, the MSD has an ageing population, however, overseas migration will ensure that the MSD's population will retain a youthful profile compared to regional Victoria.

Total population – City of Melbourne

The boundaries of the municipality of the City of Melbourne, the central hub of the MSD, have recently expanded to include Docklands and the remaining parts of Kensington and North Melbourne.

In terms of population growth, the City of Melbourne is expected to experience by far the highest growth in population between June 2009 and June 2032, outstripping forecasts for both Victoria and the MSD. VIF2008 predicts that the City of Melbourne will double its population over that period, increasing from 93,573 in June 2009 to 187,435 in June 2032. This is reflected in the higher annual growth rate forecast for the City of Melbourne. Not dissimilar to Victoria and the MSD, the annual growth rate in population for the City of Melbourne is expected to decline between 2009-10 and 2031-32. During this time, it is expected to maintain an annual growth rate between 2.0% and 2.5% higher than that forecast for Victoria or the MSD.

When considering the City of Melbourne's population, it is relevant to note its unique situation in that, during the daytime the population in the City of Melbourne increases significantly when workers and visitors to Melbourne are taken into account. In its 2007-08 annual report, the Melbourne City Council indicates that the daily visiting population of the City of Melbourne in 2007, estimated at approximately 716,000 (including residents), is nearly 10 times that of its residential population at the time (approximately 76,000).

Table 2 details VIF2008 population projections as at 30 June 2009 for Victoria, the MSD and the City of Melbourne and also for 30 June 2032, indicating the increase in population from 2009 to 2032 as a percentage.

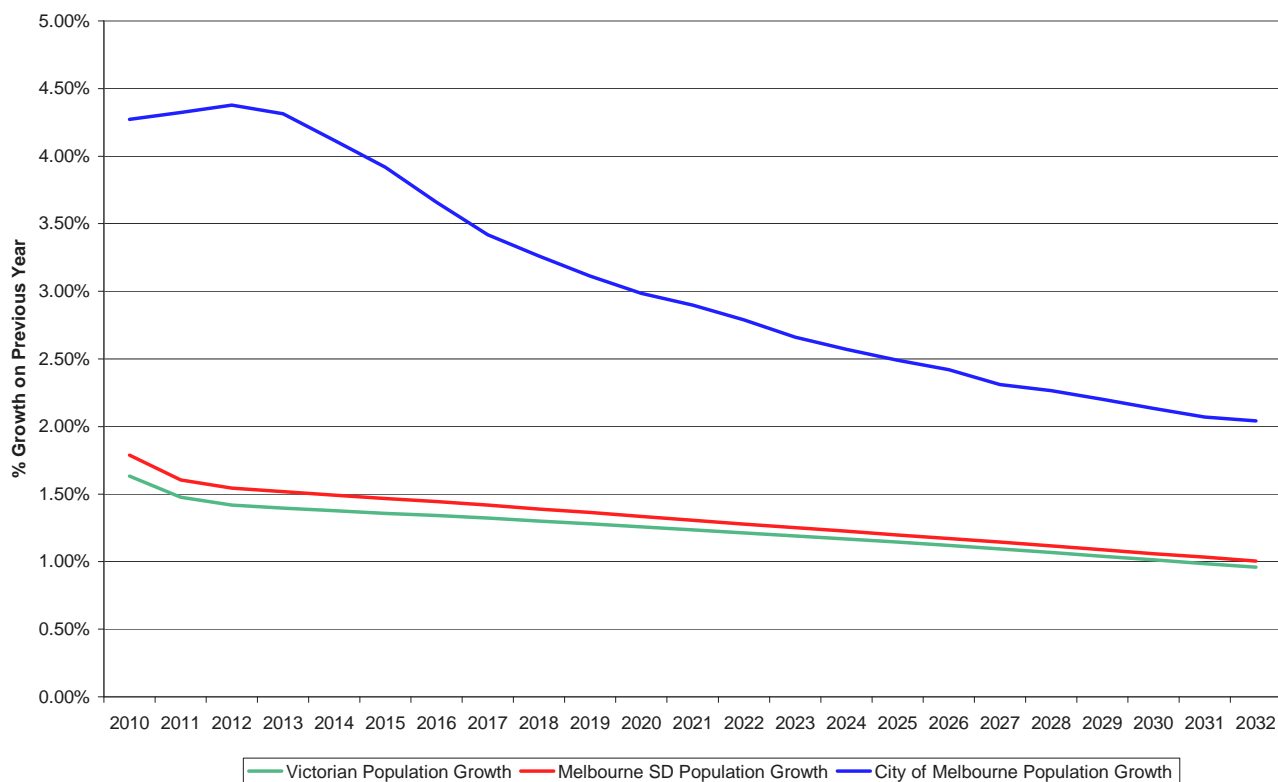
Table 2

Victoria in Future 2008 Population projections – total population			
	30 June 2009	30 June 2032	% increase 2009-2032
Victoria	5,381,146	7,135,572	32.6%
MSD	3,947,730	5,331,243	35.0%
City of Melbourne	93,573	187,435	100.3%

Source: VIF2008

Chart 1 depicts the annual growth rate in population for Victoria, the MSD and the City of Melbourne from June 2009 to June 2032, as forecast by VIF2008.

Chart 1



Source: VIF2008

Adult population – Victoria and the MSD

VIF2008 forecasts indicate that Victoria’s adult population (persons aged 18 years and above) is anticipated to increase by 36.2% from 4,173,152 adults in 2009 to 5,683,309 adults by 2032. The MSD is expected to experience a slightly higher growth in its adult population, increasing from 3,081,998 in 2009 to 4,250,533 in 2032 (37.9% increase).

Based on VIF2008 estimates, the adult component of the total population for Victoria and the MSD is very similar. As at 30 June 2009, 77.6% of Victoria’s population was over the age of 18 years, marginally less than the adult component for the MSD at the same time which was 78.1%. VIF2008 forecasts suggest that 79.6% of the population in Victoria in 2032 will be over 18 years of age. This figure compares closely with VIF2008 projections for 2032 for the MSD that adults will make up 79.7% of its total population.

Adult population –City of Melbourne

VIF2008 projections suggest that, similar to forecasts in respect of the overall population in the City of Melbourne, its adult population is also expected to nearly double increasing by 99.2% from 85,709 adults in 2009 to 170,742 adults in 2032.

The percentage of the City of Melbourne's population attributable to persons over 18 years of age is notably higher than that for either Victoria or Melbourne at the same time, forecast by VIF2008 to be 91.1% at 30 June 2009 (compared with 77.6% in Victoria and 78.1% in the MSD) and climbing marginally in 2032 to 91.6% (compared with 79.6% in Victoria and 79.7% in the MSD).

Table 3 details VIF2008 adult population projections as at 30 June 2009 for Victoria, the MSD and the City of Melbourne and also for 30 June 2032. The table also shows the adult population for each geographical area as a percentage of the total population, and indicates the increase in adult population for each region from 2009 to 2032 as a percentage.

Table 3

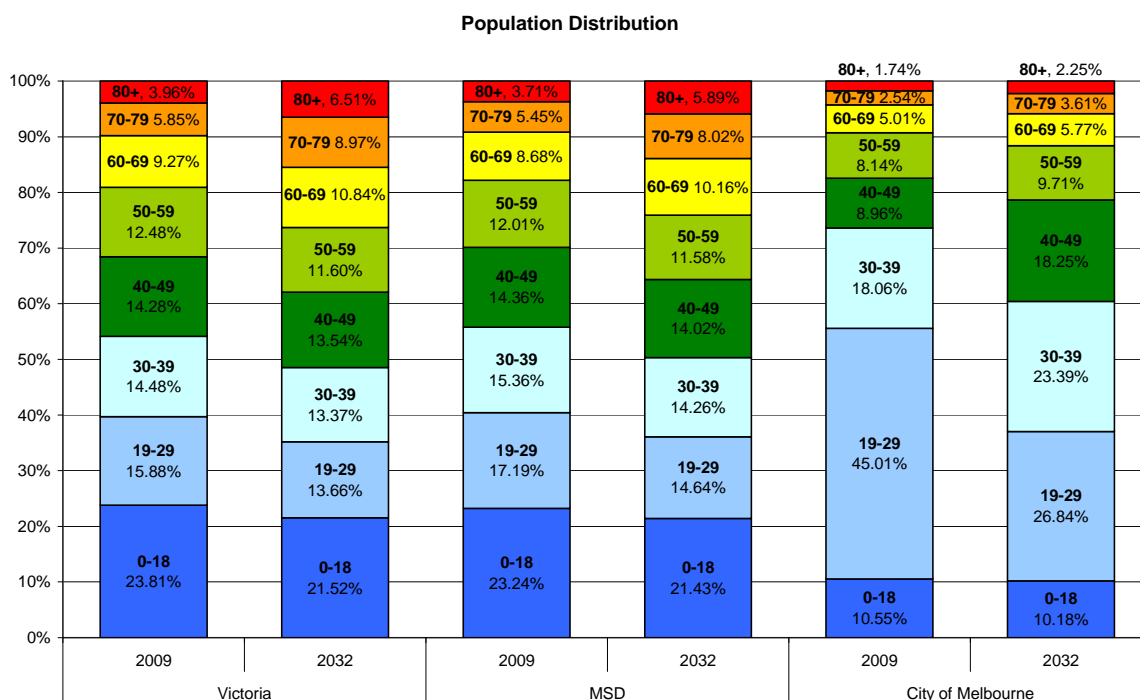
Victoria in Future 2008 Population projections – adult population

	30 June 2009		30 June 2032		% increase 2009-2032
	Adult Population	% of total population	Adult population	% of total population	
Victoria	4,173,152	77.6%	5,683,309	79.6%	36.2%
MSD	3,081,998	78.1%	4,250,533	79.7%	37.9%
City of Melbourne	85,709	91.6%	170,742	91.1%	99.2%

Source: VIF2008

Chart 2 illustrates the percentage of the population in Victoria, the MSD and the City of Melbourne over 18 years of age in ten year cohorts, as forecast by VIF2008 at 30 June 2009 and 30 June 2032.

Chart 2



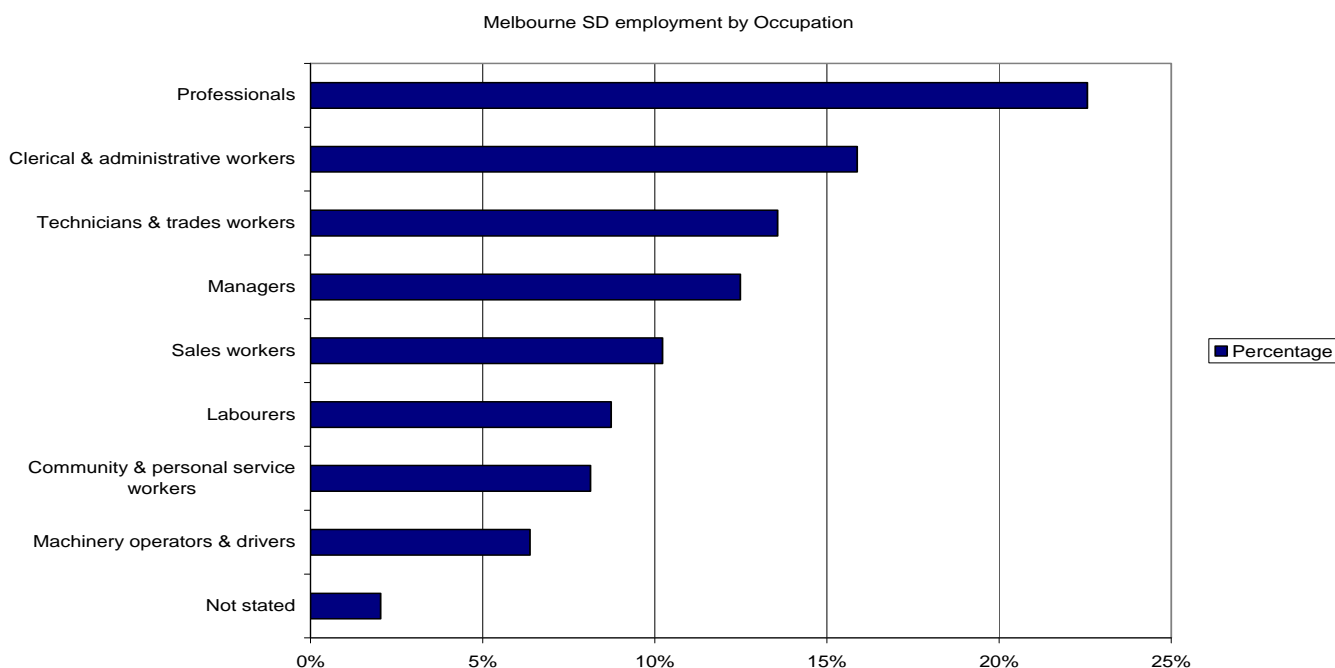
Source: VIF2008

MELBOURNE'S WORKFORCE

Employment by occupation

2006 ABS census data shows that the MSD has a diverse workforce, of which professionals, administrative and clerical workers make up nearly 40% (see Chart 3). Technicians and trades workers, together with labourers, machinery operators and drivers make up a further 30% of the workforce. The remaining 30%, with the exception of a small percentage of undisclosed occupations, comprises managers, sales workers, community and personal service workers.

Chart 3



Source: ABS 2009

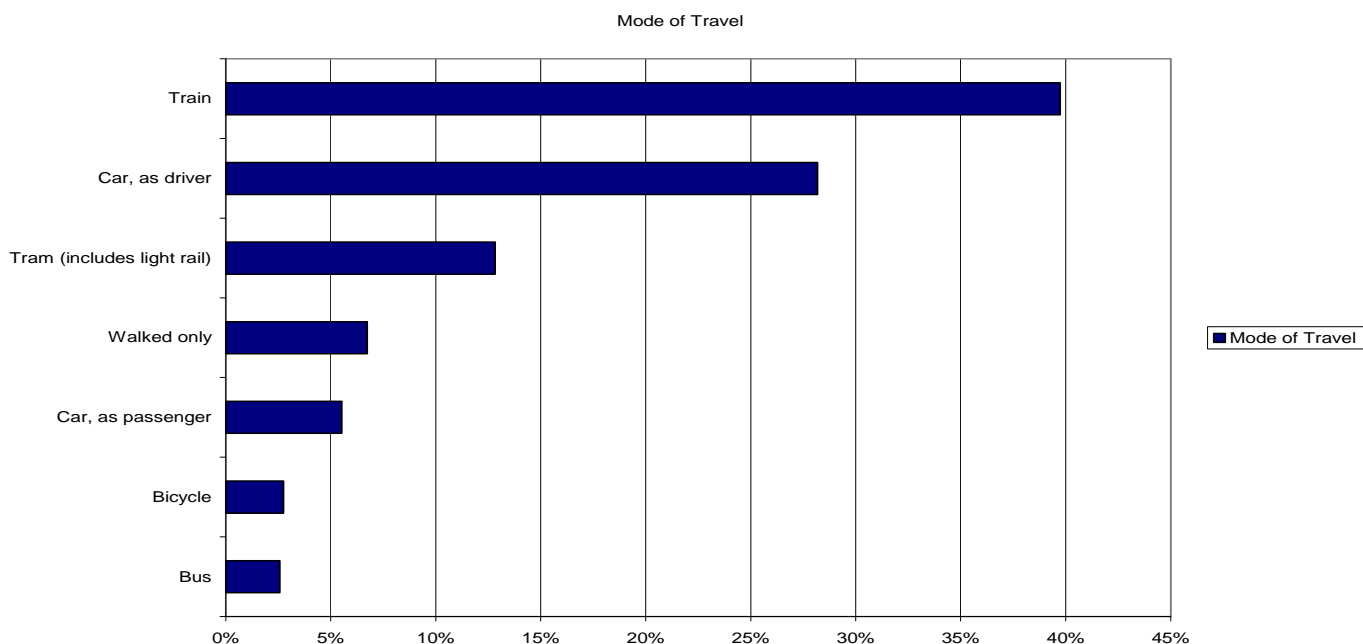
Employment by industry

The three largest labour employers by industry in the MSD are manufacturing, retail trade, and healthcare and social services collectively employing close to 35% of Melbourne's workforce. The construction industry employs over 8% of the workforce, with professional, scientific and technical services, and education and training also substantial employers engaging over 8% and 7% of the workforce respectively. The remainder of the MSD's workforce is spread across 13 other various industry groups.

Transport

2006 ABS Census data shows that the City of Melbourne's inner city work force relies heavily on public transport with 56% of workers using public transport to travel to work. Close to 40% of commuters use trains, another 13% use trams or light rail and 3% catch the bus. By comparison, 27% of workers drive to work in their own cars, with another 6% travelling by car as a passenger (see **Chart 4**).

Chart 4



Source ABS, Melbourne (C) - Inner (Place of Work - Statistical Local Area) - Vic. Method of travel to work by occupation

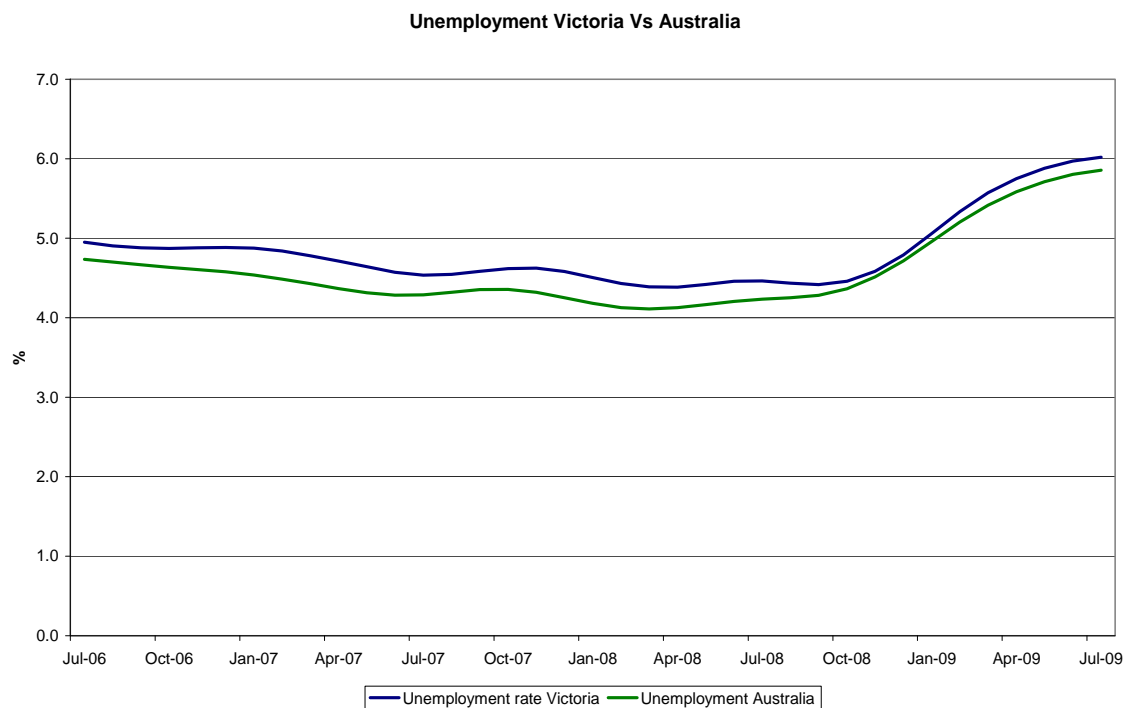
In its 2007-08 annual report, the Melbourne City Council reported that the percentage of people in the City of Melbourne who used public transport to get to work had increased from 37% in 1996 to 44% in 2006. Equally, the number of workers who drove to work is reported as decreasing from 49% in 1996 to 41% in 2006.

The Melbourne CBD is well serviced with a range of public transport options including trains, trams and busses available to commuters. The underground city loop provides commuters with a choice of five stations around the central business district, including Victoria's two railway hubs, Flinders Street and Southern Cross Railway Stations.

Melbourne's Flinders Street Railway Station is widely reported as the busiest suburban railway station in the southern hemisphere, providing metropolitan train services across Melbourne. Southern Cross Station is the most important rail terminal in Victoria, providing a public transport interchange for services to regional Victoria as well as daily rail services to Sydney and Adelaide. Coach services to Sydney and Adelaide also operate out of Southern Cross Station, as does the 24-hour Skybus service to Melbourne airport. Both of these stations are within walking distance of Crown.

Unemployment

Chart 5



Source: ABS Labour force data July 2009

Over the two years from July 2006 Victoria's unemployment rate experienced a slight decline from 5% recorded in July 2006 to a low of 4.4% in April 2008. However, over the past 12 months Victoria's unemployment rate has increased peaking at just over 6% in July 2009. **Chart 5** (pictured above) illustrates a strong correlation between trends in unemployment rates for Victoria and Australia. It would be fair to assume that the increased unemployment rate experienced both nationally and in Victoria is due to the impact of the global financial crisis and recessions in major economies abroad.

EQUIVALISED HOUSEHOLD DISPOSABLE INCOME

Table 4 shows equivalised mean HDI per week for Victoria from 2003-04 to 2007-08 across a selected five quintiles. The ABS defines equivalised HDI as data that has been adjusted according to an equivalence scale. The equivalised income can be viewed as an indicator of the economic resources available to a standardised household.

For a lone person household, it is equal to income received. For a household comprising more than one person, equivalised income is an indicator of the household income that would be required by a lone person household in order to enjoy the same level of economic wellbeing as the household in question.

This data allows us to compare disposable income from households of various sizes.

Table 4

Quintiles		2003-04	2005-06	2007-08
Mean income per week		ESTIMATES		
Lowest quintile	\$	252	267	298
Second quintile	\$	411	437	496
Third quintile	\$	564	605	685
Fourth quintile	\$	743	790	907
Highest quintile	\$	1,218	1,344	1,604
All persons	\$	638	689	798
Second and third deciles	\$	341	360	406
Gini coefficient		0.304	0.313	0.326

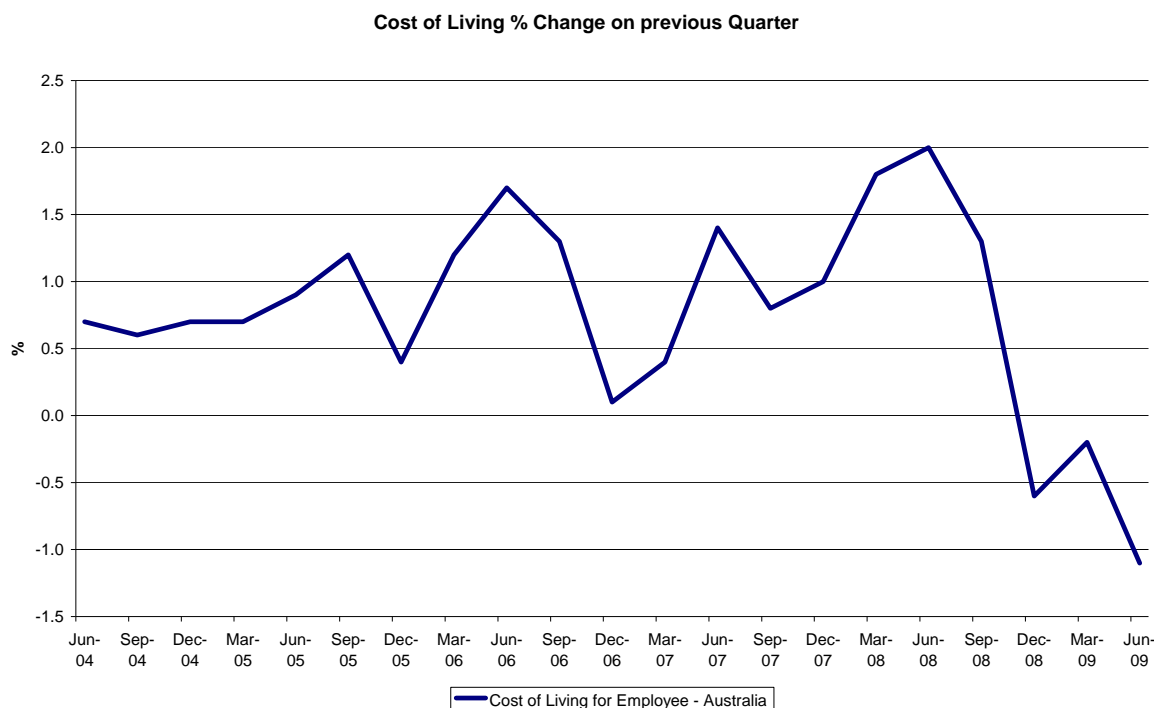
Source: ABS; Household Income and Income Distribution, Australia - Detailed tables, 2007-08

The data shows that across the board Victorians have experienced on average an increase in weekly HDI of 13% between 2005-06 and 2007-08 (due to changes in the methodology of calculating equivalised HDI in 2007-08, the ABS have placed a caveat on comparing 2007-08 data with historical data. The growth rate of 13% has been adjusted by the ABS to reflect the discrepancy between two different methodologies).

The Gini coefficient is a measure of income equality. It ranges from zero to one, the closer to zero the greater income equality. Over three years equivalised household income in Victoria has shown an increase in inequality, however compared to Australia (with a Gini coefficient of 0.438) Victoria enjoys a more equal dispersion of income.

COST OF LIVING

Chart 6



Source: ABS, *Analytical Living Cost Indexes for Selected Australian Household Types, June 2009*

Chart 6 demonstrates that the cost of living in Australia has decreased over the past three quarters, with a drop of over 1% between the March 2009 and June 2009 quarters. There are obvious limitations in comparing a drop in nation-wide cost of living to a rise in equivalised HDI in Victoria. Nevertheless the analysis indicates that Victorian equivalised HDI has increased and the cost of living in Australia has dropped in recent times.

PROFILE OF VICTORIA'S GAMBLING INDUSTRY

Structure of the Victorian gambling industry

The Victorian gambling industry and the way in which Victorians gamble has changed significantly over the past 25 years. Throughout the 1990s Victoria experienced a rapid growth of its gambling industry. Much of this growth is attributed to the emergence of new gambling technologies and the introduction of new gambling products, most notably the introduction of EGMs in clubs and hotels in 1992 and the opening of Melbourne's first Casino at its temporary site in 1994, before relocating its operations to its permanent Southbank complex in 1997.

The range of gambling products currently available to Victorians include EGMs, public lotteries, wagering and betting, minor gaming, Calcutta sweepstakes, trade promotion lotteries, club keno, casino games and two-up (permitted on specific days). The emergence of new technologies has seen a number of these products become available on-line, with participation in these forms of gambling steadily increasing and emerging as a notable component of Victoria's gambling industry.

Victoria's EGM industry is the largest component of the overall gambling industry, with more than 50% of annual expenditure on Victorian gambling products directed to EGMs. It undoubtedly receives the most public and media attention and is generally believed to be the primary cause of gambling related harm in society.

In April 2008 the Victorian Government announced a landmark decision about the future structure of Victoria's EGM industry. Since its inception, Victoria's EGM industry has been significantly influenced by the two licensed gaming operators Tattersall's Gaming Pty Ltd and Tabcorp Holdings Ltd. However, the Government has announced that it will not renew the gaming operator's licences, instead determining to create a venue operator model to operate from 2012. It is anticipated that the new structure will create a competitive EGM industry allowing venue operators to offer more to their consumers and communities.

Melbourne's Crown Casino

Melbourne's Crown casino is another significant component of Victoria's gambling industry. It is Victoria's sole casino and was provided with an exclusive licence for 12 years from its inception. Initially operating out of the World Trade Centre building with 1,300 EGMs and 200 gaming tables, Crown relocated to its Southbank complex, commencing operation in the new location in May 1997.

Crown's Southbank complex offers extensive gaming opportunities with up to 350 gaming tables available at any one time, and 2,500 EGMs. In addition to offering a wide range of gambling products, Crown provides Victorians with many other social entertainment opportunities.

Crown's facilities include the Crown Towers hotel, the Promenade hotel (and a third hotel, the Crown Metropol scheduled to open in 2010), a multiplex cinema, the Fusion and Odeon nightclubs, the Palms showroom and the Palladium ballroom providing for live theatre and shows, as well as a number of bars and restaurants.

Notable dining establishments include, Nobu, Rockpool and Giueseppe Arnaldo & Sons. A number of exclusive retail outlets also form part of the casino complex including, Prada, Louis Vuitton and Burberry.

The casino complex is accessible by road from Kings Way (North and South), Whiteman Street and Southbank Boulevard, and provides over 5,000 car parking spaces across two main car parks. Melbourne's two major rail hubs, Flinders Street Railway Station and Southern Cross Railway Station are within walking distance of Crown and tram stops are adjacent to its Clarendon Street and Queensbridge Street entrances. Crown is also well serviced by taxi cabs with an organised taxi rank operating at the west end of the complex.

Casinos in other Australian jurisdictions

Table 5 provides a snapshot of other casinos in the Australian market, showing the number of gaming tables and EGMs available at each as at September 2009.

Table 5

State/ Territory	Casino	No of Gaming Tables	No of EGMs
ACT	- Canberra Casino	37	0
NSW	- Star City Casino	217	1,500
NT	- Lasseters	17	300
	- Sky City Darwin	43	773
QLD	- Conrad Jupiters	91	1,388
	- Jupiters Townsville Hotel and Casino	22	358
	- Conrad Treasury Casino	87	1,237
	- The Reef Hotel Casino	43	497
SA	- Sky City Adelaide	90	984
TAS	- West Point Hotel Casino	23	745
	- Country Club Tasmania	15	535
VIC	- Crown Casino	350	2,500
WA	- Burswood Entertainment Complex	168	1,750

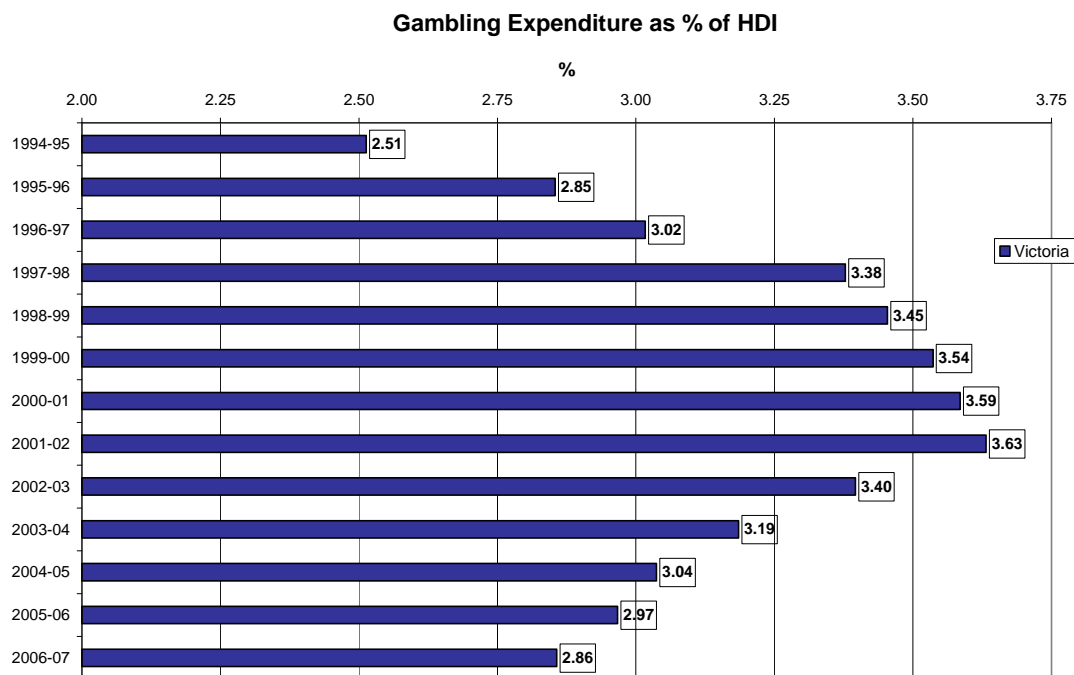
Source: VCGR

Expenditure on gambling products - Victorian residents

An effective method of measuring the amount Victorian residents spend on gambling is to assess gambling expenditure as a percentage of HDI. The following table illustrates that expenditure on gambling grew steadily from 1994-95 and peaked in 2001-02. Much of the steady increase from 1994-2002 can be attributed to the EGM industry, particularly because it was still in its infancy and, as such, in a high growth phase.

From 2001-02 it appears that the industry matured with gambling expenditure as a proportion of HDI declining substantially. Since 2001-02 gambling expenditure as a percentage of HDI has declined from 3.63% to 2.86% in 2006-07 (Chart 7).

Chart 7

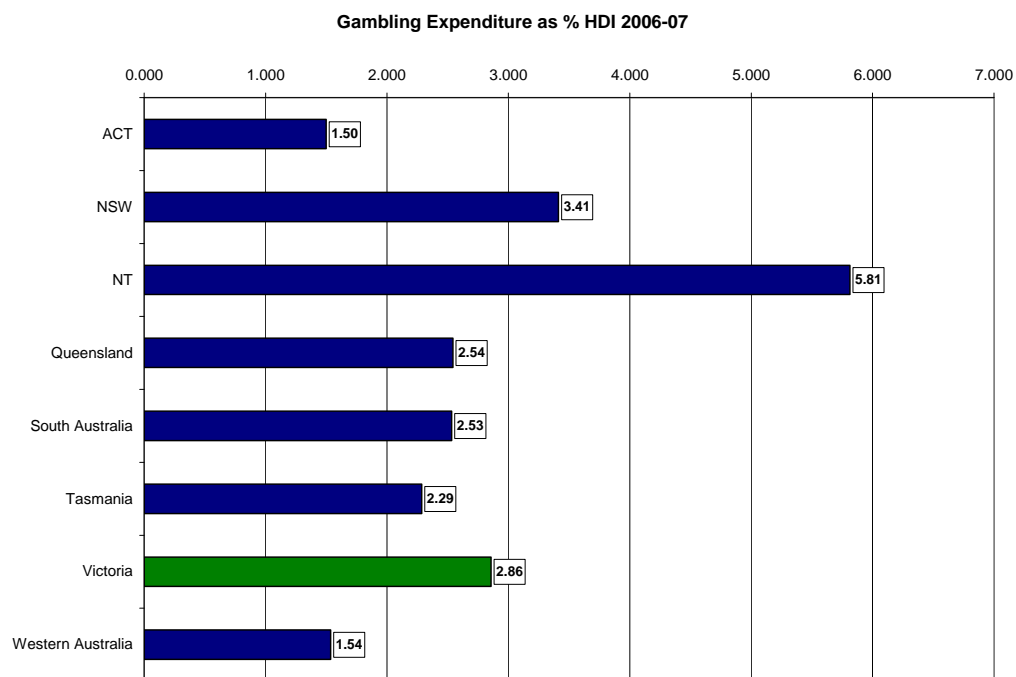


Source: Australian Gambling Statistics, 25th Edition 2008

Expenditure on gambling products – other Australian jurisdictions

The following chart (Chart 8) presents gambling expenditure as a percentage of HDI for all Australian jurisdictions in 2006-07.

Chart 8



Source: *Australian Gambling Statistics, 25th Edition 2008*

Expenditure on authorised Victorian gambling products

As well as providing Victorians with a range of social and leisure opportunities, taxes raised from Victoria's various authorised gambling products contribute significantly to the Victorian economy through its contribution to tax revenue for the State, and by helping to fund health and community services.

In 2008-09, expenditure by patrons (including Victorian, interstate and overseas participants) on Victorian gambling products was \$5.1 billion. A substantial proportion of this expenditure was derived from the EGM industry and the casino as demonstrated in Table 6 below.

Table 6

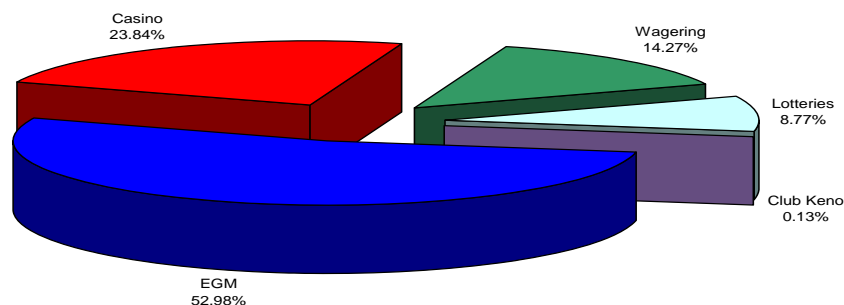
2008-09 Gambling Expenditure	
Gambling Activities	Expenditure (\$m)
EGMs – Hotels and Clubs	2,707.3
Casino – EGMs and Table games	1,218.3
Wagering	729.4
Lotteries	448.3
Club Keno	6.6
Total	5,109.9

Source: VCGR

For 2008-09, EGM related gambling accounted for 52.98% of total gambling expenditure in Victoria, making it the largest gambling industry in the State. The casino recorded the second highest expenditure, accounting for 23.84% of the total expenditure (Chart 9), well ahead of expenditure on wagering (14.27%), lotteries (8.77%) and club keno (0.13%).

Chart 9

Proportion of Expenditure on Gaming Activities



Source: VCGR

GAMING TABLES PER VICTORIAN POPULATION

In considering applications for approval of new gaming venues and increases in EGMs at existing venues, a comparison of the ratio of EGMs per thousand adults in the surrounding municipality against metropolitan, regional, or statewide averages is used. A similar analysis of the proposed Crown amendment is problematic, as there is no other casino in Victoria to draw comparisons. Furthermore, as Crown's patronage is from the entire State and beyond, a ratio of gaming tables per adult or per thousand adults in Victoria is not useful. However an analysis of growth in Victoria's adult population can provide assistance in determining whether an increase of 150 gaming tables is considered reasonable.

As established earlier in this report, Melbourne and Victoria's population has grown significantly and population projections indicate that they will continue to do so. In the twelve years since Crown opened its permanent casino complex in 1997 Victoria's adult population has grown by 20.5% and is expected to grow by a total of 64.1% by 2032.²

Since commencing operations at its Southbank complex, Crown has continued to operate with the 350 gaming tables limit imposed by the Casino Licence. Crown has indicated that, if approved the additional 150 tables will not be installed immediately, but are instead likely to be gradually introduced over the next five to ten years, with the full complement of 150 gaming tables likely to be used only at peak times. When fully implemented, the additional 150 gaming tables would represent a 42.9% increase in the number of gaming tables available at Crown.

Given that Victoria's adult population has risen by 20.5% since the opening of Crown's Southbank casino in 1997, and is expected to grow by a total 64.1% by 2032, a request to increase gaming tables has credence. Further, if the additional 150 gaming tables were approved, the staged introduction of the tables over an extended period is not inconsistent with the projected increase in Victoria's adult population over the similar period.

² Based on ABS Estimated Resident Population 30/06/97 and Victoria in Future 2008 population projections 30/06/09.

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SOCIAL IMPACTS

PROBLEM GAMBLING

Problem gambling in Victoria

The Victorian Government has adopted the following Australian Ministerial Council on Gambling definition of problem gambling:

“Problem gambling is characterised by difficulties in limiting money and/or time spent on gambling, which leads to adverse consequences for the gambler, others or the community (Neal, Delfabbro & O’Neil M 2005).”

In its 1999 report titled “Australia’s Gambling Industries” (Productivity Commission 1999), the Productivity Commission estimated that 2.14% of Victorian adults were problem gamblers. This prevalence rate was calculated using the SOGS and was considered to be the most authoritative measure of Victoria’s rate of problem gambling until 2003.

A 2003 study conducted by Australian National University, titled “Victorian Longitudinal Community Attitudes Survey 2003” (McMillen & Marshall 2004), determined the prevalence of problem gambling in Victoria using three different methods; the CPGI, the VGS and the SOGS. Using the SOGS the report found that the rate of problem gamblers had dropped significantly from that estimated by the Productivity Commission in 1999 to 1.12 %. The CPGI returned a lower rate of prevalence with 0.97% of the population considered to be problem gamblers and the VGS suggested an even lower rate again of 0.74% (McMillen & Marshall 2004).

While the McMillen & Marshall 2004 report does not draw conclusions as to a preferred method of measuring the rate of problem gambling, a report by Wenzel et al (2004) titled “Validation of the Victorian Gambling Screen” concludes that the CPGI is the most effective method of measuring problem gambling. Similarly, the “Australian Gambling Review “ (Delfabbro 2008) reports that in recent years the CPGI has been adopted as the favoured method for measuring problem gambling in Australia. Svetieva & Walker (2008) comment that CPGI is more commonly accepted because it was developed to address underlying issues with SOGS.

In recognition of this, the Victorian Government commissioned a new study into the prevalence of problem gambling in Victoria with the CPGI being employed as the tool of measure. The study, titled “A Study of Gambling in Victoria – problem gambling from a public health perspective” (Hare 2009), uses the CPGI to estimate the percentage of Victorians that are problem gamblers. By applying the CPGI, the study estimates that 0.7% of Victorian adults are problem gamblers.

Table 7 provides the most recent prevalence rate for each jurisdiction in Australia. Each study has used either the SOGS or the CPGI. Please note that although jurisdictions may have used the same method for determining prevalence, these are sometimes modified so that they are appropriate for the relevant jurisdiction and should not be directly compared without taking this into consideration.

Table 7

Jurisdiction	Year	Prevalence	Method	Source
ACT	2001	1.90%	SOGS	Survey of the Nature and Extent of Problem Gambling in the ACT
NSW	2006	0.80%	CPGI	Prevalence of Gambling and Problem Gambling in NSW
NT	2005	SOGS: 1.06% CPGI: 0.64	SOGS CPGI	Northern Territory Gambling Prevalence Survey
QLD	2007	0.47%	CPGI	Queensland Household Gambling Survey
SA	2005	0.40%	CPGI	Gambling Prevalence in South Australia
TAS	2008	0.54%	CPGI	Social and Economic Impact Study into Gambling in Tasmania
VIC	2009	0.70%	CPGI	Problem Gambling From a Public Health Perspective
WA	1999	0.70%	SOGS	Australian Gambling Industries (Productivity Commission)

Source: VCGR

At the request of the Australian Government, the Productivity Commission is currently undertaking a public inquiry into gambling in Australia with the aim of providing an update on developments in the industry since its 1999 report. In its submission to the Productivity Commission inquiry, the Victorian Government reviewed research to present the following profile of a common problem gambler:

- tend to be male
- have relatively low levels of education (secondary school)
- are more likely to be unemployed or have a low level of income
- are more likely to be single, divorced, or separated
- are more likely to be from a non English speaking background
- tend to have higher levels of associative psychological conditions such as depression.

Delfabbro (2008) reports that studies undertaken to date suggest males are more likely to engage in a variety of gambling activities such as sports betting and racing, and are also more likely to have a gambling problem. However, Delfabbro (2008) also notes that studies indicate that the introduction and expansion of the EGM industry across Australia has had a considerable impact on this pattern with the incidence of women identifying a gambling problem increasing significantly. Furthermore, Delfabbro (2008) reports that, unlike males, women tend to experience their gambling problems almost exclusively in relation to EGM gaming.

Delfabbro (2008) asserts that most studies indicate high levels of EGM gambling participation amongst problem gamblers. Similarly, McMillen & Marshall (2004) state that EGMs were elected as the favourite form of gambling by 84.2% of problem gamblers.

McMillen & Marshall (2004) also measured the community perceptions on a large number of gambling aspects. Of relevance to this analysis is the finding that respondents expressed moderate levels of agreement with raising revenue from increased gambling taxes as opposed to increased payroll tax, land tax or stamp duties. Respondents also expressed moderate levels of disagreement in response to the following statement, "On the whole the Crown casino complex does more good than harm for the Victorian Community".

Table Gaming and Problem Gambling

While a wealth of research into EGMs and their strong relationship with problem gambling exists, research into the effect of table games is minimal. This could be attributed to the common belief that table games have little impact on problem gambling.

A number of studies have been conducted to determine how many people gamble and the preferred forms of gambling. The Productivity Commission (1999) reported that approximately 40% of the Australian adult population gambles at least once per week. Delfabbro (2008) reported that around 70% - 90% of the adult population, measured at both State and national levels, gambles at least once a year. When asked "On which of the following activities have you spent any money on in the past 12 months?" 73.07% of respondents to Hare (2009) reported that they had participated in some form of gaming in the last 12 months.

In determining which forms of gambling are most popular, Delfabbro (2008) refers to the Productivity Commission's 1999 inquiry and notes that lotteries return the highest levels of participation, followed by EGMs with an overall participation rate of 35%, and a weekly participation rate of 4% - 7%. Comparatively, casino table games return an overall participation rate of less than 10% and a weekly participation rate of around 1%, representing one of the lowest levels of participation of all forms of gambling (Delfabbro 2008).

Hare (2009) reports similar findings with lotteries identified as having the highest participation rate during the last 12 months (47.50%) when compared to all other forms of gambling. Participation in raffles ranked 2nd, followed by sweeps and competitions, EGMs and betting on horses, harness racing or greyhounds (wagering). Betting on table games ranked as the 7th highest form of gambling with a participation rate of 4.59% (see **Table 8**).

Table 8

Type of gambling	Participation rate for all Victorian adults in the past 12 months
Lotto, Powerball and the Pools	47.50%
Buying tickets in raffles, sweeps, plus other competitions	42.88%
Poker machines and EGMs	21.46%
Betting on Horse or Harness racing or greyhounds - excluding sweeps	16.4%
Scratch tickets	15.31%
Competitions entered by phone or SMS	7.35%
Betting on table games like blackjack, roulette and poker	4.59%

Source: A Study of Gambling in Victoria – problem gambling from a public health perspective, Hare 2009

Hare (2009) found that 91.04% of Victorian problem gamblers played EGMs at least once in the past 12 months, recording the highest participation rate by problem gamblers of any gambling product. In contrast, 21.01% of problem gamblers played tables games in the last 12 months. This participation rate was the 6th highest compared to all other forms of gambling (see **Table 9**).

Table 9

Type of gambling	Participation rate for problem gamblers in the past 12 months
EGMs	91.04%
Lotto, Powerball and the Pools	75.77%
Buying tickets in raffles, sweeps, plus other competitions	43.03%
Scratch tickets	36.03%
Betting on Horse or Harness racing or greyhounds - excluding sweeps	33.58%
Betting on table games like blackjack, roulette and poker	25.01%

Source: A Study of Gambling in Victoria – problem gambling from a public health perspective, Hare 2009

In terms of participation in table games, Hare's (2009) results suggest that when compared to non-problem gamblers, problem gamblers are seven times more likely to play table games.

Hare (2009) also examines the highest spend gambling activities played in the past year. The highest spend activity of all Victorian adults is lottery products (39.99%). Compared to all other forms of gambling, table games (4.01%) was ranked the 5th highest behind raffles and sweeps tickets (17.87), EGMs (16.8) and wagering (9.47%).

Hare's (2009) findings show EGMs were reported as the highest spend gambling activity for both moderate risk and problem gamblers (46.3% and 64.14% respectively). Compared to all other forms of gambling, table games are ranked 4th highest (8.00%) by moderate risk gamblers behind lottery products (17.27%) and wagering (12.39%). Table games are ranked 2nd highest (11.21%) by problem gamblers.

The *2003 Victorian Longitudinal Community Attitudes Survey* (McMillen & Marshall 2004) reported the key socio-demographic profile of table game players.

The report suggested that table game players are most likely to be:

- male;
- between 18-24 years old;
- born outside Australia;
- working full time;
- couples with no children;
- educated up to TAFE/technical education; and
- living in the metropolitan area.

In addition the report suggested that table game players have:

- personal income between \$10,000 and \$34,999; and
- household income between \$40,000 and \$59,999.

The report also surveyed problem gamblers to determine their favourite types of gambling. The report found that 84.2% of problem gamblers nominated EGMs as their preferred form of gambling, while 5.1% nominated table games (McMillen & Marshall 2004). The full results are displayed in the following table (Table 10).

Table 10

Gambling Activity	%
Playing poker machines or EGMs	84.2
Betting on horse or greyhound races/Betting on a sporting event	8.8
Playing table games at Crown casino	5.1
Other	1.8

Source: 2003 Victorian Longitudinal Community Attitudes Survey

The survey also examined problem gamblers and their individual motivations behind gambling. The results suggest that problem gamblers who gamble “out of boredom” or “to make a quick buck” are generally attracted to EGMs. Comparatively, problem gamblers who “want to test their skill” and “take risks” were more attracted to table games (McMillen & Marshall 2004).

In a submission to the VCGR the InterChurch Gambling Task Force (**Appendix 2**) cited numerous studies to show a decrease in the proportion of Victorian adults who gambled on table games at Crown Casino from 1996 to 2006 from a high of 9% to a constant of between 6-7%. The InterChurch Gambling Task Force submits that:

“This (decline in participation rates to a constant range) raises serious questions about the justification for expansion in the number of table games at Crown casino and engenders substantial concern about the potential for aggressive use of marketing and inducements to increase uptake of table game participation to counter stable participation rates.”

The VCGR notes that the trend highlighted by the InterChurch Gambling Task Force is demonstrated to have continued with Hare (2009) estimating that 4.59% of Victorian adults bet on card games and that 86.1% of card game players in Victoria play at Crown.

The InterChurch Gambling Task Force raises the issue of whether an expansion of gaming tables in Victoria can be justified given that research findings suggest that the participation rate is declining. Whilst it is possible that a lower participation rate reflects a decline in popularity or demand for gaming tables, an alternative view is that the declining participation rate might be representative of a decline in availability of gaming tables due to growth in Victoria's adult population.

The InterChurch Gambling Task Force submits that the participation rate has dropped from close to 9% to a constant 6-7% in the period between 1996 and 2006. If Victoria's adult population has grown by 20.5% since 1997 (while gaming table numbers have remained constant) there may still be more gamblers playing gaming tables at Crown, even though they represent a smaller percentage of the population.

This observation should not be taken to suggest a view that a growth in population over a period of time would of itself warrant additional gaming tables, but rather is presented as an objective observation of the decline in participation rates.

The VCGR believes that an increase of 150 gaming tables at Crown would undoubtedly see an increase in the number of persons playing table games, whether or not participation rates have been shown to be declining. Whilst any increase in the number of patrons engaging in table games is a relevant consideration, the VCGR is conscious of the need to focus its attention on the potential impact of an increase of 150 gaming tables on problem gambling.

Hare (2009) reported that 11.21% of problem gamblers and 8.00% of moderate risk gamblers cited table games as their highest spend gambling activity. However, by far the largest majority of problem and at risk gamblers cited EGMs as their highest spend gambling activity with 64.14% of problem gamblers and 46.30% of moderate risk gamblers specifically citing EGMs.

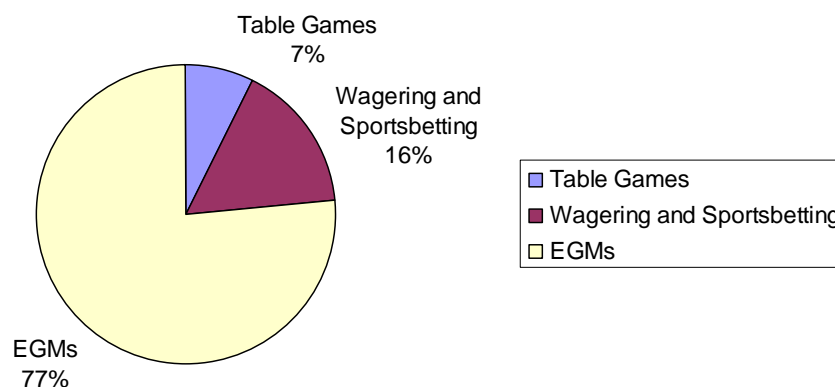
The findings reported in Hare (2009) strongly point towards EGM gaming as the highest risk area impacting the larger majority of problem gamblers. This suggestion is not new and is a conclusion also evidenced in earlier research reports such as Delfabbro (2008) and McMillen & Marshall (2004).

The Victorian Office of Gaming and Racing within the Department of Justice collects data from problem gambling counselling agencies across Victoria, including statistics about the primary gambling issue as reported by contacts. Of the problem gamblers presenting to Gambler's Help services in the 2007-08 reporting period, 7% nominated table games as their primary gambling issue. By comparison, almost 77% nominated EGMs as their primary gambling issue.

The following chart (**Chart 10**) represents three major types of gambling (EGMs, wagering and sports betting and table games) and the percentage of problem gamblers who cited them as being their primary gambling issue.

Chart 10

Types of Gambling Issues for Problem Gambling Counseling Clients 2007-08



Source: Office of Gaming and Racing

Please note that due to transitioning of agencies onto new data capture systems, three agencies have been excluded from the data, however the percentages for various activities cited are broadly consistent with previous results.

The information compiled by Victorian problem gambling counselling agencies would appear to give further credence and add considerable weight to research findings which suggest that the form of gambling reported by the vast majority of problem and at risk gamblers as their primary gambling activity is EGMs.

An area the VCGR sought to investigate further was the relationship between fully automated table games and problem gambling. Unfortunately, the VCGR was frustrated in its efforts to examine this key issue, being unable to identify any relevant or extensive research in this area to which it could refer or consider.

Sydney's Star City casino is the only Australian casino that currently offers fully automated table games as part of its table game operation. Further, there is no restriction on the number of traditional or fully automated table games that Star City casino can operate. So whilst they are not new to Australia, the operation of fully automated table games in Australian casinos could be considered to be in its infancy.

The VCGR has given considerable thought to the new definition of a "table game" that will apply if the proposed legislative amendment is passed. Whilst there has recently been some conjecture in the media about fully automated table games and whether they are in fact actually an EGM, it is the VCGR's considered opinion that fully automated table games are different to traditional EGMs, and can be evidenced by the operational differences between the two.

In forming its opinion, the VCGR notes that fully automated table games operate under the same game rules as the traditional table game on which they are based only modified to accommodate requirements specific to the electronic placement of bets. In this way they are much more similar in operation to a table game than a traditional EGM. The only significant difference between a fully automated table game and a traditional or semi automated table game is that fully automated table games do not have a croupier or dealer.

A number of other operational matters assist in differentiating the two. For example, fully automated table games operate at a much slower speed than EGMs; generally a rate of between 45 and 60 seconds per game (as approved by the VCGR as part of the table game rules), compared to a maximum spin rate of 2.14 seconds for most EGMs (set by legislation). In addition, the maximum speed at which a fully automated table game can be played is controlled by the game itself (set in the game rules), unlike EGMs where the player can control the speed of that game (up to its specified maximum speed) by choosing when to press the play button.

The lack of literature on fully automated table games aside, the VCGR is of the opinion that there is a level of comfort that may be drawn from the research findings, supported by problem gambling services data, which suggest that the relationship between problem gambling and table games is not as strong as it is with other forms of gambling such as EGMs. Further, accessibility to table games is confined to Crown where responsible gambling measures may be implemented to observe players for signs of distress. Also, Crown has indicated that there will be a staged implementation of the additional gaming tables, with the full complement of 150 gaming tables likely to be used only at peak times.

When considered in conjunction with each other, the VCGR is of the view that these factors make an increase of 150 gaming tables at Crown less problematic than would be any application to increase the number of EGMs.

Government initiatives to combat problem gambling in Victoria

The central aspect of the Victorian Government's responsible gambling initiatives is the *Taking Action on Problem Gambling Strategy*. The strategy was launched in 2006 and sets out a broad five year plan to combat problem gambling and included a \$132.3 million commitment from the Government.

Some of the achievements of the strategy include;

- increased funding, service hours and overall functioning of Gambler's Help services;
- amending planning provisions to give local councils a greater say by requiring a planning permit for the placement of EGMs in their communities;
- specifying when EGM winnings must be paid out by cheque and setting limits on the maximum amount of EGM winnings that can be paid out in cash;
- prohibiting an automatic teller machine in gaming venues if it does not limit the amount a patron can withdraw to a maximum of \$400 per day; and
- prohibiting automatic teller machines within 50 metres of an entrance to the gaming area of Crown.

A key component of the *Taking Action on Problem Gambling Strategy* is the Regional Caps initiative. In 2001 the Government introduced Regional Caps in response to growing community concern regarding the high concentration of EGMs in a number of communities. Through this initiative the maximum permissible number of EGMs was capped in five regions, and EGMs in excess of this cap were removed.

In 2006 the Government expanded its Regional Caps policy, announcing that capped regions would increase from five regions to nineteen. In line with the original policy intention, the regions selected to be capped were those considered to be of high risk to the harms of gambling.

The Government also announced that a Municipal Limit restricting the number of EGMs available in every municipality in Victoria (not already subject to a Regional Cap) to a maximum of ten EGMs per thousand adults will be implemented by 2010. A Ministerial order to give effect to the Government's Municipal Limits policy was issued on the 19 June 2009, with the VCGR's determination in respect of Municipal Limits subsequently made on 25 September 2009.

When announcing its Municipal Limits policy, the Government indicated that the tourism and destination gaming zone comprising the Melbourne central business district, Southbank and Docklands precincts in the City of Melbourne would be exempt from the policy. The same area is also excluded from the Government's Regional Caps policy in that it is not included under the current Ministerial order specifying capped regions in Victoria.

The Victorian Government has also taken steps toward ensuring that a substantial proportion of the money lost on EGMs is redirected to local communities. In 2003 the Victorian Government introduced community benefit statements whereby all venue operators were required to commit 8¹/₃% of their gross gaming revenue to community benefit as defined by the Minister for Gaming.

This initiative was amended in 2007 and now only applies to venue operators with a club licence. The initiative was amended to exclude hotel licensees as legislation already required hotels to contribute 8¹/₃% of their gross gaming revenue to the Community Support Fund, from which money raised is directed as required by the *Gambling Regulation Act 2003* to gambling research and problem gambling prevention and treatment programs, as well as to projects of benefit to the wider community.

A further responsible gambling initiative implemented by the Victorian Government is the requirement for all gaming industry licence holders to maintain a Responsible Gambling Code of Conduct and, in the case of gaming venues, a Self Exclusion Program. Operational from 1 June 2009, this initiative is an important harm minimisation measure aimed at encouraging responsible gambling.

Crown's Problem Gambling Policies and Initiatives

In conducting the *Fourth Review* the VCGR examined Crown's compliance with relevant harm minimisation legislation and Crown's overall approach to the provision of problem gambling services. The report found that Crown had not breached any statutory obligations for responsible gambling and that Crown had shown a strong commitment to the delivery of responsible gaming services.

A central aspect of Crown's commitment to responsible gambling is the Crown Melbourne Responsible Gaming Support Centre which was established in 2002. This initiative is a 24 hour per day on-site counselling and referral service. Crown employs two registered psychologists to provide counselling services to Crown's patrons, and members of their families. In addition, a number of specially trained Responsible Gaming Liaison Officers actively patrol the gaming floor and take appropriate steps to liaise with patrons who display signs of distress (which may be an indicator of problem gambling). The centre was relocated in September 2008 and is now more centrally located to the casino main gaming floor whilst maintaining confidentiality.

As an additional support option for patrons experiencing gambling problems, Crown introduced a Chaplaincy Support Service in 2007.

Crown has indicated its ongoing commitment to maintaining the specialist service provided by the Responsible Gaming Support Centre at its current level.

In its *Fourth Review* the VCGR stated its view that Crown could review its responsible gambling program and monitoring systems to better identify and intervene where anomalies appear in an individual's gambling expenditure patterns, and better identify situations where gamblers could be gambling with other people's money.

The results of the *Fourth Review* shows that Crown endeavours to identify signs of distress among its gambling patrons and, when necessary, inform them of Crown's responsible gambling services. While Crown has made changes to its player monitoring procedures to comply with amendments to Australian Federal laws concerning Anti Money Laundering and Counter Terrorism Financing, the VCGR has not yet fully assessed these changes to determine whether they satisfy the concerns raised in the *Fourth Review*.

The VCGR's resolve with regard to these matters is even more ardent when considered in the context of the proposed 150 additional gaming tables and introduction of fully automated table games at Crown.

The VCGR acknowledges that whilst its expectations with regard to these matters are stated in the *Fourth Review*, the report does not issue an express direction to Crown to comply with the VCGR's request. Regardless, if the proposed amendments are approved and Crown implements the additional facilities, the VCGR would expect Crown to recognise its increased responsibility to monitor the gambling behaviour of its patrons, to identify irregularities in behaviour and to take appropriate action.

In the event that the proposed amendments are approved, the VCGR will monitor Crown's response and formally report its progress in this regard in the next Review of the Casino Operator and Licence, due to be provided to the Minister for Gaming no later than 30 June 2013.

Nonetheless, even with appropriate mechanisms in place for the early identification and intervention of problem gambling, given the numbers visiting and gaming at Crown it is likely that a number of problem gamblers will go undetected until their problem matures.

The *Casino Control Act 1991* requires Crown to ensure that staff employed to undertake duties in relation to EGMs have completed a full responsible gaming training course approved by the VCGR, as well as refresher training every three years thereafter. The full responsible gaming training course offered by Crown was approved by the VCGR for a period of five years in September 2007.

Crown requires all gaming employees including table games staff, to undertake its responsible service of gaming training. In addition to the key learning principles contained in the course approved by the VCGR, Crown employees are also trained in the conduct of gaming and casino related activities, and to facilitate Crown's Responsible Gambling Code of Conduct and self exclusion program. Crown also provides further responsible gaming training to its senior managers.

In accordance with the *Casino Control Act 1991* Crown operates a self exclusion program whereby individuals with actual or potential gambling problems can exclude themselves from the gaming areas of the casino. The self exclusion program is facilitated by its Responsible Gaming Support Centre's Liaison Officers and Crown also employs multi-lingual staff to assist when English is not an individual's preferred language. In conducting the *Fourth Review* the VCGR examined Crown's self exclusion program and concluded that it is a successful responsible gambling measure.

On 26 May 2009 the VCGR assessed Crown's Responsible Gambling Code of Conduct. It satisfied all requirements and was granted approval. A noteworthy feature of Crown's Code of Conduct is their pre-commitment strategy. Through this strategy patrons who join Crown's Loyalty Program are encouraged to set individual time and spend limits when playing EGMs. Trained Liaison Officers are available to assist a patron on developing pre-commitment strategies.

Crown's Code of Conduct is available for viewing on its website, along with a number of Responsible Gaming Support Centre brochures with information on the various responsible gambling initiatives.

As reported in the *Fourth Review*, regular audits carried out by the VCGR's inspectors have found one minor area of concern regarding Crown's compliance with responsible gambling obligations. In accordance with the *Gambling Regulation Regulations 2005* Crown must display "talkers" on each EGM. A "talker" is defined as a sign containing words, symbols or pictures that is designed to be affixed to an EGM and contains responsible gaming messages specified by the Minister for Gaming.

In each case where non-compliance has been brought to the attention of Crown staff the matter has been addressed and rectified. The Commission is also aware that the non-compliance was likely caused by people removing the "talkers" from EGMs to use for their own purposes. Since the *Fourth Review*, Crown has improved the method of affixing "talkers" to EGMs by use of a more robust system to make them more difficult to remove.

POTENTIAL IMPACT FROM INCREASING THE NUMBER OF GAMING TABLES AT AN OPERATIONAL CASINO

As evidenced in recent decisions, the VCGR places increased emphasis on the possibility of increasing problem gambling when determining applications for new gaming venues. The VCGR is of the view that an increase in the number of EGMs at an existing gaming venue is less likely to impact on problem gamblers than the introduction of a new EGM venue as the opportunity to gamble already exists.

A recent example of this is the VCGR's decision in the Taverner Hotel Group Pty Ltd (Matthew Flinders Taverner) application on 31 July 2009. The application presented to the VCGR was to increase the number of EGMs at the Matthew Flinders Taverner from 59 EGMs to 80. In hearing this matter evidence was put forward to suggest that as an existing venue the possibility of attracting problem gamblers already exists and without high utilisation rates, problem gamblers would already be gaming at the venue. Therefore, it is unlikely that increasing the number of EGMs at that venue would result in a significant increase in problem gambling.

In its decision, the VCGR sets out what it considers to be the positive and negative features associated with the application. Paragraph 122 of the VCGR's decision considers this matter and states;

"On a number of occasions we have referred to the relatively low utilisation rate of the existing EGMs. To some extent this can be viewed as a twin-edged sword. On the one hand it tends to negate the suggestion that the venue needs additional EGMs. But on the other hand, it is as (counsel) has pointed out on a number of occasions, hard to reconcile this fact, with the suggestion that additional EGMs at the subject venue will increase the number of problem gamblers. We accept that if there were patrons of the subject venue who were problem gamblers at the time that 46 EGMs were removed, the removal of those EGMs would not have stopped all those problem gamblers from gambling. We accept that some may have gone to other venues because of the greater likelihood of lower denomination EGMs while some, no doubt, continue to gamble at the subject venue. The point is, however, that it seems hard to suggest that there are problem gamblers in the disadvantaged areas close to the subject hotel whose problems will be made worse by the addition of further EGMs."

Similar to the Matthew Flinders Taverner, Crown is an existing venue where many gambling activities exist and are readily accessible. As a result, it is reasonable to suggest that problem gamblers are most likely already at Crown and an increase in the number of gaming tables may not have a significant influence on problem gambling.

GAME MIX AND APPROVALS

Crown has 71 different table game types approved by the VCGR. All submissions from Crown to introduce new games or to amend the rules of existing games are thoroughly examined and assessed by the VCGR to ensure player fairness and game integrity.

The VCGR has also granted approval for five different types of semi-automated table game. They are:

- PokerPro
- Rapid Baccarat
- Rapid Big Wheel
- Rapid Roulette
- Rapid Sic Bo

A further four different types of semi-automated poker games have also been approved by the VCGR.

AUTOMATED TABLE GAMES

Under the terms of the Ninth Variation to the Casino Management Agreement, the number of fully automated gaming tables that Crown is permitted to operate would be limited to a total maximum number of 200 terminals (excluding poker).

A number of existing table game approvals granted by the VCGR contain some automated features. These semi automated table games operate under the same game rules as for the traditional table game only modified to allow bets on games to be placed and settled electronically. Semi automated table games approved by the VCGR already operate at Crown, with a total of nine base units and 234 terminals available for use as demand requires.

As with a semi automated table game, the rules for a fully automated table game would also be consistent with the rules for the traditional version. The only significant difference between a fully automated and a traditional or semi automated table game is that the fully automated version does not have a croupier or dealer. Other features to further distinguish the difference between a fully automated table game and a traditional EGM are discussed in more detail earlier in this report under the "Table Gaming and Problem Gambling" section.

In its submission to the VCGR the InterChurch Gambling Task Force raised concern about fully automated table games. Specifically the submission addressed the increased speed of game play on fully automated table games and the harm-minimisation benefits of having a member of staff operate a game.

The VCGR raised this issue with Crown and received the following response:

"Crown has considered this (lack of supervision of fully automated table games) issue and has taken the view that fully automated table games will be managed as part of a Pit. All relevant employees working within a Pit are trained in Responsible Service of Gaming ('RSG') on an ongoing basis. Crown considers that there are opportunities for regular interactions with customers playing fully automated table games by way of general customer service, answering queries, handling payouts or assisting with technical issues. These opportunities provide the ability to observe gaming customers for any observable signs of distress that may be related to problem gambling behaviours.

The gaming environment is staffed by employees from a number of departments who also complete ongoing RSG training. These departments include Security Services, Surveillance and Gaming Departments."

Whilst the VCGR acknowledges that there are opportunities for Crown's staff to observe patrons playing fully automated table games, there is little doubt that the removal of a licensed staff member from a semi automated table game will reduce the opportunities to observe patrons and to provide harm minimisation measures. While this aspect may be a cause of concern, the presence of staff trained in the responsible service of gambling in the Pit area, and the availability of responsible gambling liaison officers ameliorates this concern.

PROFILE OF CASINO PATRONS

Information provided by Crown indicates whilst the majority of its patrons are drawn from metropolitan Melbourne, it also attracts visitors from across Victoria as well as national and overseas visitors.

Crown's interstate market is largely made up of patrons from New South Wales and Queensland. Its international market is diverse with a significant proportion of overseas visitors coming from Asia. Crown is both competitive and well recognised in the international "High Roller" end of the market, attracting a large number of international High Roller visitors to the Melbourne casino complex.

The *2003 Victorian Longitudinal Community Attitudes Survey* (McMillen & Marshall 2004) assessed the participation rates of the different forms of gambling by local government areas. The "casino gaming" category returned the highest variation across all local government areas. The City of Brimbank recorded the highest participation rate, with 15.5% of respondents having gambled on casino table games in the previous 12 months. The lowest levels of participation in casino table games were reported by respondents in non-metropolitan local government areas. Of the non metropolitan local government areas, the City of Greater Bendigo returned the highest rate of casino gaming with 7.8% of respondents having gambled on casino table games in the previous 12 months (McMillen & Marshall 2004).

Appendix 3 displays a map of the local government areas within a 20 kilometre radius of Crown.

Appendix 4 displays the same map but also provides the casino table games participation rate for each of these local government areas in accordance with the findings of the *2003 Victorian Longitudinal Community Attitudes Survey* (McMillen 2004).

AUSTRALIAN BUREAU OF STATISTICS SOCIO-ECONOMIC INDEXES FOR AREAS

A standard measure referred to when considering the economic and social impact of an application that would increase the number of EGMs in a municipality is the ABS SEIFA.

SEIFA is a suite of four summary measures that have been created from 2006 Census information. The indexes can be used to explore different aspects of socio-economic conditions by geographic areas. For each index, every geographic area in Australia is given a SEIFA score which shows how disadvantaged that area is compared with other areas in Australia.

Each index summarises a different aspect of the socio-economic conditions of people living in an area. They each summarise a different set of social and economic information, taking into account a range of factors in determining socio-economic conditions.

Whilst there are four SEIFA indexes, the index most commonly referred to in VCGR hearings to consider the economic and social impact of applications is the ABS SEIFA Index of Relative Socio Economic Disadvantage. This index focuses primarily on disadvantage, and is derived from Census variables such as income, educational attainment, unemployment and dwellings without motor vehicles. A lower SEIFA score indicates that an area is more disadvantaged.

SEIFA is created at a collector district level. Indexes for higher geographies such as statistical local areas and local government authorities are constructed using population weighted averages of the constituent collection districts.

The ability to compare SEIFA scores given for local government areas and statistical local areas is a valuable reference when assessing the economic and social impact of an application on the immediate surrounding area.

However, its value when applied to a larger geographical area, such as that involved when considering the impact of the additional 150 gaming tables proposed for the Melbourne casino, is somewhat diminished. In light of the above, information given under the State, MSD and City of Melbourne Profile section of this report is considered more valuable to the VCGR in assessing the likely impact of the additional gaming tables than the SEIFA information contained in the attached maps showing SEIFA scores for metropolitan Melbourne and the City of Melbourne.

Appendix 5 ABS SEIFA Index of Relative Socio-Economic Disadvantage City of Melbourne

Appendix 6 ABS SEIFA Index of Relative Socio-Economic Disadvantage metropolitan Melbourne

RECENT ISSUES

Violence in and around the Crown casino precinct

Crown maintains effective security operations and is directly responsible for the monitoring of the gaming floor and back of house. The security of the casino entry points and other extremities of the Crown complex are monitored under sub-contract although Crown has the overall responsibility. Crown is able to respond to incidents that arise at different times and maintains a close working relationship with the local police.

During the trial of the Victorian Government's 2:00am lock out of nightclubs and bars, the VCGR observed an increase in the amount of intoxicated people attempting to gain access to the casino complex. In response Crown took action to move them on and away from Crown. As a result no issues of concern were raised.

Over the years, as a result of both violent and criminal activities, Crown has exercised its right to refuse entry to persons not only to the gaming floor but also to the entire complex.

The VCGR is satisfied that Crown monitors and effectively addresses issues surrounding identified violence and criminal activity within the casino and surrounding complex. Further, the VCGR acknowledges that issues of violence in and around the casino exist, however this is more related to behavioural or intoxication issues rather than gambling. The VCGR is of the view that extra table games at Crown will not lead to an increase in violence.

Whilst violence at Crown may not be gambling related, Crown does however have a legislative responsibility to ensure that intoxicated patrons do not gamble or bet at the casino. Legislation which came into operation late last year prohibits gambling or betting by intoxicated person at the casino. It also makes it an offence for a casino operator to knowingly allow a person who is in a state of intoxication to participate in these activities. VCGR monitoring of this requirement has not led to any disciplinary action against Crown.

Counterfeit Chips

In April 2009 Crown identified a \$1,000 counterfeit gaming chip. Crown removed all \$1,000 gaming chips from the gaming floor and examined each against security features in authentic chips. As a result, 42 chips were found to be counterfeit.

To compensate for the loss of chips during the examination, Crown introduced a reserve stock of chips which have a different design to the original \$1,000 chips. Recently, Crown has sought approval for a new set of \$1,000 chips to become the primary chips.

It is not known how the counterfeit chips were introduced to the casino or how long they were in circulation before being discovered. The VCGR is satisfied that, once discovered, Crown acted appropriately to rectify the issue.

The VCGR is of the view that extra table games at Crown does not increase the risk of counterfeit chips being present.

Crime and probity

Gambling operators in the Victorian market are subject to stringent and on-going monitoring and regulation to ensure the continued integrity of the industry and that the conduct of gambling remains free from criminal influence or exploitation.

Legislation requires the VCGR to review the casino operator and licence at least once every five years. The review examines the suitability of the Casino operator and whether it is in the public interest for the Casino licence to continue in force.

In June 2008 the VCGR completed its *Fourth Review*. A substantial proportion of this review related to the probity of Crown and its operations. In summary, the investigations conducted by the VCGR for the purpose of this review found that:

- Crown is of good repute;
- there is currently no business associate of Crown, or each of its associates, that is not of good repute or has undesirable or unsatisfactory financial resources; and
- Crown is of sound and stable financial background.

In completing the *Fourth Review* the VCGR received a report from Victoria Police which comprehensively covered the areas of staff collusion, gaming cheats, money laundering, loan sharking, the Chief Commissioner's exclusions, pickpockets, prostitution and other crimes.

The report advised that the Crown management continues to liaise with Victoria Police on a regular basis. The Victoria Police report did not identify any probity issues with respect to Crown.

In the Commission's *Fourth Review*, comment was made that matters still under investigation or the subject of court action were not considered as part of the review. Those matters remain incomplete and are similarly not included in this analysis. The VCGR's *Fourth Review of the Casino and Operator Licence* finalised in June 2008 is provided at **Appendix 7**.

The VCGR is satisfied that Crown maintains a strong commitment to enforcing and improving internal processes designed to minimise the risk of probity issues arising at any time in future.

The VCGR also recognises that ongoing monitoring and reporting of probity issues and the continued suitability of the Melbourne casino operator are well provided for under legislation.

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ECONOMIC IMPACTS

GROSS STATE PRODUCT FROM PROPOSAL

The expansion of gaming facilities at Crown is expected to generate additional consumption expenditure in the form of additional:

- gaming expenditure at Crown; and
- related expenditure either within Crown or at other Victorian businesses.

For consumption to increase, either currently unemployed resources need to be brought into productive use, or resources need to be attracted from interstate or overseas.

Based on DTF forecasts and industry research, an increase in gaming tables is expected to result in an increase in gaming expenditure (Delfabbro, 2008; Productivity Commission, 1999). This is a result of two factors. Initially, Crown will be able to meet excess demand with additional tables. Moreover, for a single venue (Crown has a monopoly in the Victorian market), a larger gaming offer and larger associated facilities can attract extra business beyond the increase generated by meeting excess demand.

It is also recognised that Crown may attract consumption expenditure (principally from Victorian residents) away from other gaming venues and/or other consumption activities (eg other recreational activities) within Victoria. The redirection of consumption expenditure from one business to another is a substitution of expenditure and would not affect overall consumption or employment within Victoria. As such, any increase of expenditure at Crown from the proposal that is a substitution of expenditure is not likely to be a net detriment to the State.

It is likely that the additional capital investments proposed and currently being undertaken by Crown, combined with the addition of 150 gaming tables, will attract additional interstate and overseas visitors to the casino and State, generating an increase in expenditure above current levels. This would include an increase in direct gaming expenditure, expenditure on other services (eg accommodation, food and beverage), as well as in an increase in expenditure in other parts of the economy affected by increased tourist activity. This 'service export' effect results in an increase in total consumption and employment opportunities in Victoria.

Overall, it is anticipated that part of the increase in expenditure generated by the introduction of the additional 150 gaming tables will represent a net addition to Victoria's economic activity. It has not been possible to quantify the additional economic activity in this report, although it would be expected to be a small proportion of the additional gaming expenditure.

EMPLOYMENT

Current employment

Crown is the largest single site private sector employer in Australia, directly employing in excess of 6,000 staff. In addition over 4,000 contractors work on a mix of full time, part time and on a casual basis. The single biggest business unit of Crown is the table games group with approximately 2,400 employees. The total annual salary paid in wages to Crown employees is estimated to be approximately \$311 million.

Also, Crown is a registered training organisation providing nationally accredited training. The newly constructed Crown Metropol Hotel will contain 'Crown College', a \$10 million purpose built training facility.

Crown reports that each year it trains approximately 40 apprentice chefs and that over 1,300 front-of-house staff begin structured training. In 2008, over 30 supervisors began Crown's Leadership Development Program with a further 60 managers scheduled to commence the program in 2009. The broad range of accredited training, together with the new training facilities is a positive external benefit to the State from the proposed capital expenditure.

Employment from proposal

The proposed changes to Crown's licence conditions can be expected to have an impact on employment through the construction and introduction of the additional 150 gaming tables, as well as through increased consumption expenditure across the casino complex.

Direct employment effect of construction

A paper published by DTF in 2009 entitled 'Employment and public infrastructure: an estimation framework' estimates, in broad terms, the direct and supply chain effects on employment from non-residential construction projects such as schools, roads or water pipelines. This was based on an analysis of ABS data and consideration of real-life case studies.

The framework paper estimates there are approximately 1.7 full time equivalent jobs with each \$1 million of non-residential construction expenditure.

Crown has previously announced it will initially invest \$46 million in upgrading facilities to accommodate the new tables, as well as additional enhancements to increase business capacity. Based on the average impact of non-residential construction, DTF suggests that around 78 full time equivalent positions would be associated with this construction phase.

Crown has advised the VCGR that in terms of capital investment, it is spending \$750 million including \$340 million on the construction of the Crown Metropol hotel and convention centre; \$80 million on the refurbishment of the Crown Towers hotel and an additional \$140 million on a general upgrade of the gaming floor. Many of these capital investments commenced prior to the announcement of the introduction of new tables. As a result, it is appropriate to use the \$46 million figure rather than attributing \$750 million of capital expenditure to an increase in gaming tables.

Of the new positions created from construction and other capital works at Crown, not all will be new jobs for the Victorian economy. Labour employed in this project may require deferral of work on other projects. Consequently, the DTF estimate is an upper limit of the temporary net employment effect of the construction work.

Direct employment effects of the introduction of additional gaming tables

Crown has advised the VCGR that it anticipates 500 full time equivalent positions will be required to facilitate operation of the additional 150 gaming tables and associated outlets.

The 500 new jobs represent an estimate of staff required to facilitate the operation of all of the 150 proposed additional tables. As Crown has indicated that the tables are likely to be gradually phased into operation and the full complement will probably only operate at peak times, this estimate may not be realised immediately and should be considered as a maximum estimate.

Overall employment from the proposal

The increase in employment as a result of the proposal is estimated to be:

- 78 temporary full time equivalent positions due to construction and supply chain employment; and
- 500 full time equivalent positions to facilitate the increase in gaming operations and other associated activity.

IMPACT OF PROPOSED TAXATION CHANGES

Impact of proposed taxation changes on the return to player from casino EGMs

Section 115 of the *Casino Control Act* 1991 requires a minimum of 87% of the total amount wagered on EGMs at Crown casino over twelve months must be returned to players. Crown can operate its EGMs at the legislated minimum return rate, or at any higher rate of RTP that it chooses. The decision to operate EGMs above the legislated minimum RTP is a commercial decision of the casino operator.

An examination of VCGR records shows that Crown consistently operates its EGMs above the legislated minimum 87% RTP.

Any taxation increase on EGMs may result in an operator reducing the RTP applied to its EGM network as a possible means of attempting to offset the increased tax.

It is difficult to estimate the impact of a decision of this nature. Such a decision by Crown could theoretically result in its EGM operations declining in popularity (if a reduced RTP results in the perception that the casino's EGMs offer smaller or fewer prizes), and result in decreased EGM expenditure at the casino.

A reluctance by consumers to use EGMs with a lower RTP could also enhance the substitution effect (discussed earlier in this section), with patrons potentially choosing to direct funds to other forms of gambling or other entertainment opportunities, either within or outside the casino complex.

An assessment of the financial impact of the Ninth Variation to the Casino Management Agreement, including examination of the proposed tax increase, was conducted by the DTF and is discussed later in this report. As such, it is not necessary to consider the financial implications in this section.

Instead, the VCGR has focussed its attention on the impact a change in RTP might have on other economic considerations such as employment. It is the VCGR's view that whilst a reduction of RTP might lessen enjoyment and reduce the level of participation in that activity at Crown, it is likely that rather than being lost to the economy, expenditure would be redirected to other gambling products or entertainment genres (the substitution effect), resulting in a negligible impact on overall consumption or employment within Victoria.

Impact of proposed taxation changes on capital expenditure at Crown

Crown has indicated that the increased tax rate on casino EGMs will reduce the returns on related capital expenditure. Crown suggests that in the long-term, the higher EGM tax rates will result in lower capital investments, particularly in relation to EGM facilities.

Alternatively, increased revenue resulting from the additional 150 gaming tables could lead to increased capital expenditure on gaming table facilities (when gaming tables represent a higher proportion of overall revenue).

UTILISATION

Utilisation rates of gaming tables

In measuring the demand for table gaming, the VCGR has adopted two methods;

- determining utilisation by observation of patronage; and
- determining utilisation by expenditure

In determining utilisation, the focus has been placed on attempting to determine excess demand at peak periods.

The VCGR has determined in public hearings (for EGM increases and new premises applications) that an EGM utilisation rate of 70% (that is, where the venue has 70% of its EGMs being used at peak times) is considered full capacity. At this level of utilisation, there is excess demand which justifies an increase in supply (Taverner Hotel Group Pty Ltd 2009, Frankston RSL Sub-Branch Inc 2008 and Beretta's Langwarrin Hotel Pty Ltd 2008).

It is also important to recognise that during off-peak times there may not be an over-supply of tables open for play at Crown. If Crown is permitted to operate 500 tables at any given time, Crown will efficiently allocate its resources, so that at off-peak times there will be fewer tables available for play. Crown has indicated that it is likely to use the full allocation of 100 poker tables only during poker tournaments.

Utilisation by patronage

In 2009, several audits were undertaken by VCGR inspectors at Crown, assessing gaming tables available for use and gaming tables in use on Friday and Saturday nights. The results of those audits found that on average 261 out of 350 (75%) gaming tables are in use. The highest recorded amount at one time was 338 out of 350 (97%) tables.

From the audits conducted by VCGR inspectors in 2009 there emerged a significant difference between Friday night utilisation rates at different times of the year. This is probably because of seasonal variations.

Overall, the VCGR Inspectorate's audits not surprisingly show that peak times are on Fridays and Saturdays and that at those times utilisation of available tables is high.

The main driver of peak utilisation has been the rapid growth in poker. Crown provided 12 poker tables as part of its table games mix five years ago. The number of poker tables provided is now about 50.

Utilisation by expenditure

Another measure of utilisation is expenditure. From individual daily data, it is difficult to measure utilisation by analysing player expenditure, however analysing the average daily expenditure over the course of a year indicates which days experience higher patronage.

Table 11 illustrates average gaming expenditure for each day of the week compared to average expenditure on Sundays for FY 2008–09:

Table 11
 Average daily expenditure multipliers

2008-09 (x different to base)	Total Table	EGMs
Friday	3.15	1.01
Saturday	4.04	1.22
Sunday	1.00	1.00
Monday	1.54	0.71
Tuesday	1.70	0.72
Wednesday	2.08	0.79
Thursday	2.19	0.84
Sunday = base		

Source: VCGR

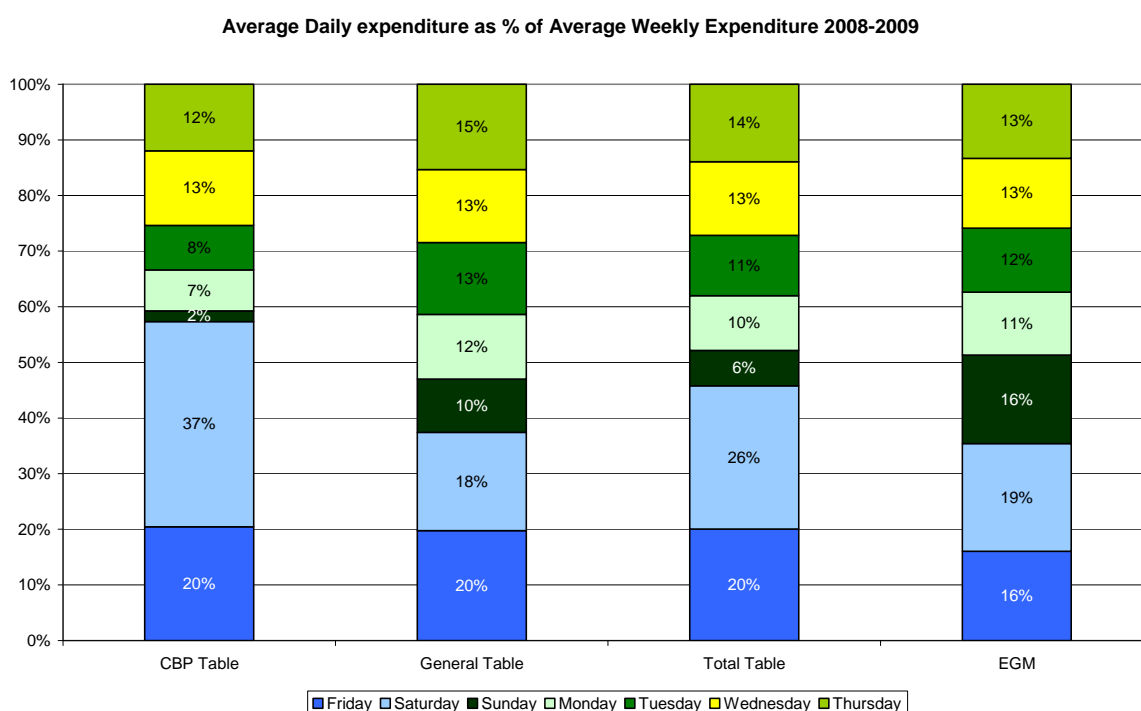
Note: Crown measures a day's trade from 6am to 6am the following day (eg. Saturday is measured from 6am Saturday morning to 6am Sunday morning)

Table 11 measures average daily expenditure on general tables and EGMs compared to expenditure on Sundays. For example: general table gaming on Wednesday was on average 2.08 times the expenditure on general tables on a Sunday for FY 2008-09.

The expenditure analysis conducted in **Table 11** provides further evidence that Fridays and Saturdays are peak periods of utilisation at the Casino. Total table expenditure (CBP plus general table) was on average over four times higher on Saturdays compared to Sundays and over three times higher on Fridays compared to Sundays for FY 2008-09.

Chart 11 shows this expenditure as a percentage of average weekly expenditure.

Chart 11



Source: VCGR

Note: CBP figures are severely distorted by negative expenditure on some days. Negative expenditure represents a player win as opposed to loss; this does not occur in FY 2008-09 data on general tables or EGMs.

For CBP, Fridays and Saturdays contribute over 50% of average weekly revenue, whilst for EGMs this figure is close to 35%. General table game expenditure is highest over Thursday, Friday and Saturday nights. For general gaming tables mid-week expenditure does not fluctuate significantly.

When we combine the analysis of expenditure by day and the evidence presented by the VCGR inspectorate we can identify times of high utilisation, namely Friday and Saturdays.

At these peak times we can observe both high expenditure and high utilisation and we can establish that there is high demand for gaming tables.

Crown's utilisation estimates

Crown, estimates that at peak times supply of tables games is insufficient to meet demand. Peak times have been identified as Friday nights, Saturday nights and public holidays. Crown estimate that demand is increased by approximately 10% at peak times. Based on the expenditure analysis conducted by the VCGR, this appears to be a reasonable estimation.

TOURISM

World class venue

Crown is obliged by the Casino Agreement to maintain the Melbourne casino as a world class venue. Clause 22 of this agreement states that Crown:

- must endeavour to maintain the Melbourne casino as the dominant Commission Based Player casino in Australia; and
- maintain the Melbourne casino as the flagship casino of the Holding Company Group's gaming business in Australia.

To assess whether Crown meets its world class obligations, the VCGR conducted a Benchmarking Study during the *Fourth Review* and visited eight comparable world class casinos, being the Venetian Casino, Wynn's Casino, Caesars Palace Casino and Paris Las Vegas Resort Casino in Las Vegas, and Wynn's, Sands, the Venetian and Crown Macau casinos in Macau. Comparative studies with Sydney's Star City Casino and Perth's Burswood Casino were also undertaken.

The results of the benchmarking study confirmed that Crown continues to provide facilities that would be considered necessary for a world class casino.

Market competitiveness

Crown is facing strong international competition from Macau and the emerging Singapore markets. To maintain competitiveness, Crown intends to develop its high end facilities through upgrading the Mahogany Room and gaming suites. An increase in available gaming tables will assist in expanding these areas and allow Crown to remain competitive in the international market.

Whilst they would be a new introduction to the Melbourne casino, fully automated table games are not new in Australia. Sydney's Star City casino currently operates fully automated table games and is not restricted in the number of gaming tables (traditional or fully automated) that it can operate. Similarly, fully automated table games also operate in a number of casinos world wide. To disallow their introduction into the Melbourne casino may hinder Crown's ability to compete in this internationally competitive market.

Maintaining competitiveness allows for Crown to increase its share of the international gambling market. This will provide Victoria with a service export which is a benefit to the economy.

Poker tournaments

The rapid rise over recent years in the popularity of poker tournaments has been a global phenomenon, attracting increased numbers of participants and spectators world wide. Crown has reported that demand for poker at the casino has increased by 750% since 2003 and continues to show strong growth.

Crown's first major poker tournament took place in July 1998 and attracted 74 entrants with a total prize pool of \$74,000. Since then the quality and size of Crown's poker tournaments has progressed considerably with the Aussie Millions attracting 418 entrants in 2006, and increasing by over 70% to 747 entrants in 2007. In 2008, the Aussie Millions attracted a record 780 entrants and awarded a \$1.65 million first prize, which is the largest prize ever awarded in a live poker tournament in the Southern Hemisphere.

The Aussie Millions is Crown's flagship event and is recognised both locally and globally, with broadcasting of the event providing broad exposure for both Crown and Melbourne. Hosting of the event assists Crown to maintain its profile as a world class venue, and increases its ability to attract overseas entrants. Crown estimates that of the total participants in the last Aussie Millions tournament, about 50% were from outside Victoria, with a large contingent of international visitors also participating in the event.

Crown's plans for the 2010 tournament are on target to reach 1,000 participants in the main event, offering a prize pool of \$10 million. Crown has a number of other major championship tournaments on its calendar, with two new poker television series slated to be filmed at Crown in 2009 and broadcast nationally around Australia. In addition to these high profile tournaments, Crown also conducts over 500 small to mid sized poker tournaments each year.

The VCGR is aware that complications are created by the current limit on the number of gaming tables permitted at Crown, particularly when running such large scale poker tournaments. As the tables used in poker tournaments must come from within the 350 gaming table limit, Crown must balance the allocation of tables between the large number of tables necessary to run a major tournament, whilst also offering a sufficient number of gaming tables to patrons not involved in the tournament.

The broadcasting of major poker tournaments provides a further benefit to Victoria through increased participation in these events by interstate and overseas entrants. This will lead to an increase in expenditure on Victorian goods and services such as accommodation and other related activities, which enhances the service export effect.

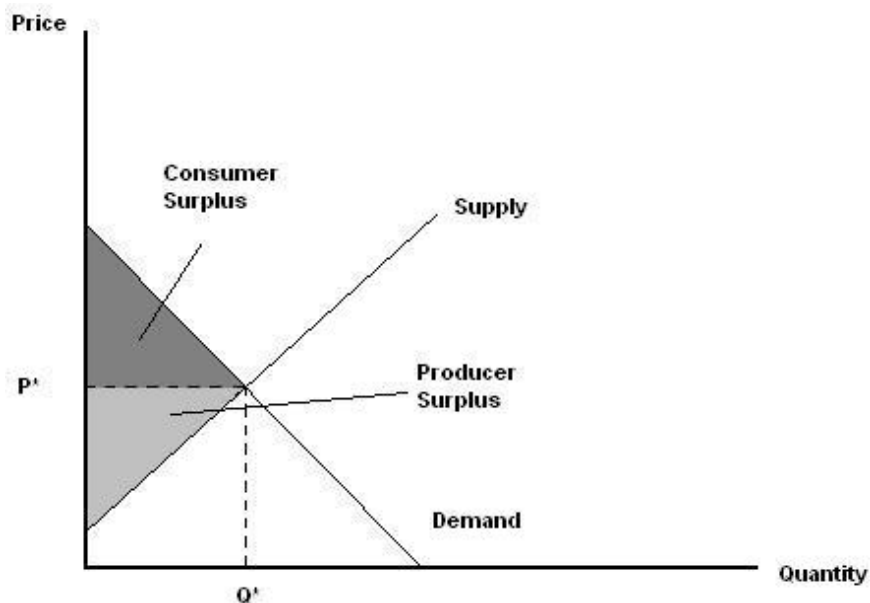
COST BENEFIT ANALYSIS

The Productivity Commission (1999) attempted to measure the economic benefits of the gambling industry through an analysis of the producer and consumer surpluses.

The consumer surplus is the difference between what a consumer pays for a good or service and what the consumer would be willing to pay.

Similarly, the producer surplus is the difference between the price at which the producer sells the good or service at and what the producer would be willing to sell the good or service at.

Graphically the consumer and producer surpluses can be identified as:



The Productivity Commission (1999) estimated the total net benefit from consumer surplus to the Australian economy from gambling to be in the range of \$4,365 million to \$6,076 million for 1997-98, in 1998 dollar terms. This analysis estimated the cost of problem gambling to be between \$2,692 million and \$2,696 million. For casino games the estimated total net benefit was estimated to be between \$580 million to \$769 million.

As an appendix to the Australian Casino Association's submission to the Productivity Commission's inquiry into gambling in 2009, The Allen Consulting Group estimated the social surplus (the consumer surplus plus the producer surplus) generated from Australian Casinos. The total social surplus was estimated to be \$2,655 million for 2007-08. This analysis provides an over estimate, as it does not account for problem gambling. The Allen Consulting Group cites a lack of robust data as reason for not estimating the negative externality of problem gambling.

The influence of externalities, particularly problem gambling, is an important factor in consumer and producer surplus analysis. Due to a lack of sufficient data on problem gambling amongst casino patrons in Australia, analysis of this externality is beyond the scope of this report. The VCGR suggests that an estimation of the consumer and producer surpluses without accounting for problem gambling is incomplete. To accurately conduct this analysis, further research is required into the Australian casino industry.

FINANCIAL ASSESSMENT

As the authoritative department with relevant expertise, DTF has provided the VCGR with a financial assessment of the proposal (a copy of the DTF financial assessment follows this page).

After discussions and consultation with the DTF, the VCGR is confident that the underlying assumptions applied are reasonable and the estimates provide a fair range of values.

FINANCIAL ASSESSMENT

Purpose

1. To assess whether the negotiated outcome represented a value for money deal for the State:
 - compared to previous benchmarks; and
 - in its own right.
2. To provide an overall assessment of the value of the negotiated outcome to Crown Ltd and to the State Government.

Context

3. The Government's objective was to more closely align taxes on electronic gaming machines (EGMs) at the Casino with the tax rate payable by clubs and hotels.
4. Most of the casino-specific taxes payable by the Casino are set out in the contractual agreement between Crown Melbourne Limited (Casino Management Agreement) which is ratified by legislation (Casino (Management Agreement) Act 1993).
5. In this context, any unilateral move by the State to significantly increase gaming machine taxes may have been regarded as a contravention of the contractual arrangements. This may have had further implications in terms of affecting general business views about the level of sovereign risk borne by commercial entities contracting with the State, with potential risks to the State in terms of its future capacity to enter into other contractual arrangements with the private sector.
6. To mitigate these risks the State sought to implement its desired gaming machine tax policy change through a negotiated outcome. It is therefore appropriate to consider the additional tax payable by Crown Melbourne Ltd on EGMs as the price paid for the additional tables.

ANALYSIS

7. In order to provide an indication of the likely value (to the Government and Crown) of the negotiated outcome and determine if it would deliver value for money, The Department of Treasury and Finance (DTF) modelled scenarios based on assumptions that it considers reasonable.
8. The value to Crown Melbourne Ltd and to the State of the negotiated package cannot be measured with certainty. The financial value will depend on a range of future outcomes, including:
 - The long term growth rate in the economy generally and gaming expenditure (both EGM and casino table game expenditure) more specifically;
 - The timing and extent of implementation of additional table games;
 - The marginal return from each additional table game;
 - The degree of substitution away from EGMs as a result of combined impact of the increased tax rate on Casino EGMs and the increased availability of table games;
 - The earning capacity of poker tables for the Casino relative to other table games (which is generally significantly lower); and
 - Crown's additional operating costs flowing from the additional tables and the amount of capital expenditure required to accommodate the additional tables.
9. Rather than forecasting the specific financial value for the negotiated outcome, DTF has forecast a likely value range for the State and Crown Melbourne Limited based on what it considers reasonable assumptions.

COMPARISON OF PREMIUM PAID TO PREVIOUS BENCHMARKS

10. The net increase in gaming machine taxes payable by Crown Melbourne Ltd as a result of the negotiated agreement comprises:
 - The increase in base tax rate on EGM revenue from 22.25 per cent to 32.57 per cent (including 1 per cent Community Benefit Levy).
 - Less the impact of the abolition of the Health Benefit Levy (\$4333.33 per machine) from 2012.
 - Adjustments to supertax thresholds for non VIP players for 5 years from 2009-10 to 2013-14.

11. DTF has forecast the value of these tax rate changes over the remaining life of the existing Casino licence (24 years to 2033) based on the following key assumptions:
 - overall average annual state economic and population growth consistent with long term trends;
 - growth in EGM revenue in line with Household Final Consumption Expenditure (HFCE) over the medium term (broadly consistent with recent historical trends) and at a rate slightly below growth in HFCE over the longer term; and
 - a discount rate for net present calculation purposes of 9.3 per cent. This is based on a capital asset pricing model “medium risk” rate of return and is consistent with the latest Partnerships Victoria guidance material produced by DTF.
12. On this basis, DTF has forecast that the net increase in the rate of tax on EGMs at the Melbourne Casino will generate additional taxation revenue for the State of \$415 million in net present value terms over the remaining life of the Melbourne Casino licence.
13. As noted above, the (net) increase in taxes payable by Crown Melbourne Ltd due to the net increase in the tax rate on EGMs effectively represents the premium it is paying for the right to deploy additional table games. The value of the revenue generated by the tax increase can therefore be compared to amounts previously paid for additional table games to provide one indicator of whether the negotiated outcome represents value for money to the State.
14. One such benchmark is the premium paid by Crown Melbourne Ltd in 1995 for an increase in table games. In that year, the Government increased Crown’s maximum allowable table game cap by 150. At the time the Crown paid a premium of \$100.8 million spread over three years. After allowing for subsequent price inflation, this is equivalent to approximately \$138 million in 2009-10 terms.
15. There are some differences between the 1995 arrangements and the 2009 negotiated outcome. For example:
 - The 1995 arrangement was in the context of the transition from the temporary casino to the new complex; whereas
 - The 2009 agreement represents an expansion of activity in a more mature market within an established casino operation.

16. Nonetheless, the premium paid for additional tables in 1995 provides a reasonable benchmark for a value for money comparison.

1995 Agreement: 150 regular tables for \$138 million (2009 dollar terms)

2009 Agreement: 150 tables (including poker tables) for \$415 million

17. On this basis, in terms of the effective premium paid for additional tables, the outcome negotiated in 2009 appears to represent a reasonable value for money to the State compared to the 1995 deal. This is further reinforced by the following facts:
- in comparison to the 1995 deal, the current table game increase includes provision for additional poker tables which have a relatively lower earning capacity compared to regular table games such as blackjack and baccarat; and
 - the remaining period on the Casino licence is only 24 years compared to 38 years in 1995.

OVERALL VALUE FOR MONEY: NPV Assessment

18. The overall value for money can also be assessed by comparing the total financial benefit of the package to Crown Melbourne Ltd to the total financial benefit to the State of Victoria. The respective financial benefits comprise:
- In Crown Melbourne Limited's case:
 - i. the total additional revenue generated by the additional tables games; less
 - ii. additional net taxes payable to the state as result of implementation of the agreement (including EGM tax increases, noted above, tax payable on additional table games and any additional super tax liability); and
 - iii. estimated operating costs to be incurred (including capital expenditure and other operating costs).
 - In the case of the State of Victoria:
 - iv. net additional taxes payable as the result of the changes in the EGM tax regime (as noted above); and

- v. additional taxation revenue generated by the increase in table game activity (including tax payable on additional table games and any additional super tax liability).

Phasing of table game implementation

19. The package agreed between the State and Crown Limited provides for:
 - up to 400 gaming tables (excluding poker) compared to the previous approved limit of 350 tables (including poker);
 - up to a further 100 poker tables; and
 - up to 200 fully automated terminals within the above table limit.

20. Given the normal configuration of existing table games within the Melbourne Casino (noting that this configuration does change from time to time, subject to regulatory approval, for example to accommodate poker tournaments) the impact of the agreement is to:
 - effectively reclassify 50 existing poker tables so that they are not captured by the total table game licence limit (currently 350);
 - allow for a further increase of 50 poker tables, therefore allowing a total of up to 100 poker tables; and
 - effectively allow for up to 100 additional regular table games to bring the total table game limit (excluding poker) to 400 tables.

21. The overall financial value of the agreed package will depend, in part, on the timing of its implementation. The calculations undertaken by DTF assume:
 - A phased implementation of the increase in the (net) tax rate on EGMs at Melbourne Casino, as per the Heads of Agreement between Crown Melbourne Ltd and the State and consistent with the Casino Legislation Amendment Bill 2009; and
 - A progressive phased (rather than immediate) implementation of the 150 additional approved table games.

22. The latter assumption, is regarded as reasonable by DTF given that:
 - Crown Melbourne Limited is unlikely to fully implement the additional tables until required, having regard to consumer demand and existing capacity utilisation; and
 - An increase in the capacity of the Casino's existing gaming area will also be required to fully utilise the additional tables. This will require capital investment by Crown Melbourne Limited and, depending on the configuration

of the expanded gaming area, may also require different levels of regulatory approval.

23. In this context, the financial assessment is based on the following phasing of implementation of additional table games.

Base assumption: Cumulative Phasing of Additional Tables

Additional Table Games	2009-10*	2010-11	2011-12	2012-13
Additional Table Games	25	50	100	150

*Assumes full year of operation

24. In relation to the additional approved poker tables, more specifically, the DTF modelling also takes into account
- the relatively lower earning capacity of poker tables for Crown Ltd relative to other table games (noting that in poker, gamblers compete against each other rather than against the house and house earnings are therefore generally based on fees charged rather than player loss); and
 - the likelihood that the approved poker tables will not be fully deployed continuously throughout the year, but are more likely to be fully utilised only during peak periods such as special poker tournaments.

Other key assumptions

Gaming Revenue Growth

25. The following analysis assumes that base case gross table game revenue (i.e. before the policy changes) up to 2012-13 grows in line with DTF's underlying 2009-10 Budget estimates for casino taxation. That is, up to 2012-13 gross revenue is assumed to be equal to an historical average (2003 to most recent available) proportion of household consumption expenditure. This means that gross revenue will tend to grow in line with household consumption expenditure (although in the short term there may be some correction where most recent player loss has been under or over the historical average).
26. Beyond 2012-13, base case gross revenue is expected to grow at levels of around 3.6 per cent per annum, taking into account long-term trend household consumption growth and the existence of supply constraints (for example fixed table numbers). This is because DTF considers that over a long period of time, given the fixed number of EGMs and table games at the Casino, revenue growth at the rate of household consumption expenditure (long term trend of around 5 per cent per annum) would be unsustainable in the longer term. The assumption is also consistent with DTF's estimates of longer term growth in gaming revenue growth outside the Melbourne Casino. Statistical modelling undertaken by DTF suggests that annual growth in household consumption of 5 per cent is consistent with about 3.6 per cent annual growth in non-casino gaming player loss.
27. Commission based player gross revenue is left unchanged from existing estimates. Similarly supertax for commission based players is also assumed to be unaffected.
28. Net present values for the benefit to Crown Melbourne Ltd are calculated on gaming revenue less additional state taxes, operating costs and capital cash flows.

Table Game Revenue Earning Capacity

29. The marginal earning capacity of additional table games cannot be predicted with certainty. DTF considers that it is very unlikely that additional table games will generate the same level of revenue on average as existing tables. This is due to a number of factors. For example:

- The Melbourne Casino now operates in a mature market and its gaming products are subject to direct competition from both interstate and overseas. It is also subject to indirect competition from local competitors offering gaming and wagering products which are to some degree substitutes for the Casino's gaming products. Given this degree of competition, it is likely that additional tables will generate a diminishing marginal return to revenue; and
- Existing table games at the Melbourne Casino do not consistently operate at full capacity. Rather, table games are most intensively utilised during certain peak periods. In this context, the additional tables are likely to be used to add to peak capacity and will not necessarily be fully utilised even during peak periods. This further adds to the likelihood of a diminishing marginal return to revenue from the additional table games.

30. DTF has therefore modelled the estimated value to the State based on the following range of assumptions with regard to marginal revenue from additional table games:

- Marginal elasticity of revenue of new table of 4:3 (i.e. a 1 per cent increase in table game numbers results in a 0.75 per cent increase in table game revenue, meaning that additional tables earn slightly less on average than existing table games.)
- Marginal elasticity of revenue of new table of 2:1 (i.e. a 1 per cent increase in table game numbers results in a 0.5 per cent increase in table game revenue, meaning that additional tables earn half as much on average as existing table games.)

31. Modelling this range of assumptions allows for uncertainty with regard to the range of factors that may have an impact on the marginal earning capacity of new tables, within a realistic value range.

- The competitive forces and peak capacity utilisation factors noted above might imply a relatively low marginal earning capacity for new tables.
- However, this may be mitigated by other factors, including the potential for slightly higher than average earning capacity (and lower operating costs) for automated table games.

Substitution effect

32. The negotiated agreement means that EGM activity at the Melbourne Casino will in future be taxed at a higher rate than table games. There will also be increased availability of table games. As a result of the combination of these factors, there may be some marginal substitution of gaming activity at the Casino away from EGMs to table games, with a flow through impact to total tax revenue. The DTF financial assessment assumes the following substitution effect:

- A 1 per cent change in the number of tables leads to a -0.125 per cent decrease in EGM player loss at the Casino.

33. This assumption was based on consideration of the results of a review of relevant literature.
34. Several studies provide estimates of the possible substitution effects, ranging from -0.003 to -0.125³. The DTF assumption is at the upper end of this range, noting that Crown Melbourne Limited will have an incentive to encourage this substitution given the difference in tax rates.

Initial Capital Expenditure

35. In a press release dated 12 May 2009 Crown Melbourne Limited indicated that it would invest an additional \$46 million in upgrading facilities to accommodate additional tables. DTF understands that this investment relates to the first stage of the Casino's proposed phased expansion of table games. This one-off estimate of capital expenditure has therefore been taken into account in DTF's cash flow analysis.
36. Further capital expenditure may be required at a later stage as additional tables are phased in. This has not been factored into the financial assessment.

Operating costs

37. DTF has made a number of assumptions in regard to the expected operating costs – mainly labour costs – as a result of an increase in table games. The number of total employees allocated to table game activities at the casino is currently around 2,400 (based on estimates provided by the VCGR). This suggests around 7 jobs per table (for the existing configuration of 350 tables).
38. The DTF financial assessment assumes that, allowing for productivity gains and the prevalence of part time positions, the additional tables will not be as labour intensive on average. The modelling allows employment costs for around 350 additional staff. The modelling also assumes:
 - average staff salaries in line with average weekly earnings for Victoria of \$47,000;
 - wage growth of 3.5 per cent per annum over the length of the licence; and

³ Thalheimer, R. & Ali, M., Table games, slot machines and casino revenue, Applied Economics, 2008.

- labour on-costs and other operating costs at around 15 per cent of salary costs; and
- for the purpose of the financial evaluation, the additional employment costs are assumed to be proportional to the phasing of the increase in table games.

Discount rate

39. A discount rate of 9.3 per cent is consistent with the discount used to model the impact of EGM tax changes (as noted above).

Results

40. The following NPV calculations are based on the period remaining on the casino licence i.e. 24 years.

DTF Assumptions: Net present value 2009-10 to 2032-33		
Revenue Elasticity of tables	2:1	4:3
	<i>Value to Government</i>	
Phased tax increase, removal of HBL	416	416
Phased tax increase plus additional tables	497	639
	<i>Value to Crown</i>	
Phased tax increase, additional tables	- 5	335

41. The results indicate that the overall value of the deal to Crown Melbourne Limited ranges from broadly neutral (-\$5 million) to positive (\$335 million) over the remaining life of the agreement in NPV terms. However, the analysis also indicates that the value of the deal the State of Victoria is significantly positive and exceeds the value to Crown Melbourne Limited under all the assumptions modelled.

Market impact

42. DTF has reviewed reports on Crown Limited by a range of market analysts including CitiGroup, the Royal Bank of Scotland, UBS and Business Spectator. Whilst a range of factors are affecting Crown's underlying value, the broad consensus is that the effect of the changes to the Melbourne Casino's licence conditions ranges from "neutral", particularly in the short to medium term, to slightly positive over the longer term.
43. This tends to be supported by movements in Crown Limited's share price, which are regarded as a reliable indicator of the market's assessment of a company's value. On 12 May 2009, before the announcement of the agreement between Crown Melbourne Limited the State, Crown's opening share price was \$7.28 and it closed on that day at \$7.34. One month later Crown Limited's share price was \$7.44, an increase of 1.4 per cent since the 12 May 2009. Over that same period, the overall

market (as measured by the ASX200 index and the Australian All Ordinaries Index) increased in value by around 5 per cent.

44. On this basis, although there are many factors that impact on the share price of individual companies, there is no indication that the market viewed the agreement as offering significant value for Crown Melbourne Limited.

CONCLUSION

45. The premium for the additional table games is a minimum of **\$415 million over 24 years**. Compared to the premium paid in 1995 (**\$138 million in 2009 terms for a 38 year period**), this appears to represent reasonable value for money for the State Government.
46. DTF estimates the **overall value to Crown** for the phased implementation of additional tables will be between **-\$5 and \$335 million** using DTF modelling assumptions.
47. DTF estimates the overall **value to the Government** of the deal (including the impact of the increased EGM tax rates and additional tax revenue flowing from the phased implementation of additional tables) will be between **\$497 and \$639 million** using DTF modelling assumptions.
48. On this basis, it is clear that on reasonable assumptions, **the overall value to the State of the 2009 negotiated exceeds the value to Crown Ltd.**
49. Indeed under certain reasonable assumptions – which are broadly consistent with market analysis – the deal is broadly financially neutral for Crown but still significantly positive for the State.

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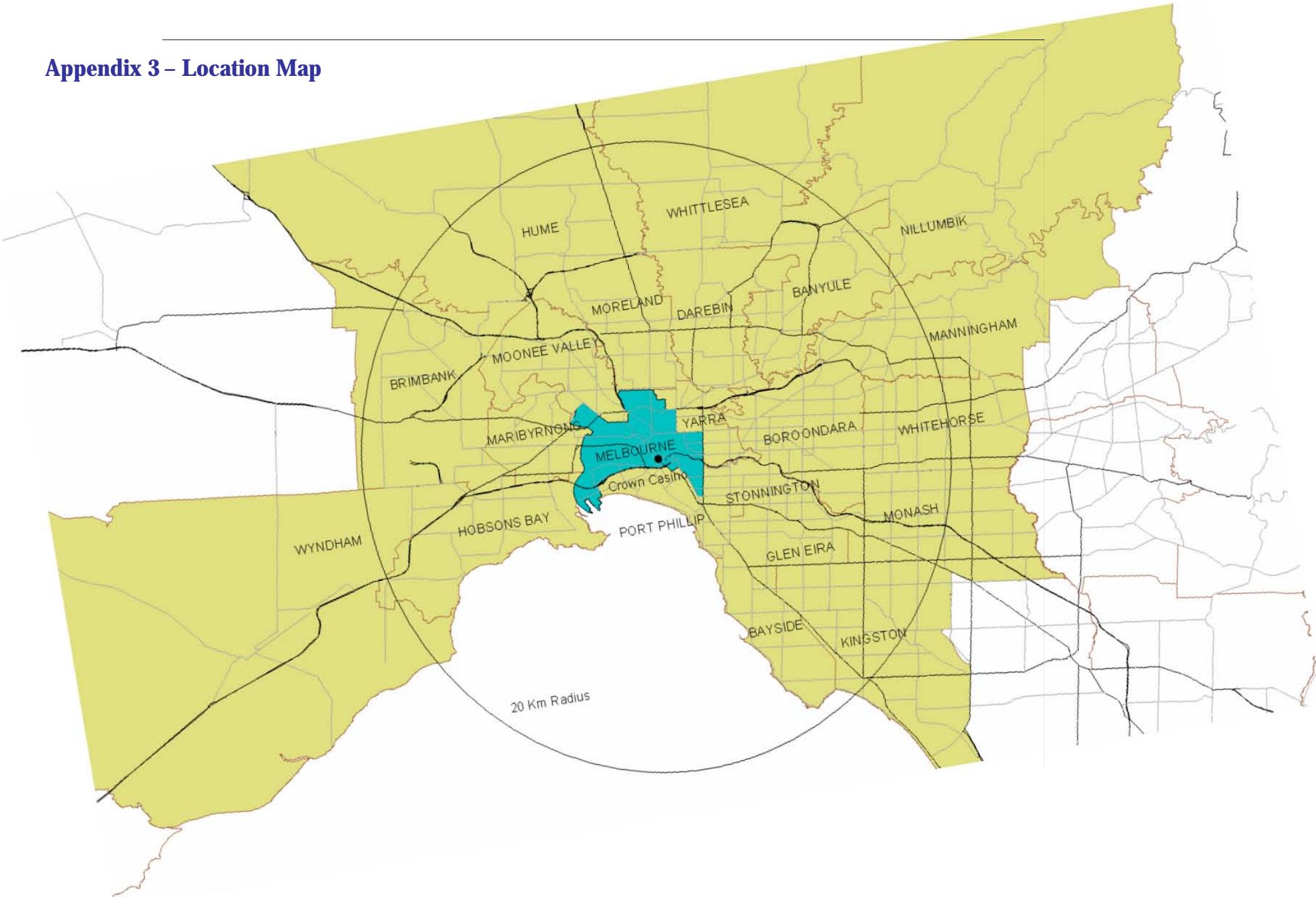
Appendix 1– Victorian Government media statement - 8 September 2009

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Appendix 2 – Public Submission – Victorian InterChurch Gambling Taskforce

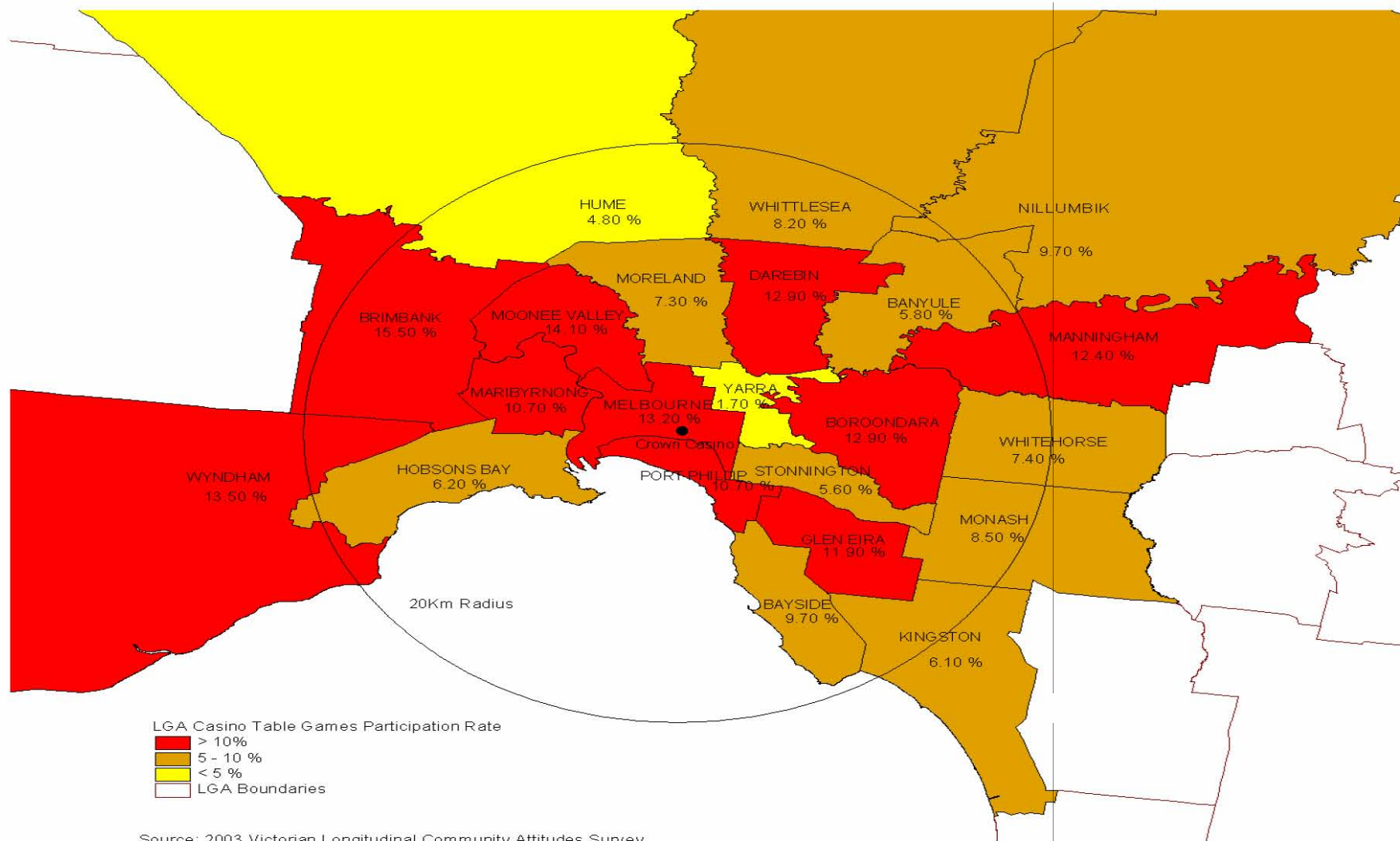
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Appendix 3 – Location Map



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Appendix 4 – Participation Map



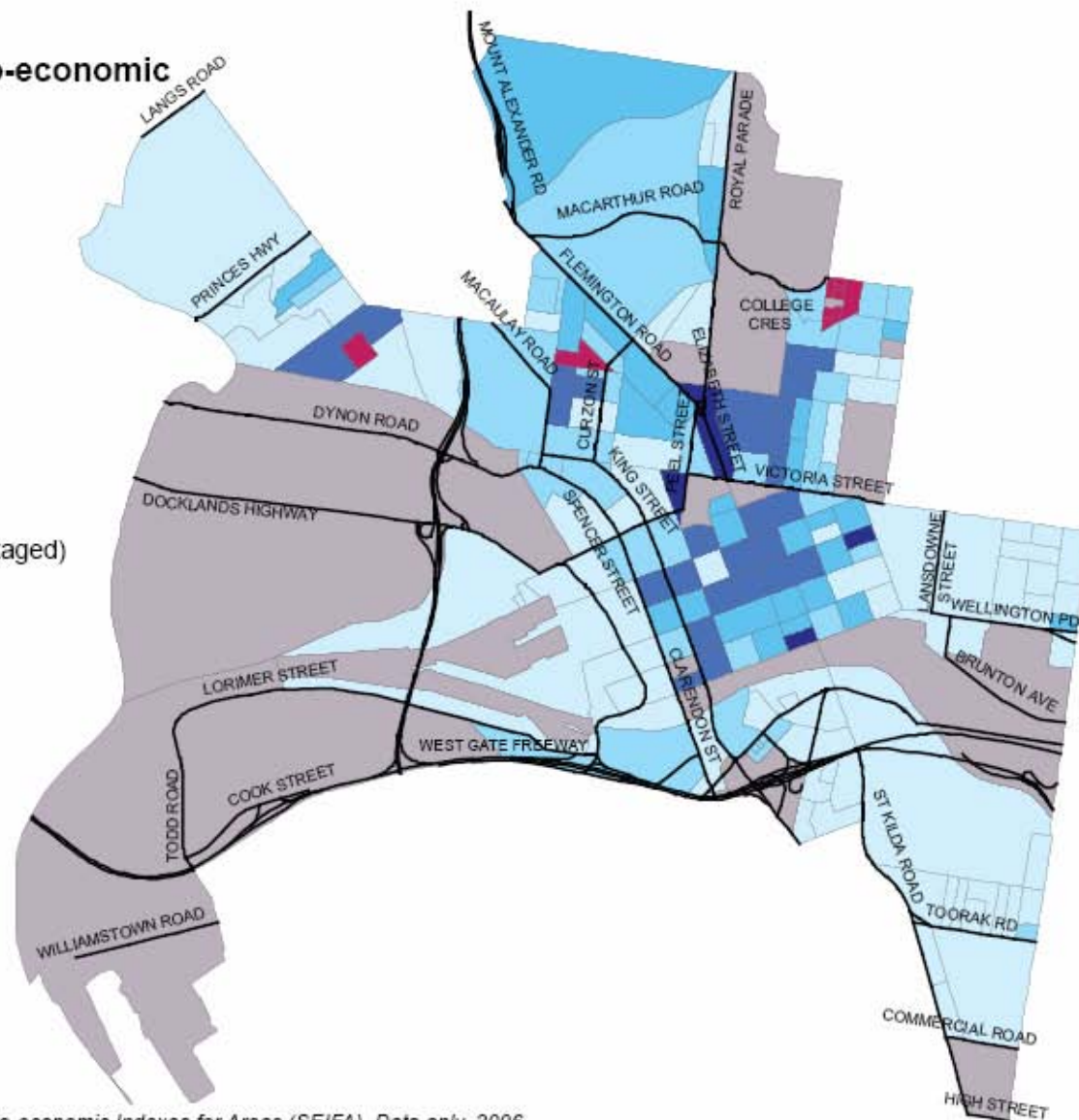
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Appendix 5 – ABS SEIFA Index of Relative Socio-Economic Disadvantage City of Melbourne (map)

City of Melbourne, SEIFA Index of Relative Socio-economic Disadvantage, 2006

Collection Districts by Victorian decile

- 9th and 10th deciles (Least disadvantaged)
- 7th and 8th deciles
- 5th and 6th deciles
- 3rd and 4th deciles
- 2nd decile
- 1st decile (Most disadvantaged)
- Unranked

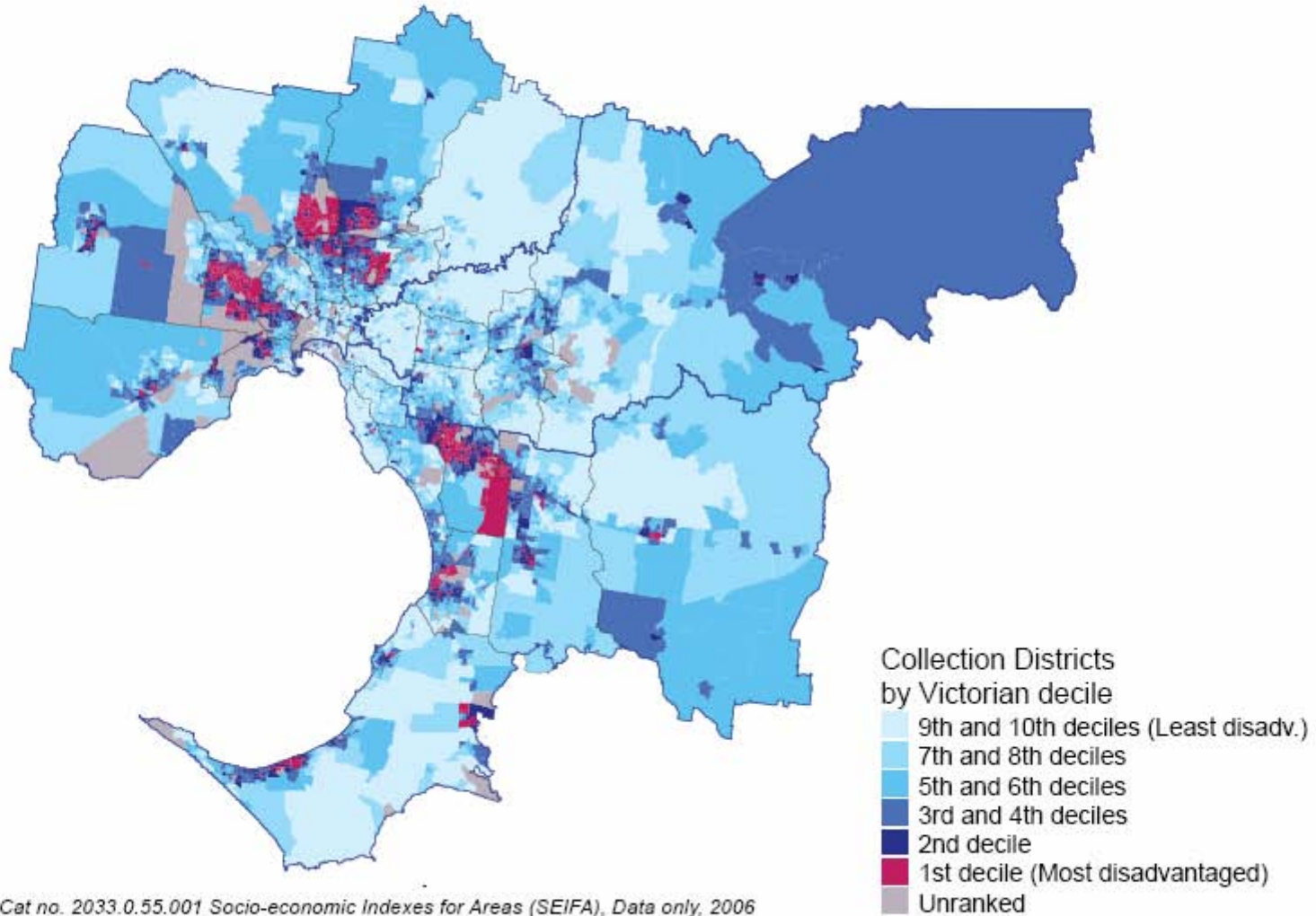


Source: 2008, ABS, Cat no. 2033.0.55.001 Socio-economic Indexes for Areas (SEIFA), Data only, 2006

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Appendix 6 – ABS SEIFA Index of Relative Socio-Economic Disadvantage Metropolitan Melbourne (map)

Metropolitan Melbourne, showing State Government region and LGA boundaries, SEIFA Index of Relative Socio-economic Disadvantage, 2006



Source: 2008, ABS, Cat no. 2033.0.55.001 Socio-economic Indexes for Areas (SEIFA), Data only, 2006

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Appendix 7 – Fourth Review of Casino Operator and Licence

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