

EGM TAXES AND LICENCE FEES

This note covers a comparison of current vs proposed vs proposed V2. Proposed is as per the FGM proposals in the current Bill. Proposed V2 includes a sliding scale/ stepped licence fees designed to raise revenue that otherwise would have been raised , in theory, by a properly designed tender system for EGM licences. The proposed V2 licence fee schedule can be found at the end of this note.

The comparisons are based on 2020/21 EGM player losses in pubs and clubs of \$117 million. Net profits from gaming are then presented for different venues where player losses per EGM vary from \$20,000 pa to \$100,000 pa and the number of EGMs per venue varies from 10 to 30.

To calculate gaming profits, estimates are made of fixed and variable costs that relate to EGM gaming operations. Other than licence fees that will vary between venues and are known (both proposed and proposed V2), the other fixed and variable cost are assumed to be the same across all venues. Whilst this is somewhat unrealistic and leaves the models open to criticism, it does not invalidate the comparison between current, proposed and proposed V2, which is the aim of the exercise. Further comment on this point is made later in this note.

CURRENT ARRANGEMENTS (\$Million)

Venue share (commission)		\$35.1	million
Less: Fixed costs	\$10.4		
Variable costs	\$11.7		
License fees	\$0.3		
		\$22.3	million
Gaming profits after direct costs		\$12.8	million
Share to government			
Gaming taxes	\$30.3		
CSL	\$4.7		
Licence fees	\$0.3		
Total share to government		\$35.2	million

The FGM proposals with licences at the pub level will result in the following, based on 20/21 EGM player losses.

PROPOSED ARRANGEMENTS (\$Million)

Venue share (total losses)		\$117.0	million
Less: GST	\$10.6		
Gaming taxes & CSL	\$45.5		
		\$56.2	million
Venue revenue after tax		\$60.8	million

Less: Fixed costs	\$18.4	
Variable costs	\$11.7	
Licence fees	\$3.7	
		\$33.8 million
Gaming profits after direct costs		\$27.0 million
Share to government		
Gaming taxes & CSL	\$45.5	
License fees	\$3.7	
Total share to government		\$49.2 million
NB An increase of gaming profits of	\$14.3	million
 An increase in government revenue of	\$14.0	million
 (to be offset against fall in revenue from casino EGMs)		

The increase in gaming profits will be \$14.3 million. The increase in government revenue from pubs will largely disappear if the reduction in tax rates that is proposed for casino EGMs is approved.

With a system of stepped rates to apply to licence fees based on prior year's turnover rather than on the number of EGMs, the following will occur:

PROPOSED V2 ARRANGEMENTS
(\$Million)

Venue share (total losses)		\$117.0 million
Less: GST	\$10.6	
Gaming taxes & CSL	\$45.5	
		\$56.2 million
Venue revenue after tax		\$60.8 million
Less: Fixed costs	\$18.4	
Variable costs	\$11.7	
Licence fees	\$11.7	
		\$41.8 million
Gaming profits after direct costs		\$19.0 million
Share to government		
Gaming taxes & CSL	\$45.5	
License fees	\$11.7	
Total share to government		\$57.2 million
NB An increase of gaming profits compared to current situation	\$6.3	million
 Extra licence fees raised	\$8.0	Million

There are minor differences in the tax and CSL that applies to clubs. This hasn't been factored into the above calculations. The six clubs are treated as pubs. The effects are negligible.

The proposed V2 changes will raise higher licence fees mainly from the pubs with higher losses. All pubs in the following examples will be better off than under the current system. Some pubs with a lower level of losses per EGM and fewer EGMs will even be better off than under the FGM proposals.

Losses per EGM \$	No EGMs	Total venue losses \$	Gaming profits after direct costs \$		
			Current	Proposed	Proposed V2
\$100,000	30	\$3,000,000	\$461,535	\$967,500	\$479,970
\$85,000	30	\$2,550,000	\$371,535	\$778,500	\$425,970
\$75,000	30	\$2,250,000	\$311,535	\$652,500	\$389,970
\$65,000	30	\$1,950,000	\$251,535	\$526,500	\$353,970
\$55,000	30	\$1,650,000	\$191,535	\$400,500	\$302,970
\$50,000	30	\$1,500,000	\$161,535	\$337,500	\$269,970
\$45,000	30	\$1,350,000	\$131,535	\$274,500	\$236,970
\$35,000	30	\$1,050,000	\$71,535	\$148,500	\$140,970
\$35,000	20	\$700,000	\$47,690	\$99,000	\$103,980
\$30,000	30	\$900,000	\$41,535	\$85,500	\$107,970
\$30,000	20	\$600,000	\$27,690	\$63,000	\$71,980
\$25,000	20	\$500,000	\$7,690	\$21,000	\$39,980
\$25,000	10	\$250,000	\$3,845	\$13,500	\$19,990
\$20,000	20	\$400,000	-\$12,310	-\$21,000	\$7,980
\$20,000	10	\$200,000	-\$6,155	-\$7,500	\$3,990

There's a couple of pubs that fall into the first category with EGM losses of \$100,000, probably about eight or so which have \$85,000 of losses (the pubs in the Glenorchy LGA, one in the Mersey electoral division, one in Pembroke). The State average (mean) loss was \$50,000 per EGM in 2020/21. Because of the skewed distribution of losses in favour of the better performing venues, the median loss was approximately \$40,000 per EGM. Federal Hotels' twelve Vantage Group pubs would have averaged at least \$80,000 in losses per EGM. Other multi venue owners (Endeavour Group (ALH), Kalis Group, Dixon Hotel Group, Goodstone Group) account for a lot of the pubs where losses per EGM will vary around the State average, from \$35,000 to \$65,000. There are an estimated 20 small venues with 300 EGM in total where losses per EGM are less than \$25,000 pa.

As a result of the Bill, net profits from gaming will more than double except for those with very low player losses per EGM whose situation will almost certainly worsen. All above average pubs are very profitable under the current system, producing profits far in excess of their colleagues in the food and beverage industry. Proposal V2 will return some of the profits to the community whilst leaving none worse off than the current system. At the bottom end of the EGM market, venues have lower EGM losses and fewer EGMs and are situated in more remote locations. The table reveals that with losses of \$20,000 per EGM, venues make gaming losses under the current system. This will worsen under the Bill proposals. Proposal V2 will assist these venues with lower licence fees rather than forcing them out of business. Those with EGM losses of up to \$35,000 will be better off.

On the matter of costs, as indicated above, the same level of variable costs as a % of player losses was assumed for all pubs. It is likely the pubs with higher player losses have a lower level of variable costs and to that extent gaming profits for larger venues are understated and profits for smaller venues overstated. But this does not invalidate the comparisons which are the aim of the exercise.

In the case of venues' fixed costs which include core monitoring, regulated fee functions, market-based functions and machine finance costs it is certain that these costs will be lower per EGM for larger venues particularly those with common ownership. For the Vantage Group the advantages are even more manifest. Network Gaming and Odyssey Gaming are stablemates in the Federal Group. From an internal group management viewpoint, the costs of many of these functions will be the marginal cost to provide the services by these associated companies already established to perform the necessary tasks. This means the costs faced by the Vantage Group will be considerably less than those faced by other operators, even those with multiple venues, and certainly much less than the smaller single owner operations. Hence by assuming a similar level of fixed costs across all venues, the gaming profits in the above table are likely to be understated for larger venues, particularly those in multiple ownership, and possibly overstated for the smaller venues.

Again, however this does not invalidate the comparisons. The comparable differences for any venue won't change if costs vary.

The aim of Proposal V2 is to achieve a more appropriate share for the community, to give a helping hand to the smaller more remote venues, and to remove some of the super profits from an already very profitable part of the gaming sector. Much of the public discussion focuses on the breaking of Federal Hotels' monopoly and attention is diverted away from existing super profits in the industry. If industry is to claim extra super profits are needed to upgrade their businesses, they need to show how the super profits earned by them over the past 25 years have been spent. Even if this can be provided it begs the questions as to why EGM pubs should receive further preferential treatment compared to everyone else in the hospitality sector. To allow a proliferation of super profits in one sector of the hospitality industry will lead to aggregators moving into the gaming industry chasing higher returns, where the super profits will be used to repay loans and make returns to owners rather than spent in communities, and where gaming will become the predominant focus for venues, rather than as another offering in the leisure and hospitality industry complementing food and beverage operations.

Note on data sources

EGM player loss figures for each licensed EGM venue for 2015/16 were obtained from Treasury in Feb 2018 and posted on Andrew Wilkie's website [Full-poker-machine-figures.xlsx \(live.com\)](https://www.andrewwilkie.com.au/full-poker-machine-figures.xlsx)

The TLGC publishes data for overall player losses each year and provides a breakup across LGA areas with more than 2 EGM venues. The pattern of losses is fairly consistent each year. In 15/16 losses in the Glenorchy LGA represented 18.8 % of the State total. Five years later in 20/21 the figure was 18.3%. The pattern is similar for other LGAs, Burnie 6.4% in 15/16 and 6.1% in 20/21, Central Coast 6.2% and 6.4%, Clarence 8.0% and 8.6%, Devonport 9.8% and 9.9%, Launceston 15.1% and 15.7% and Waratah Wynyard 5.0% and 4.9%.

There have only been a few minor changes in venues and EGM numbers since 15/16. Two pubs and one club have gone. The latter was the Glenorchy RSL which the list from Treasury shows had losses of \$19,700 per EGM, which as the above table of gaming profits indicates, was below breakeven. One pub has been added, there have been a couple of minor changes in EGM numbers, and a couple of new entrants in 15/16 have improved their rankings.

Proposal V2 in detail

The proposed V2 license fee per EGM is based on the venue's gross profit from EGMs divided by the number of EGMs in that venue at the beginning of the license year.

Gross profit per EGM	Base fee \$	Plus marginal fee \$
Up to \$20,000	\$1	not applicable
From \$20,001 to \$40,000	\$1	10% of gross profits > \$20,000
From \$40,001 to \$60,000	\$2,001	20% of gross profits > \$40,000
Above \$60,000	\$6,001	30% of gross profits > \$60,000

Applying this produces licence fees per EGM:

Gross profit per EGM	Fee per EGM
\$20,000	\$1
\$30,000	\$1,001
\$40,000	\$2,001
\$50,000	\$4,001
\$60,000	\$6,001
\$70,000	\$9,001
\$80,000	\$12,001
\$90,000	\$15,001
\$100,000	\$18,001

Updated 14th Nov 2021