

# Stage 2 Cost Recovery Impact Statement

## ***Problem Gambling Levy 2019/20 to 2021/22***

### ***Agency Disclosure Statement***

1. This statement has been prepared by the Ministry of Health (the Ministry) and the Department of Internal Affairs (the Department) on the problem gambling levy and specifically the levy weighting options that affect how much of the levy each gambling sector will pay for the levy period between 1 July 2019 and 30 June 2022.
2. The Ministry is responsible for developing and implementing an integrated problem gambling strategy focused on public health. The Strategy to Prevent and Minimise Gambling Harm 2019/20 to 2021/22 is this integrated strategy (the Strategy). The Department is the primary regulator of the gambling sector, administers relevant legislation (including the problem gambling levy regulations) and is the Government's key policy advisor on gambling.
3. The Gambling Act 2003 (the Act) constrains the nature of the options analysed as it:
  - a. prescribes an integrated problem gambling strategy and details specific content as well as requirements for consultation on the strategy and levy [sections 317 and 318]
  - b. provides for a levy, set by regulation on gambling operators, to recover the cost of 'developing, managing and delivering' the Strategy [section 319] and specifies the formula 'to be used in estimating the proposed levy rates payable by gambling operators' [section 320]
  - c. limits the weightings used to player expenditure and presentations.
4. In developing the player expenditure forecasts used in this analysis, the Department considered information from a variety of sources including annual reports, payments to Inland Revenue and expenditure trends over proceeding years.
5. Key limitations of the analysis are the difficulty in accurately assessing the extent to which harm is properly attributable to each levy-paying gambling sector and forecasting player expenditure given the variability and volatile nature of some forms of gambling, particularly three or more years into the future. The current policy settings for the levy formula limit the types of sectors levied and the formula limits how harm is assessed.

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## ***Executive summary***

1. This impact statement is for a problem gambling levy (the levy) to recover the cost of the Strategy for the period from 1 July 2019 to 30 June 2022. The regulatory change is to the potential weightings and consequential levy rates for each of the four levy-paying gambling sectors.
2. The Gambling Act 2003 (the Act) recognises gambling can be harmful and provides for an integrated strategy to prevent and minimise harm from gambling, that must include including public health and treatment services, independent research and evaluation.
3. The Act specifies a levy is to recover the Ministry's costs of developing, managing and implementing the strategy. Section 320(1) of the Act sets out a levy formula that includes a mechanism for allocating and collecting these costs from gambling operators. It uses player expenditure and help-seeking data as proxies for gambling harm that are weighted in the formula to determine each sector's levy liability. This means that a given sector's levy liability can change even if the amount of the levy does not change. Such changes in levy liability are typically relatively minor in the context of changes in sector profits.
4. Funding is appropriated to the Ministry through Vote Health to develop and implement the Strategy. The levy is collected by Inland Revenue and set to reimburse the Crown the amount the Ministry spends on the Strategy, so the Strategy is fiscally neutral over time.
5. The Act also details a two stage consultation process to develop the Strategy and associated levy rates, and limits the Strategy to three years. If new levy regulations are not put in place for 2019/20 onwards, Ministry-funded strategy activities would not be cost recovered. Without cost recovery provisions and ring-fenced funding, these activities may not receive the same level of funding, or be provided at all.
6. The levy is set on operators of the four main types of gambling that contribute the most to gambling harm: non-casino gaming machines (NCGM), casinos, the New Zealand Racing Board (NZRB) and the New Zealand Lotteries Commission (NZLC).
7. The levy calculations are based on the following:
  - The Strategy cost of \$60.339 million for 2019/20 to 2021/22.
  - A levy over-recovery of \$11.958 million forecast to 30 June 2019.
  - Crediting the levy over recovery amount leaves a balance of \$48.341 million to be collected in levy payments for the next levy period.
8. The cost of the Strategy represents a \$5 million increase on the current strategy. This extra funding is required to improve service access and choice by refocusing services to address persistent gambling harm, health inequities and service gaps. These issues were identified in submissions and the gambling harm needs assessment prepared to inform the Strategy.
9. Four levy weighting options were considered to determine the proportion of the total levy each sector should pay, based on their share of harm factors. The levy rates for each gambling sector being levied under each option are significantly lower than the rates for the current period because of the significant over recovery by each sector is credited back to that sector, reducing the amount of levy that are expected to pay.
10. While each levy option meets the policy guidelines and statutory requirements, the Ministry notes there is now a stronger evidence-based case to increase the weighting on expenditure from the 10/90 option to the 30/70 option than has historically been the case. The 30/70 weighting is the Ministry's preferred option.

## **Status quo**

### **The Gambling Act and gambling harm**

11. Research shows about 70 percent of New Zealanders over the age of 15 have participated in some form of gambling at least once in the past year. Some 5 percent of the population gamble to the extent it causes harm to themselves and often to the people around them. Similarly 22% of New Zealanders will be affected by their own or someone else's gambling at some time in their lives. The most popular forms of gambling are NZLC lottery products.
12. The Act provides the regulatory framework for gambling and aims to control the growth of gambling and ensure that money from gambling benefits the community. It also seeks to prevent and minimise gambling harm (including problem gambling) and limit opportunities for crimes associated with gambling (section 3 refers). The regulatory framework, with the exception of casinos, is based on the principle that community groups should benefit from gambling profits (via grants funding), while industry bears the cost of mitigating gambling harm (via the problem gambling levy).
13. The Ministry is responsible for an integrated strategy to prevent and minimise gambling harm (the Strategy). Section 317 states the Strategy must include:
  - a. measures to promote public health by preventing and minimising the harm from gambling;
  - b. services to treat and assist problem gamblers and their families/whānau;
  - c. independent scientific research associated with gambling, including (for example) longitudinal research on the social and economic impacts of gambling, particularly the impacts of gambling on different cultural groups; and
  - d. evaluation.
14. The Act defines harm from gambling broadly and includes harm caused as a result of another person's gambling. Importantly, the burden of harm attributable to low-risk gambling is significant, at nearly 50 percent of all gambling harm.<sup>1</sup> Typically, people affected by harmful gambling are more likely to be Māori, Pacific, or Asian, on a low income and/or living in an isolated area.
15. In addition the Act specifies
  - a. a levy to recover the costs of developing and implementing the strategy (section 319).
  - b. a formula to allocate and collect that cost amongst gambling operators (section 320).
  - c. a detailed two-stage consultation process to develop the Strategy and levy rates, and limits the strategy to three years (section 318).
16. Funding is appropriated to the Ministry through Vote Health. The levy is collected by Inland Revenue and set to reimburse the Crown the cost to Ministry of the Strategy so it is fiscally neutral over time. The levy-paying sectors understand well the levy and its compliance.

### **Levy rates**

17. The levy is set on the four main types of gambling, to recover the costs of the Strategy from those gambling operators whose activities contribute the most to gambling harm. Table 1 shows the current levy rates, which are set out in the Gambling (Problem Gambling Levy) Regulations 2016 and expire on 30 June 2019. The table also shows the expected levy amounts and expected share of the total levy, by sector.

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<sup>1</sup> The 2017 study *Measuring the Burden of Gambling Harm in New Zealand* used measures such as Quality Adjusted Life Years (QALYs) and Disability Adjusted Life Years (DALYs) to estimate the years of life lost due to incapacity as a result of harms from gambling. These totalled 161,928 in 2012. Of this number, 67,928 were lost to gamblers themselves and 94,729 were lost to people affected by someone else's gambling.

**Table 1: Levy rates for 2016/17-2018/19 (10/90 weighting)**

	<b>NCGMs</b>	<b>Casinos</b>	<b>NZRB</b>	<b>NZLC</b>
Levy rate (% of player net expenditure)	1.30	0.87	0.52	0.40
Expected levy amount (\$m)	31.683	14.058	5.148	5.141
Share of total expected levy amount (%)	56.5	25.1	9.2	9.2
Share of budget (%)	55.0	22.7	11.7	10.6

18. Allowing the Strategy and levy to expire without replacing them would not be consistent with the purpose of the Act and is not recommended. If new levy regulations are not put in place, Ministry-funded Strategy activities would not be cost recovered. Without these cost recovery provisions and ring-fenced funding, and despite the significant level of harm from gambling, funding constraints mean it is unlikely these Strategy activities would receive the same level of funding out of Vote Health.

#### ***Levy-paying gambling sectors***

19. The levy regulations enable the responsible Ministers to specify the gambling sectors required to pay the levy. In all five previous occasions, the regulations have specified the same four forms of gambling that research shows contribute the most harm (based on player expenditure and presentations to gambling harm services):
- The non-casino gaming machines (NCGM) sector, which comprises about 300 NCGM operators in pubs, clubs, and TABs. This sector currently operates more than 15,000 NCGMs in about 1130 licensed venues.
  - the New Zealand Lotteries Commission (NZLC), which provides a range of lottery products through a network of retail outlets and online users.
  - the New Zealand Racing Board (NZRB), which provides racing and sports betting at racetracks, through TAB agencies and online accounts. NZRB also operates NCGMs at 42 TAB operated venues.
  - the casino sector, comprising of six casinos, located in Auckland, Hamilton, Christchurch, Dunedin and Queenstown (two), which together operate just over 2,800 gaming machines and just under 200 table games.

#### ***Cost recovery (levy) charges***

20. The Act limits the cost estimates on which the levy is based to a maximum of three years. The levy is the only source of funding for the Strategy.
21. The Act specifies a two-step consultation process to develop the levy that includes:
- requiring an assessment of gambling harm needs and specifying the matters that must be provided for in the Strategy
  - requiring the Ministry to consulting widely on a draft strategy, estimated three year costs and the corresponding levy rates; and
  - requiring the Gambling Commission to consulting on a revised set of strategy proposals (prepared by the Ministry following submissions on the above draft) and making its own recommendations on the levy rates to responsible Ministers.
22. Changes to the Strategy (and hence the associated costs and levy rates) are based on a 2018 needs assessment, submissions on the draft Strategy consultation document, insights from longitudinal surveys, and research and evaluations including the Health Lifestyles Survey 2016, the National Gambling Study 2018 and the 2018 Gambling Outcomes Monitoring Report. The Ministry also considered independent advice prepared for the Gambling Commission, submissions made at its consultation meeting and its report and recommendations to the responsible Ministers.

23. Changes to the levy rates, and amounts payable by each sector, are also based on data about gambling services use, levy under-recovery or over-recovery by sector, player expenditure and forecasts of future player expenditure, by sector.

### **Cost Recovery Principles and Objectives**

24. If the costs of the Strategy are to be recovered by the levy, it must include all the elements that the Act requires. The Act, the Strategy and the Ministry's strategic health documents<sup>2</sup> establish a policy framework within which the levy is set to recover the estimated costs to the Ministry of developing and implementing the Strategy over the next three years. The levy is the funding mechanism to deliver the Strategy, which contributes to preventing and minimising gambling harm, including problem gambling (Section 3(b) refers).
25. The policy principle in the gambling regulatory framework is that the costs of preventing and minimising gambling harm should be borne by gambling operators levied in proportion to the harm attributable to that sector.
26. The Strategy incorporates a strategic framework that sets out the overall goal and more detailed high-level objectives and priorities for action, which provides the rationale for the Service Plan. The overall goal of the Strategy is:
- Government, the gambling sector, communities and families/whānau working together to prevent and minimise gambling harm, and to reduce related health inequities.*
27. The strategic objectives are substantially unchanged from those identified in the Strategy that Cabinet approved in 2010, and are ultimately focused on delivering on the purposes set out in section 3 of the Act to prevent and minimise gambling harm.
28. In addition, any levy recommendation must be consistent with the cost recovery principles set out in the Auditor-General and Treasury guidelines on public sector charging. These are described in the assessment of cost recovery proposals at Appendix 1 that shows the Strategy and levy proposals strongly comply with the guidelines. For example on measures such as legal authority, effectiveness, efficiency, transparency and consultation.

### **Policy Rationale: Why a user charge? And what type is most appropriate?**

29. The Act provides for full cost recovery by a levy on the profits from gambling operators required to pay the levy. This reflects the fact that the need for gambling harm minimisation and prevention services are directly attributable to the availability of licensed gambling operations and the nature of the gambling products they provide.
30. The Strategy outputs (levy funded activities) are public goods. Excluding people from the benefits would be undesirable and costly, and use by one person does not detract their use by another.
31. Research shows that gambling harm is far more likely to be associated with continuous forms of gambling (in which a gambler can immediately 'reinvest' winnings in further gambling, such as gaming machines and casino table games) than with other forms of gambling. It also shows the levy-paying gambling sectors noted above contribute the most harm in terms of player expenditure and presentations to services. NCGMs contribute the most on both measures, as has been the case for many years. Accordingly these four sectors are levied to recover the costs of the services to address gambling harm.

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<sup>2</sup>The Strategy aligns with the Ministry's New Zealand Health Strategy, its Māori health strategy - He Korowai Oranga, and 'Ala Mo'ui: Pathways to Pacific Health and Wellbeing 2014–2018 (Ministry of Health 2014a).

32. Private gambling and forms such as bingo and raffles with limited prize value (which are also regulated) are not charged a levy, as research shows these forms are not associated with significant harmful gambling.

## ***The level of the proposed levy and its cost components***

### ***Proposed charge levels – the costs of the Strategy***

33. Table 2 compares the cost of the Strategy with the cost for the current levy period.

**Table2: Breakdown of Ministry spending by Strategy output**

<b>Strategy funding (GST exclusive) current and proposed</b>	<b>Current 2016-2019 \$m</b>	<b>Levy 2019-2022 \$m</b>	<b>Change \$m</b>
Public Health	20.390	<b>20.530</b>	0.140
Intervention services	25.383	<b>25.243</b>	-0.140
Research and Evaluation	6.629	<b>6.629</b>	0
Ministry of Health admin and operating costs	2.937	<b>2.937</b>	0
New service pilots and technology fund	0.000	<b>5.000</b>	5.000
<b>3-year total</b>	<b>55.339</b>	<b>60.339</b>	<b>5.000</b>

### ***Primary cost driver – the Strategy***

34. The Act specifies the types of activities the Strategy's service plan must provide to meet the statutory requirements. A breakdown of each activity is provided in Annex 2. The drivers of expenditure for 2019/20 to 2021/22 are:
- intervention and support services, such as counselling and helpline support (42% of the levy budget)
  - public health measures (34%), such as those intended to raise awareness of the risks and signs of harmful gambling to foster positive behaviours to prevent or minimise harmful gambling
  - independent scientific research and evaluation (11%) to monitor health inequities and prevalence rates for Maori and Pacific families and vulnerable groups, as well as more action focused research and evaluations.
  - Ministry administration costs (5%) to develop, implement and monitor the Strategy. This amount (\$2.97million) has been unchanged since 2008/09 and is primarily to manage service contracts and procurement, with some policy support as required to refresh the strategy every three years.
35. In addition the Ministry intends to increase spending by \$5 million in the next levy period (8% of the planned levy budget) to pilot new services and technology development:
- to refocus and revitalise Strategy activities by improving access and choice for persons affected by harmful gambling and better meet the needs of groups vulnerable to gambling harm. For example, by developing and piloting a mana enhancing service model for Māori.
  - to enable the Ministry to maintain current levels of service while investing in new intervention and service models. The Ministry will also increase its allocation to evaluate and review services to identify where resources should be targeted in the long term to better address areas of systemic, persistent gambling harm and related health inequities experienced by vulnerable communities.
36. The Ministry considers there is no room to fund this \$5 million in service development by productivity improvements, as Strategy funding has remained largely unchanged since



2008/09, while health costs have increased by 30 percent over the same period.

37. The Ministry does not compile a breakdown of its procurement costs. However, it notes the main cost components of these contracts are salaries, which are benchmarked to comparable costs in other service areas, and for some projects, technology related costs.

**Levy methodology**

38. The levy formula in section 320 of the Act sets out how to calculate the approximate amount each levy-paying gambling sector is expected to pay towards the total levy requirement. From this we can identify the levy rate necessary for each sector to make its expected contribution.

39. The formula is:

$$\text{Levy rate} = \frac{((A \times W_1) + (B \times W_2)) \times C \text{ plus or minus } R}{D}$$

where:

**A** = estimated current player expenditure in a sector, divided by the total estimated current player expenditure in all sectors subject to the levy

**B** = the number of customer presentations to problem gambling services that can be attributed to gambling in a sector, divided by the total number of customer presentations to problem gambling services in which a sector that is subject to the levy can be identified

**C** = the funding requirement for the period for which the levy is payable

**D** = forecast player expenditure<sup>3</sup> in a sector for the period during which the levy is payable

**R** = estimated under-recovery or over-recovery of levy from a sector in previous levy periods

**W1 and W2** are weights, the sum of which is 1.

40. The top line of the formula as a whole determines the approximate dollar amount each sector will be expected to pay towards the total levy requirement, taking into account any under-recovery or over-recovery of levy from that sector in previous levy periods.
41. Most of the levy formula values (A, B, C, D and R) are based on actual presentations and expenditure data or forecast expenditure. These values are summarised in Tables 3 to 5 below and further detail is provided at Appendix 3.

**Table 3 Levy calculations key figures**

Key figures	\$m (GST-exclusive)
Funding Required <b>C</b> (2019/20-2021/22)	60.339
Over recovery <b>R</b> (2004/05-2018/19)	11.958
Levy amount still to be collected (C-R)	48.381

42. The total amount forecast to be raised by the levy for the next three years is about \$48.381 million. This sum is lower than the cost of the Strategy (**C**) due to an expected over recovery of levy (**R**) forecast for each sector. This is credited to each sector and reduces the amount each sector must pay to achieve their share of the total for the new levy period.

<sup>3</sup> Section 320 of the Act defines player expenditure for each sector, which is equivalent to player losses (money spent minus winnings)

43. Table 4 shows forecast player expenditure (**D**) over the next three years. The levy rate to apply for each sector is determined by dividing the sector's required levy payment (top line) by the forecast player expenditure for that sector. All other things being equal, the higher the forecast player expenditure for a sector over the course of the levy period (**D**), the lower that sector's levy rate.

**Table 4: Forecast expenditure by sector (GST-inclusive), 2019/20–2021/22**

Forecast expenditure	NCGMs	Casinos	NZRB	NZLC
2019/20 (\$m)	951.143	645.345	383.428	593.9
2020/21 (\$m)	981.184	667.463	395.794	606.8
2021/22 (\$m)	1,012.173	689.581	408.161	638.0

44. Table 5 sets out each sector's share of total player expenditure (**A**) and each sector's share of total presentations (**B**) attributed to the levy-paying sectors, to apply for 2019/20–2021/22. These shares are based on 2017/18 total player expenditure of \$2,383 million and total presentations of 5,300.

**Table 5: Percent share of expenditure (A) and presentations (B) by levy-paying sector,**

	NCGM		Casinos		NZRB		NZLC	
	Exp.	Pres.	Exp.	Pres.	Exp.	Pres.	Exp.	Pres.
<b>2018/19</b>	37.6%	53.3%	24.2%	23.0%	14.7%	10.4%	23.5%	13.3%

45. The levy formula uses two weightings as a proxy for harm attributed to each sector: **W1** is for expenditure (player spending minus winnings) and **W2** represents presentations (people seeking help). The weightings are represented in the  $(A \times W1) + (B \times W2)$  component in the top line of the formula, which determines the share of the funding requirement (**C**) that each sector must pay. When a sector's share of player expenditure (**A**) is substantially different from its share of presentations (**B**), the weighting between expenditure **W1** and presentations **W2**, is critical to determining the share of the budget that sector will be expected to pay. The impact of the levy weightings is discussed in the next section.

## Impact analysis

### Impact of levy amounts

46. The level of funding raised by the levy is set to offset the cost of the Strategy. The key impacts are in providing public health services to educate about the signs and risks of harmful gambling, in order to effect positive behavioural change and the costs of clinical intervention and support services that will help 10,000 to 12,000 people annually who are affected by their own or someone else's harmful gambling.
47. Strategy expenditure represents value for money. A 2011 KPMG review of the costs of Ministry-funded Strategy outputs showed they provided value for money across six of the seven criteria used to assess value. In 2010, the Australian Productivity Commission concluded that the social cost of gambling harm means that even harm minimisation measures with modest efficacy rates could generate net benefits, provided they did not generate excessive costs for gamblers or the industry generally.
48. The Ministry purchases services to address gambling harm using a procurement model, and where possible endeavours to ensure consistency with costs provided for comparable services for other forms of addiction. The Ministry will monitor this as it implements the evaluation of current activities and procurement for services in the next levy period.



49. The levy rates and amounts paid by each sector have minimal impact on operators in each of the four levy-paying gambling sectors. These sectors have a combined annual player expenditure forecast in the order of \$2.5 billion for each of the next three financial years to 30 June 2022. Based on these forecasts, the impact of the levy will be about \$16 million per year in levy payments to Inland Revenue. This is a reduction on the \$18.5 million in annual levy payments expected for the current levy period and translates to 0.6% of the sector's total forecast annual expenditure.

### **Impact of weightings**

50. The weighting options do not affect the total levy requirement, only the portion of the total levy amount that each levy-paying sector is expected to pay, which in turn determines the levy rate to apply.
51. The weightings allow responsible Ministers to apportion the costs of the Strategy to the levy-paying sectors in a way that they consider to be fairer than if they had to rely on either expenditure alone, or presentations alone. The weighting selected is a matter of judgment; there is no scientifically 'correct' answer. The levy formula does not require the inclusion of a combined weighting. Each sector's share of the budget could simply be the same as its share of either all expenditure attributed to the levy-paying sectors or, alternatively, its share of all presentations.
52. The weighting combination chosen is not expected to have a significant impact on gambling consumers. However, it may slightly affect the amount of money that NCGM operators and NZLC have available to allocate for authorised purposes<sup>4</sup>, the amount NZRB may distribute to the racing industry, and the six casinos' net profits.

### **Limitations with weightings**

53. There are some limitations in using weightings. For example, there may be no single weighting that will result in every levy-paying sector paying the amount that responsible Ministers consider to be their fairest share of the Strategy's costs. Similarly, there may be no weighting that will result in a particular sector paying what responsible Ministers consider to be its fairest share of the Strategy's costs.
54. Potential disadvantages with a very high weighting on presentations are due to the broad definition of gambling harm in the Act and the fact that presentations tend to reflect high levels of harm at the acute end of the harm continuum, such as associated with problem gambling. Presentations do not reflect the harm from low to moderate gambling.
55. Accordingly, each sector's share of presentations may not necessarily be a fair share for that sector to bear of low to moderate levels of harm, or of the public health, research and evaluation activities also required by the Strategy to address gambling harm. Similarly gambling sectors may not be associated with all forms of harm in the same proportions as they are associated with presentations to intervention services. The player expenditure weighting has the advantage of attributing to each sector their share of public health and other non-intervention activities covered by the Strategy.
56. Similarly, too high a weighting on expenditure may disadvantage gambling operators of relatively benign forms of gambling that have high expenditure, but relatively low numbers of presentations compared with others. Conversely, an advantage of the presentation weighting is that it minimises the impact of fluctuations in expenditure that some sectors experience. However, the purpose of the Strategy is to prevent and minimise gambling

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<sup>4</sup> The Act defines an authorised purpose as one that is a charitable purpose, a non-commercial purpose beneficial to the whole or part of the community, promoting controlling or conducting a race meeting, and (except for class 4) an electioneering purpose

harm not player expenditure per se.

57. While too high a presentations weighting may disadvantage diligent host responsibility to detect problem gambling and encourage help seeking behaviour, there are other regulatory provisions in the Act to monitor compliance and address this risk.

### Weighting Options

58. The Ministry consulted on four weighting combinations for the Strategy: 5/95; 10/90; 20/80; and 30/70. Historically, Ministers have chosen the 10/90 weighting option. However, as previously noted, there is no 'correct' weighting; each is a subjective judgment about how to best apportion payments to each sector.

59. Each weighting option is stated as a combination of percent expenditure/percent presentations. For example, 30/70 means 30 percent based on the sector share of total expenditure and 70 percent based on the sector share of total presentations.

60. Table 5 above shows sector shares of expenditure **A** and presentations **B** for 2017/18. Table 6 shows the effect of the different weighting options on each sector's share of the budget cost, their associated levy amount and the corresponding levy rate based on this amount. The corresponding values for the 10/90 weighting used in the current period are shown for comparison.

**Table 6: Weighting options.**

Weighting Option		2019/20-2021/22 Share of budget, levy rate and expected levy amount, under four alternative weightings				Total
		NCGMs	Casinos	NZRB	NZLC	
5/95	Share of budget (%)	52.62%	22.91%	10.58%	13.88%	100%
	Levy rate (%)	0.87	0.55	0.46	0.35	
	Expected amount (\$m)	25.617	11.013	5.462	6.435	
10/90	Share of budget (%)	51.90%	23.02%	10.83%	14.25%	100%
	Levy rate (%)	0.85	0.55	0.47	0.36	
	Expected amount (\$m)	25.028	11.013	5.581	6.619	
20/80	Share of budget (%)	50.19%	23.24%	11.17%	15.40%	100%
	Levy rate (%)	0.82	0.56	0.49	0.40	
	Expected amount (\$m)	24.145	11.213	5.818	7.355	
30/70	Share of budget (%)	48.46%	23.34%	11.81%	16.39%	100%
	Levy rate (%)	0.78	0.56	0.52	0.43	
	Expected amount (\$m)	22.967	11.213	6.174	7.906	
<b>For 2016/17 to 2018/19</b>						
Share of current budget (%)		<b>55.0</b>	<b>22.7</b>	<b>11.7</b>	<b>10.6</b>	
Current levy rate (%)		<b>1.30</b>	<b>0.87</b>	<b>0.52</b>	<b>0.40</b>	
Current expected amount (\$m)		<b>31.683</b>	<b>14.058</b>	<b>5.148</b>	<b>5.141</b>	

Note the levy rate is the amount per dollar of expenditure (player losses) over the course of a levy period that a sector must pay. For example, a rate of 1.3% means a sector must pay 1.3 cents in levy out of every dollar of player expenditure in that sector over the three-year levy period.

### Impacts of the weighting combinations

61. Table 6 shows the impacts of each weighting factor as follows:

- a. A higher weighting on expenditure (e.g. 30/70) means that NZLC, and to a lesser extent NZRB, pay a higher share of the budget (as their percentages of expenditure

are higher than their percentages of presentations).

- b. A higher weighting on presentations (e.g. 10/90) means that NCGMs pay a higher share of the budget (as their presentations share is much greater than their expenditure share).
- c. The weightings make a relatively limited difference to the casino share (because that sector's share of expenditure is close to its share of presentations).

62. Table 6 shows that compared with the current levy period (shown at bottom of table):

- a. Proposed levy rates for the next period are lower across all sectors under any option (except the NZLC levy rate for 30/70 option).
- b. Expected levy payment amounts are lower for NCGM and casinos and higher for NZRB and NZLC, but NCGM and casinos still pay the most in levy under any option.
- c. Shares of the budget amounts are lower for NCGM and greater for NZLC under any option, but there is little change for casinos or NZRB.
- d. The NZLC levy payment amount and share of levy has increased under any option, due to increases in its shares of both player expenditure and presentations.

63. These changes relative to the current levy period reflect the combined effects of changes in sector shares of expenditure and presentations, forecast player expenditure and levy under or over-recovery.

### **Preferred weighting option 30/70**

64. The Ministry notes there is now a stronger evidence-based case to increase the weighting on expenditure from 10 percent (the 10/90 option) to 30% (the 30/70 option). Most of the submissions commenting on weighting options, from a broad range of stakeholders, including NCGM operators, research and service providers, supported an increased weighting on expenditure. They argued this option is a more current indicator of exposure to all levels of harm than presentations, which tend to reflect harm that manifests as a crisis, and is more consistent with the Strategy's public health objectives.

65. Each 'presentation' represents a person who is seeking help because of harm caused by their own or someone else's gambling. However, as the Gambling Commission noted in its 2009 report on the proposed problem gambling levy, a very high weighting on presentations might mean that "diligent host responsibility in detecting problem gambling and encouraging the seeking of assistance is punished not rewarded".

66. Accordingly, the Ministry's preference is for a 30/70 weighting option. The other weighting combinations would meet the statutory requirements and policy guidelines, but are considered to be relatively less likely to meet the public health objectives of the Strategy.

### ***Gambling Commission's independent advice***

67. As required under the Act, the Gambling Commission undertook its own consultation on the proposed Strategy with invited stakeholders. It also commissioned independent advice on the Strategy and levy proposals, as the Act envisages it may do.

68. The Commission's consultation meeting on 30 January 2019 was attended by officials from the Ministry and the Department, gambling industry representatives and service providers. Most of those attending were NCGM operators or related gambling industry providers. All invitees had an opportunity to make a submission. The Commission subsequently provided its report to responsible Ministers, which essentially supported the general approach to the

Strategy and total budgeted cost of \$60.339 million over three years. It noted levy payments were forecast to over-recover \$11.958 million, so the next levy period would need to recover \$48.381 million to maintain a fiscally neutral approach over time, and concluded the most appropriate levy option was the 30/70 weighting. The Commission did not support either the 10/90 or 5/95 options.

69. The rationale in favour of the 30/70 weighting was:

- a. Presentations may be unrepresentative of all harm as they focus on high risk or problem gambling, whereas research estimates 50 percent of the burden of harm is associated with low to moderate risk gambling. As presentations reflect high risk gambling, this means that half of the harm would not be accounted for by too high a weighting on presentations.
- b. Only a small and declining number of high risk gamblers appear to be receiving intervention support, which tends to focus on high levels of harm.
- c. Measurement of presentations is subjective and does not factor in the costs or degree of harm attributable to each of those interventions.
- d. A heavy weighting on presentations is inconsistent with the wider public health objectives of the Strategy, including the promotion of resilience within populations and the research and evaluation activities that generally benefit all sectors.

## **Consultation**

70. The Ministry undertook extensive consultation on the Strategy, its strategic direction, the service plan, related costs, the levy formula and weighting options, and on the location of NCGM venues. The Ministry consulted government agencies, the gambling industry and gambling operators, health and gambling harm service providers, researchers and local government. It published the consultation document in sector newsletters, through social media and to selected community groups. Some 200 people attended 10 public meetings in Auckland, Wellington, Christchurch and Dunedin. Meetings included one each for Māori, Pacific, and Asian viewpoints, one for the gambling industry in each of Auckland and Wellington and one in Auckland for people with 'lived experience' of gambling harm.

71. The Ministry received 82 written submissions from a broad cross section of stakeholder groups (compared with 47 submissions in 2015). Three out of five submissions indicated support for the general approach and direction of the Strategy, with a further one in five providing qualified support. Stakeholders expressed contrasting views on matters such as the level of funding or the need for new services. NCGM and some other gambling operators generally opposed any increase in Ministry spending or new services. In contrast, other stakeholders were generally in favour. Some service providers considered even more funding was necessary to address cost pressures.

72. In terms of the weighting options, there was no support for the 5/95 option. Gambling sector organisations preferred the combination that limited their own levy liabilities. There was broad support to increase the expenditure weighting from 10 percent to at least 30 percent (the 30/70 option) from the NCGM sector, and research and some service providers.<sup>5</sup> The remaining gambling sector submissions supported the 10/90 weighting and a few other submissions supported the 20/80 option.

73. Three submissions proposed increasing the expenditure weighting to 50 percent or more.

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<sup>5</sup> Research such as from burden of harm noted earlier would support increasing the weighting on expenditure as it better reflects all the components of the Strategy, not just harm leading to acute treatment.

The Ministry considers that any weighting of more than 30 percent on expenditure may not be appropriate as it could unfairly penalise operators of relatively benign forms of gambling with high expenditure.

74. The draft Strategy also called for suggestions about how the levy formula could be changed in future to better reflect harm. There are other ways to identify harmful gambling, such as using screening instruments like the Problem Gambling Severity Index (PGSI), or survey questions that directly address the risk of harm due to particular gambling products.
75. The revised Strategy notes the Ministry and the Department recognise there is merit in revisiting the levy formula and will review submissions on this topic as part of an ongoing work programme, and that stakeholders will be consulted during the next levy period about any specific proposals to change the levy.
76. More generally, in response to submissions, the Ministry has retained the level of funding and new service development proposed, and amended the proposals to:
- highlight the value and need for the proposed pilots, evaluation and action research, service co-design, consumer networks, and peer support, to inform new services to prevent and minimise gambling harm for vulnerable groups including children;
  - clarify the purpose and impact of the additional \$5 million for piloting new service development and a new “technology innovation fund”;
  - strengthen the public health and strategic priorities’ sections to highlight the above
  - clarify the implementation processes would engage stakeholders regarding planned procurement activities and areas where further policy work is anticipated; and
  - update the levy and financial calculations with latest available information.
77. In addition, as required under the Act, the Gambling Commission consulted with invited stakeholders on 30 January 2019 on the Ministry’s revised proposals and reported to responsible Ministers on 14 February 2019 with its recommendations.
78. The Ministry subsequently prepared a final decisions paper for Cabinet on the Strategy, the problem gambling appropriation and levy rates for each sector.

## **Conclusions and recommendations**

### **Ministry funding for 2019/20 to 2021/22**

79. The Ministry proposed spending on the Strategy is \$60.339 million over three years. This represents a \$5 million increase over the budget for the current levy period, to enable the Ministry to pilot new services and to develop more effective services for communities at most risk of gambling harm.
80. To maintain fiscal neutrality, the \$60.339 million cost of the Strategy will be offset by:
- a \$6.958 million levy overpayment forecast to be collected by Inland Revenue by 30 June 2019;
  - a \$5 million transfer from the forecast underspend of the 2018/19 appropriation; and
  - \$48.381 million collected by the proposed levy rates and forecast payments to Inland Revenue for 2019/20 to 2021/22 (assuming actual expenditure matches the forecasts).

### **The levy-paying gambling sectors**

81. The Ministry recommends no change to the four sectors required to pay the problem gambling levy i.e the levy paying sectors should be:

- non-casino gaming machine (NCGM) operators, including pubs, clubs and the New Zealand Racing Board in respect of their NCGMs;
- casinos;
- the New Zealand Racing Board's racing betting and sports betting products; and
- the New Zealand Lotteries Commission.

82. Responsible ministers have asked officials to review submissions on the draft Strategy related to ways to improve the levy formula, including levy paying sectors and components that could be added or removed to better reflect harm. This may result in changes to apply to successive levy periods from 1 July 2022.

### ***Levy weightings and levy rates***

83. The Ministry and the Gambling Commission both recommend a 30/70 weighting, largely because it is seen as better reflecting all the required components of the Strategy, not just harm that results in treatment at the acute end of the harm continuum. The levy rates that would result are set out in Table 8.

**Table 8: Recommended levy rate for each gambling sector, 2019/20-2021/22**

Expenditure to presentation ratio	Levy rate payable as a percent (GST exclusive)			
	Non-casino gaming machines	Casinos	New Zealand Racing Board	New Zealand Lotteries Commission
30/70	0.78	0.56	0.52	0.43

### ***Implementation plan***

84. Assuming that the Government agrees to refresh the Strategy and put in place a new levy, the Department will incorporate these decisions into new problem gambling levy regulations, to take effect on 1 July 2019 and remain in force until 30 June 2022. These regulations must be gazetted by 2 June 2019 to comply with the 28-day rule.

85. There are minimal risks to implementing the levy changes. The levy and its payment are well understood by levy administrators and gambling operators and the only change will be to the value of the levy rate payable by each sector. Implementing this change should result in minimal compliance costs for gambling operators who must pay the levy.

86. After the regulations are notified in the Gazette, Inland Revenue will conclude system changes to implement any changes to the levy rates, the Department will advise gambling operators of the new levy rates and the Ministry will tender intervention and public health services. The Ministry will initially exclude those that have been introduced or had changes in the last two years, followed by a tender for infrastructure services. This will provide service stability during the transition to the new levy period.

87. Any risks to Ministry spending are contained. The Ministry monitors its spending on the Strategy through a memorandum account and can adjust contracts as required to remain within allocated funding, for example by realigning or exiting contracts.

88. There are some risks to service design and delivery. For example, the needs assessment and submissions identify falling utilisation rates, cultural and language barriers, gaps in relevant information for decision-making and in workforce capability and capacity. Service provider submissions also expressed concern about cost pressures, risking service sustainability. The Ministry monitors cost pressures and as required can provide cost adjustments. Other delivery risks should be mitigated by the changes proposed to the Strategy. For example, the service co-design and consumer networks should help inform new service design, pilots and action research to better address client needs and



overcome barriers to access.

## ***Monitoring and evaluation***

89. The Strategy's monitoring and evaluation provisions are integral to assess its efficacy, and are complemented by the Ministry's standard contract management provisions and results based accountability model. The new pilots, action research and evaluation activities are also subject to these provisions and will contribute to our learning model of service improvement.
90. The Ministry's contract management process includes monthly data collection, six-monthly reporting, routine audits and verification visits. For example, intervention services are monitored as data is reported monthly, typically covering the number and type of interventions, client details such as ethnicity, location and outcome. Similar monitoring occurs for public health activities, although some are population level, such as for health education activities seeking positive behavioural change. Specific monitoring and evaluation details are finalised as work is commissioned.

## ***Review***

91. The Act requires the Strategy to be reviewed and refreshed at least every three years, including a reassessment of estimated costs and associated levy rates. The statutory process includes an assessment of gambling harm needs to inform the Strategy, the types of activities the Strategy must include and a detailed two-stage consultation. It also includes reviewing and updating technical data about gambling research, service outcomes, service demand, forecast player expenditure, levy payments received and actual Ministry spending.
92. In 2021, the Ministry would expect to consult again with proposals to refresh the Strategy and levy rates, with the next strategy and levy regulations being developed to come into effect on 1 July 2022.

## Annex 1 Cost recovery proposals assessment

1. Table 1 below provides an assessment showing how the cost recovery proposals (including weighting options) align positively with the cost recovery principles.

**Table 1: Assessment of cost recovery proposals**

Principles to apply to cost recovery	Application to cost recovery proposals (yes/no)	
<b>Authority.</b> Is there legal authority to charge a fee (levy) and does it operate within the scope of the empowering provision?	Yes	The Act specifies the requirements for developing the Strategy and provides the legal authority for the levy. The levy proposals developed comply with these requirements and the empowering provisions.
<b>Effectiveness:</b> Are resources allocated in a way that contributes to the outcomes sought. Is the level of funding fit for purpose?	Yes	The Strategy provides for sufficient activities to meet the purpose and requirements of the Act, to prevent and minimise harm from gambling, to give effect to the areas specified in the Strategy. The Strategy allocates sufficient activities and resources that the Ministry considers are necessary, based on available evidence, to give effect to the Strategy.
<b>Efficiency:</b> Is the user charge no higher than necessary to produce a good or service to the desired level of quality. Does the design of the charge incentivise efficiency ie, keeping costs down and the quality of the service high?	Yes	The Strategy allocates sufficient resources and provides the minimum funding the Ministry considers is necessary to maintain an acceptable level of service. The levy setting process allows robust discussion about the proposed funding/levy rates and Strategy activities.  In real terms the levy rates recover amounts that represent less than one percent of each sector's reported annual profits, and the expected levy amount total is less than for the current levy period.
<b>Transparency.</b> Is information about the costs available in an accessible way to all stakeholders, including information about cost drivers and components that make up the levy charge. Has cost recovery been approached in an 'open book' manner?	Yes	The proposed Strategy and cost components are freely disclosed and subject to public reporting and robust debate through a two-step, open book consultation process. This allows for an opportunity to reflect on and revise proposals.  Information relevant to the Strategy, its costs and levy calculations is published on the Ministry and Department's website. Research and evaluation reports and presentation data are also routinely published by the Ministry.
<b>Consultation.</b> Has there been meaningful engagement with all stakeholders and the opportunity for them to contribute to the cost recovery proposals.	Yes	The Strategy and levy proposals are subject to a detailed open two step consultation process and independent advice from the Gambling Commission.
<b>Equity:</b> Are stakeholders being treated fairly. Have impacts over time been identified?	Yes	The levy formula apportions the levy amount each sector should pay according to an estimate of harm attributable to that sector. This approach is considered fair as research shows some forms of gambling are likely to be more harmful than others, and the most harmful are continuous forms of gambling such as gaming machines and casino table games.  Presentation weighting helps minimise the impact of fluctuations in player expenditure from time to time.
<b>Simplicity:</b> Is the cost recovery regime straight forward and understandable to relevant stakeholders?	Yes	The levy setting regime is well understood by the gambling operators required to pay the levy and clearly documented.
<b>Accountability.</b> What is the accountability to the public and Parliament?	Yes	The Ministry's appropriation and spending on the Strategy are reported as a separate item in the Estimates and the Ministry's annual report to Parliament. The consultation processes provides further transparency and accountability.

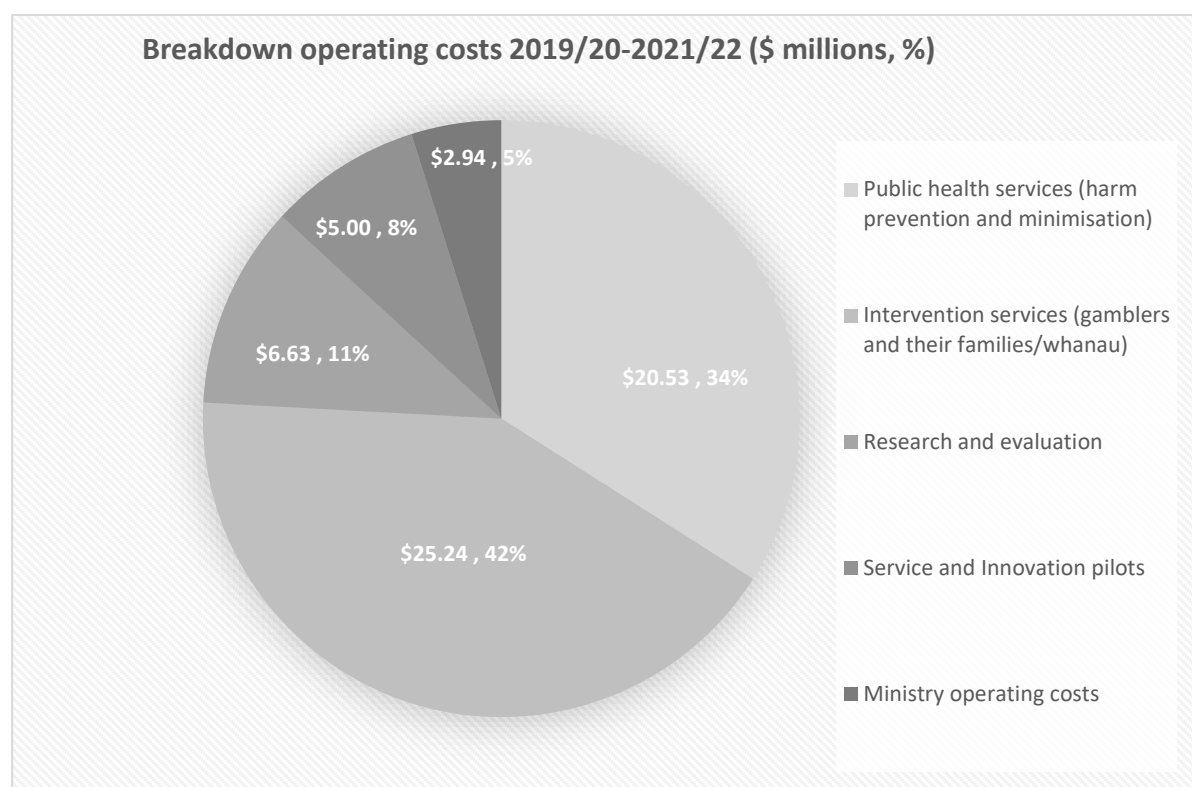
## Annex 2 Strategy Operating costs

1. The main outputs of the Strategy which the levy cost-recovers are public health and intervention services, independent research and evaluation. These account for 95% of the proposed spending on the Strategy and are purchased through a contestable procurement process. The key spending areas and costs are shown in Table 1 and Figure 1.
2. Also included are the costs to the Ministry of developing, implementing and monitoring the Strategy. These account for 5% of the budgeted spending.

**Table 1: Indicative budgets to prevent and minimise gambling harm (GST-exclusive), 2019/20–2021/22**

Service area	2019/20 (\$m)	2020/21 (\$m)	2021/22 (\$m)	Total (\$m)
Public health services (harm prevention and minimisation)	6.870	6.790	6.870	20.530
Intervention services (to treat and help problem gamblers and their families/whānau)	8.413	8.415	8.415	25.243
Research and evaluation	2.060	2.219	2.350	6.629
New service and technology pilots	1.335	1.695	1.970	5.000
Ministry operating costs	0.957	0.99	0.99	2.937
<b>Total (\$m)</b>	<b>19.635</b>	<b>20.109</b>	<b>20.595</b>	<b>60.339</b>

**Figure 1: Breakdown of Strategy Estimated Operating Costs 2019/20-2021/22**



4. The following tables provide a breakdown of costs associated with each line item in Table 1 above.

**Table 2: Breakdown of public health budget (GST-exclusive), by service area, 2019/20–2021/22**

Service area	2019/20 (\$m)	2020/21 (\$m)	2021/22 (\$m)	Total (\$m)
Primary prevention(public health action)	4.700	4.700	4.700	14.100
Workforce development (public health)	0.180	0.180	0.180	0.540
Awareness and education programme	1.680	1.680	1.680	5.040
National coordination service	0.130	0.130	0.130	0.390
Consumer networks	0.100	0.100	0.100	0.300
Conference support	0.080	0.0	0.080	0.160
<b>Total (\$m)</b>	<b>6.870</b>	<b>6.790</b>	<b>6.870</b>	<b>20.530</b>

Note: All service areas include provision for dedicated Māori, Pacific and Asian services and activities.

**Table 3: Breakdown of intervention services budget (GST-exclusive), by service area, 2019/20–2021/22**

Service area	2019/20 (\$m)	2020/21 (\$m)	2021/22 (\$m)	Total (\$m)
Helpline and web-based services	1.100	1.100	1.100	3.300
Psychosocial interventions and support	7.098	7.100	7.100	21.298
Data collection and reporting	0.015	0.015	0.015	0.045
Workforce development (intervention)	0.200	0.200	0.200	0.600
<b>Total (\$m)</b>	<b>8.413</b>	<b>8.415</b>	<b>8.415</b>	<b>25.243</b>

Note: All service areas include provision for dedicated Māori, Pacific and Asian services and activities.

**Table 4: Breakdown of research and evaluation budget (GST-exclusive) 2019/20–2021/22**

Service area	2019/20 (\$m)	2020/21 (\$m)	2021/22 (\$m)	Total (\$m)
Research	1.485	1.499	1.5	4.484
Evaluation (including outcomes reporting)	0.575	0.72	0.85	2.145
<b>Total (\$m)</b>	<b>2.06</b>	<b>2.219</b>	<b>2.35</b>	<b>6.629</b>

**Table 5: Breakdown of new service and innovation pilots budget (GST-exclusive), 2019/20–2021/22**

Service area	2019/20 (\$m)	2020/21 (\$m)	2021/22 (\$m)	Total (\$m)
Pilots to address inequity (public health and intervention services)	0.700	0.800	0.800	2.300
Technology-related innovation covering MVE, online support and machine-related controls/monitoring (harm prevention)	0.500	0.500	0.500	1.500
Peer support pilot	0.035	0.235	0.430	0.700
Residential care pilot	0.100	0.160	0.240	0.500
<b>Total (\$m)</b>	<b>1.335</b>	<b>1.695</b>	<b>1.970</b>	<b>5.000</b>

## Annex 3 Components of the levy formula

1. This section provides additional information about selected components of the levy formula.

$$\text{Levy rate} = \frac{((A \times W_1) + (B \times W_2)) \times C \text{ plus or minus } R}{D}$$

### Expenditure (A) and presentations (B)

2. Table 1 sets out each sector's share of total player expenditure (A) and each sector's share of the presentations (B) attributed to the levy-paying sectors, for the previous two levy periods, and as set out in the proposals for 2019/20-2021/22. Table 1 shows that from 2012/13 to 2018/19, casino and NZRB shares of expenditure and presentations have been fairly constant with minimal variations while:
- NCGM shares of expenditure and presentations both decreased by 4.6 and 10.8 percentage points respectively;
  - NZLC shares of expenditure and presentations both increased by 3.6 and 7.4 percentage points respectively.

**Table 1: Percent share of expenditure (A) and presentations (B) by levy-paying sector, current and previous strategies**

Year	NCGM		Casinos		NZRB		NZLC	
	Exp.	Pres.	Exp.	Pres.	Exp.	Pres.	Exp.	Pres.
2012/13	42.2%	64.1%	23.9%	20.5%	14.0%	9.5%	19.9%	5.9%
2015/16	39.7%	56.7%	25.8%	22.4%	15.7%	11.3%	18.9%	9.6%
2018/19	37.6%	53.3%	24.2%	23.0%	14.7%	10.4%	23.5%	13.3%

### Levy over-recovery (R)

3. The levy formula provides for R to adjustment each sector's levy amount to account for any estimated under-recovery or over-recovery of levy from a sector in previous levy periods. R accounts for the difference between estimated and actual levy payments made to Inland Revenue compared with the Ministry's forecast and reported spending, to determine the estimated under or over-recovery of levy payments. The calculation is made for each sector and the value is included in determining the levy rate and expected payment share for that sector for the new levy period.
4. Assuming player expenditure meets the forecast amounts, D, for each sector, the levy will generate approximately \$48.3 million over three years in levy payments to Inland Revenue. This is based on the cost, C, being \$60.339 million and R being \$11.958 million. R comprises a forecast levy overpayment to 30 June 2019 totalling \$6.958 million and an expense transfer of \$5 million unspent allocation from the 2018/19 appropriation. This unspent amount has accumulated largely due to delays in letting service provider contracts between 2013 and December 2016 while there was a judicial review of a procurement process.
5. There are limitations in the current formula due to difficulty forecasting player expenditure in out-years, given the variability and volatile nature of some forms of gambling and how gambling harm is accounted for.