

Regulatory Impact Statement Problem Gambling Levy for 2013/14 to 2015/16

Agency Disclosure Statement

Role of Ministry of Health and Department of Internal Affairs

The Ministry of Health and the Department of Internal Affairs have prepared this Regulatory Impact Statement on the problem gambling levy for 2013/14 to 2015/16.

The Ministry is responsible for an integrated problem gambling strategy focused on public health. The purpose of the levy is to recover the cost of the strategy.

The Department is the primary regulator of the gambling sector, administers relevant legislation and is the Government's key policy advisor on gambling.

Options analysed

The current strategy and levy expire at the end of 30 June 2013. This Regulatory Impact Statement canvasses the option of not replacing them. Assuming, on the other hand, that a new strategy and levy are to be put in place, the Regulatory Impact Statement also provides analyses of options for the three issues on which the Government must make decisions:

- the Ministry's appropriation (and therefore the amount of the levy) for 2013/14 to 2015/16
- proposals to split the non-casino gaming machine sector into two or more sectors – this decision essentially determines the sectors that will pay the levy
- a weighting critical to determining the levy rate for each affected gambling sector.

Nature and extent of the analyses undertaken

Information analysed to inform decisions on the levy for 2013/14 to 2015/16 included:

- research on participation in, and the impacts of, various forms of gambling
- data from problem gambling services funded by the Ministry
- data on player expenditure, and forecasts of future player expenditure
- gambling operators' reports to shareholders, annual reports and statements of intent
- data on levy under-collection or over-collection in each of the three levy periods to date
- the findings of an independent value for money review of Ministry-funded problem gambling services, reported in 2011
- other evaluations of the effectiveness of aspects of the strategy
- a needs assessment prepared in 2012 to inform the Ministry's consultation document, an independent report supporting that needs assessment, and a similar 2009 report
- submissions to the Ministry's consultation document
- independent advice prepared for the Gambling Commission, submissions made at its consultation meeting, and its recommendations to Responsible Ministers
- reports of the two Australian Productivity Commission gambling inquiries (1999, 2010).

The Gambling Act 2003 anticipates that the levy will be replaced at least every three years, by means of regulations made under the Act. The analyses in this Regulatory Impact Statement focus on the decisions that are necessary to make regulations setting the levy for 2013/14 to 2015/16. The Act shapes the number and scope of the options analysed, because it:

- states that the purpose of the levy is to recover the cost of ‘developing, managing and delivering’ the strategy [section 319(2)]
- describes the strategy as ‘focused on public health’ [section 317]
- specifies four components that the strategy must include [section 317(2)(a) to (d)]
- details requirements for the process to develop the strategy [section 318]
- includes a formula ‘to be used in estimating the proposed levy rates payable by gambling operators’ [section 320(2)].

Key limitations of the information used to inform the analyses are:

- the difficulty forecasting player expenditure on different forms of gambling more than three years into the future and in an environment of economic uncertainty
- a small degree of uncertainty whether the 2011/12 help-seeking figures used in the formula to determine the problem gambling levy rates represent a continuing pattern
- the unavailability at this stage of the systematic and comprehensive evidence on the effectiveness of the strategy that will become available through the outcomes monitoring and reporting framework over the 2013/14 to 2015/16 period.

No effects requiring a particularly strong case before regulation is considered

The options analysed are unlikely to impair private property rights or significantly impair market competition or the incentives on businesses to innovate and invest, and they do not override fundamental common law principles.

Because the Act emphasises harm prevention and minimisation, help-seeking and expenditure data assist in determining each gambling sector’s levy liability. This means that a given sector’s levy liability can increase or decrease 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 profit.

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Problem definition

1. The Gambling Act 2003 (the Act) recognises that harm from gambling is a sizable issue, and section 317 of the Act sets out requirements for an 'integrated problem gambling strategy focused on public health' (the strategy). The Ministry of Health (the Ministry) is responsible for the strategy.
2. Funding is appropriated to the Ministry for the strategy. A 'problem gambling levy' (the levy) set by regulation at different rates on the profits of the main gambling sectors is intended to reimburse the Crown the amount of that appropriation. This ensures that the strategy is broadly fiscally neutral over time.
3. While it does not explicitly state that there must be a strategy, the Act anticipates that there will be a strategy and that a new strategy and levy will be put in place at least every three years. The existing strategy and levy expire at the end of 30 June 2013. The Government must either allow them to expire without replacing them, or put in place a new strategy and levy before 1 July 2013.
4. If a new strategy and levy are to be put in place, the Government must make three key decisions:
 - the amount to be appropriated to the Ministry to implement the strategy for 2013/14 to 2015/16 (the amount of the levy is calculated from the amount of the appropriation)
 - whether to split the non-casino gaming machine sector into two or more sectors (this decision essentially determines the gambling sectors that will be subject to the levy)
 - what weighting to use in a formula that determines the levy rate for each gambling sector that is subject to the levy.

Status quo

Key features of gambling in New Zealand

Participation in gambling

5. Estimates of people's participation in gambling vary from survey to survey, depending on the date of the survey, its size and response rate, its methodology, what is considered a gambling activity, and how an adult is defined. Even so, some common findings emerge from all the research carried out in New Zealand (including Department of Internal Affairs 2008; Gray 2011; Health Sponsorship Council 2007; Ministry of Health 2009, 2012a). Key findings are:
 - Most adults in New Zealand gamble at least occasionally.
 - However, only a minority participate in any gambling activity other than buying raffle tickets or buying New Zealand Lotteries Commission products.
 - Differences among rates of participation in different gambling activities are more pronounced when the frequency of participation is considered.
 - Participation rates appear to be declining for most forms of gambling (although, in some cases, expenditure may be increasing).

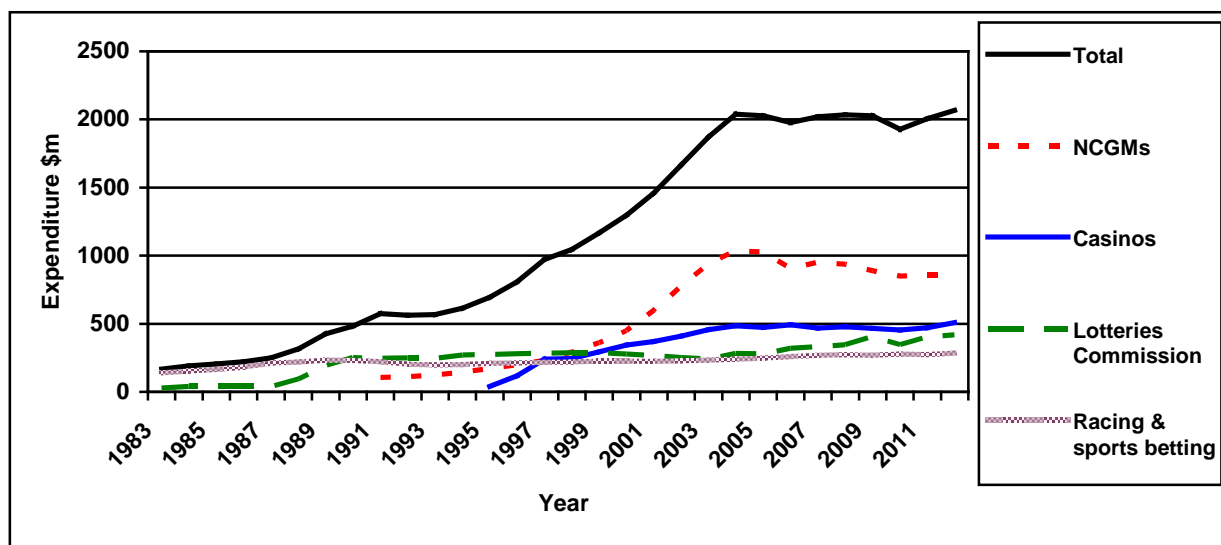
6. Findings from the 2010 Health and Lifestyles Survey (Gray 2011) illustrate these points. The Survey estimated that nearly two-thirds (63%) of people aged 15 or over had bought a New Zealand Lotteries Commission product at least once in the previous year (down from 67% in 2006/07). However, over that same period only:
 - 16% had played a gaming machine in a pub or club at least once (18% in 2006/07)
 - 14% had bet on a horse or dog race or a sports event at least once (18% in 2006/07)
 - 10% had played a gaming machine in one of the six casinos at least once (9% in 2006/07)
 - 3% had played a table game in one of the six casinos at least once (3% in 2006/07).
7. Preliminary findings from the much larger 2011/12 New Zealand Health Survey (Ministry of Health 2012a) disclose similar patterns, but lower rates, of participation. For example, it found that only 6.1% of people aged 15 or over had played a gaming machine in a pub or club at least once in the previous year (10.3% in 2006/07) and only 3.9% had played a gaming machine in one of the six casinos at least once in that time (7.7% in 2006/07).
8. In relation to frequency of participation, the 2010 Health and Lifestyles Survey estimated that 29% of those who had bought a Lotto or Big Wednesday ticket in the previous year did so at least once a week. By contrast, for example, only 7% of those who had played a gaming machine in a pub or club in the previous year did so at least once a week (10% in 2006/07) and 4% of those who had played a casino machine did so at least once a week (1% in 2006/07).
9. The New Zealand Health Survey does not ask about frequency of participation.

Expenditure on gambling

10. Expenditure on gambling refers to the amount spent (lost) by participants. It is also each operator's gross gambling profit.
11. Total expenditure in the main gambling sectors increased rapidly from the mid-1980s to 2003/04, before levelling off. (Most provisions of the Gambling Act 2003 came into force on 1 July 2004.) Figure 1 graphs expenditure over the thirty-year period from 1982/83 to 2011/12 (without adjusting for inflation). Total expenditure ranges from \$168 million in 1982/83, when there were only two main sectors (the Golden Kiwi and racing betting), to \$2,068 million across the four main sectors (non-casino gaming machines, casinos, New Zealand Lotteries Commission products, and racing and sports betting) in 2011/12.
12. It is apparent that the very rapid growth in gambling expenditure from the mid-1990s until 2003/04 was largely attributable to non-casino gaming machines (NCGMs) and, to a lesser extent, casinos. It is worth noting that most casino gambling expenditure in New Zealand also derives from gaming machines (SKYCITY 2012).
13. The 2011/12 data might signal the early stages of another upturn in expenditure, this time driven by casinos and Lotteries Commission products, rather than largely by NCGMs as in the past.
14. In addition to being the highest year for total expenditure across the four main sectors, 2011/12 was the highest year for three of the four sectors (casino gambling, Lotteries Commission products, racing and sports betting). By contrast, expenditure on NCGMs increased to a peak of \$1,035 million in 2003/04, before tailing off.

15. For expenditure on Lotteries Commission products, the seven years up to and including 2011/12 were all higher than any previous year. (The Lotteries Commission made changes in October 2007 and September 2011 that made large jackpots more likely, and began offering some of its products online in May 2008.)

Figure 1: Gambling expenditure in the main sectors, 1982/83 to 2011/12



Source: Department of Internal Affairs gambling expenditure statistics.

16. Table 1 sets out gambling expenditure in the four main gambling sectors over the seven-year period from 2005/06 to 2011/12 inclusive (without adjusting for inflation).

Table 1: Gambling expenditure in the main sectors, 2005/06 to 2011/12

Gambling sector	2006 (\$M)	2007 (\$M)	2008 (\$M)	2009 (\$M)	2010 (\$M)	2011 (\$M)	2012 (\$M)
NCGMs	906	950	938	889	849	856	854
Casinos	493	469	477	465	454	471	509
Lotteries Commission	321	331	346	404	347	404	419
Racing and sports betting	258	269	272	269	278	273	286
Total	1,977	2,020	2,034	2,028	1,928	2,005	2,068

Note: The 'Total' entry may differ from the sum of column entries because of rounding.

Source: Department of Internal Affairs gambling expenditure statistics.

17. The expenditure data in Figure 1 and Table 1 refer to *nominal* dollars (ie, the figures are not inflation-adjusted). The picture is somewhat different if inflation is taken into account. To date, the highest years for *real* expenditure (ie, after adjusting for inflation), are:
- before 1980 for racing industry gambling products
 - around 2003/04 for NCGMs, casino gambling and the total for the four main gambling sectors
 - 2008/09 and 2011/12 for Lotteries Commission products.

18. Comparing gambling expenditure information with the gambling participation information presented earlier discloses that most of the money spent on gambling in New Zealand comes from a relatively limited number of people who play casino and non-casino gaming machines. This has been the case for more than a decade.

Harm from gambling and the risk of harm from gambling

19. Most adults in New Zealand gamble at least occasionally. Most of those who gamble enjoy doing so, and most gambling does not cause harm either to the gambler or to others. Even so, a significant number of people experience harm as a result of their own or someone else's gambling.
20. The Australian Productivity Commission noted recently that this potential for significant harm from some forms of gambling is what distinguishes it from most other enjoyable recreational activities (Productivity Commission 2010). Other important points it made include:
 - The core objective of a public health or consumer approach to gambling (which the Productivity Commission considers to be the best approach) is the prevention and mitigation of harm, which also entails the mitigation of risk factors that might be associated with future harm.
 - Those categorised as 'problem gamblers' on screening instruments remain a central policy concern, because harms from their gambling are more intense and damaging to themselves and others.
 - However, a narrow focus on those categorised as 'problem gamblers' on screening instruments is not appropriate, because:
 - It ignores the 'ripple effects' – harm to third parties from someone else's gambling.
 - It ignores substantial existing harm and risks of future harm associated with the gambling of 'moderate-risk' and 'low-risk' gamblers.
 - It can lead to an excessive focus on individual traits (such as prior mental health conditions) that may sometimes precipitate gambling problems, to the exclusion of aspects of the gambling environment that may lead to harmful outcomes.

Nature of gambling-related harm

21. Harm from gambling can include, among other things, relationship breakdown, depression, suicide, reduced work productivity, job loss, financial problems (including debt and bankruptcy), and various types of gambling-related crime (including family violence, crime to finance gambling, and using gambling to launder the proceeds of crime).
22. There are 'ripple effects': harms can and often do extend beyond gamblers to encompass family members (especially children), whānau, friends, employers, colleagues and whole communities (Bellringer, Abbott, Coombes, et al 2008; Delfabbro 2012; Productivity Commission 1999, 2010; SHORE 2008).
23. At-risk gambling is associated with smoking, depression, hazardous alcohol consumption and other substance abuse, and poorer self-rated health (Delfabbro 2012; Ministry of Health 2009; SHORE 2008). There has been debate whether these types of problems tend to lead to, or tend to be a result of, at-risk gambling (Delfabbro 2012; Productivity Commission 1999, 2010).

24. On this point, a recent critical summary of Australasian gambling research concluded that:
- The issue of causality cannot be resolved unequivocally based on the research findings, and both explanations are likely to be valid, albeit to varying degrees.
 - It is very likely that gambling at best exacerbates existing problems and causes further harm to those who are most vulnerable, and at worst creates problems for people who did not previously have any problems (Delfabbro 2012, pages 113-114).
25. Estimates of the prevalence of harm and the risk of harm can vary from one piece of research to another, depending on the date of the research, the size and response rate of any survey involved, its methodology, how harm is assessed (including any problem gambling screening instrument used), and how gambling and an adult are defined.

Prevalence of at-risk gambling

26. Preliminary findings of the 2011/12 New Zealand Health Survey (Ministry of Health 2012a) indicate that 0.3% of those aged 15 or over (around 11,000 people) would be classified as problem gamblers on the Problem Gambling Severity Index (PGSI), an internationally-recognised screening instrument. Another 1.0% (35,000 people) would be classified as moderate-risk gamblers, and 1.8% (64,000 people) would be classified as low-risk gamblers. 49.0% would be classified as recreational gamblers (ie, people who do not appear to be experiencing any negative consequences from their gambling). The rest (47.9%) did not gamble at all or only participated in activities like buying raffle tickets.
27. Comparisons with the similar 2006/07 New Zealand Health Survey (Ministry of Health 2009), which also used the PGSI, indicate that the proportion of people who were problem gamblers did not change significantly between 2006/07 and 2011/12, but the proportions of people who were low-risk and moderate-risk gamblers decreased significantly (Table 2). These decreases remained significant after age standardisation.
28. The 2010 Health and Lifestyles Survey (Health Sponsorship Council 2012) also used the PGSI. It produced higher estimates of at-risk gambling than either of the New Zealand Health Surveys (Table 2). However, it was smaller and had a lower response rate.

Table 2: PGSI risk level, 2006/07 and 2011/12 New Zealand Health Surveys, and 2010 HLS

PGSI risk level	2006/07 NZHS (% of 15+)	2011/12 NZHS (% of 15+)	2010 HLS (% of 15+)
No gambling	34.9	47.9	18.6
Recreational gambling	59.9	49.0	72.6
Low-risk gambling	3.5	1.8	5.9
Moderate-risk gambling	1.3	1.0	2.3
Problem gambling	0.4	0.3	0.7

Source: 2006/07 NZHS; July 2011-March 2012 NZHS, preliminary findings; 2010 HLS.

29. There are other ways of estimating the prevalence of at-risk gambling. For example, the 2010 Health and Lifestyles Survey asked whether during the previous year respondents had had a day or an outing where they looked back and thought they had overdone it, they had spent more time or money gambling than they meant to.

30. Six percent of those aged 15 or over had 'overdone it' at least once in the previous year. Of those who had 'overdone it', 36% had 'overdone it' only once; 46% said it had happened between two and five times, and 7% had 'overdone it' between six and 10 times. One in 10 of those who had 'overdone it', had 'overdone it' 11 times or more.
31. Even so, the percentage of those aged 18 or over who had 'overdone it' was significantly lower than the equivalent figure in the similar 2006/07 survey (Health Sponsorship Council 2007). This supports the New Zealand Health Survey finding that the proportions of low-risk and moderate-risk gamblers declined between 2006/07 and 2011/12.

Prevalence of harm from someone else's gambling

32. In addition to estimating the number of people who were at-risk gamblers, the 2011/12 New Zealand Health Survey estimated the number of people experiencing problems as a result of *someone else's* gambling. Preliminary findings (Ministry of Health 2012a) indicate that 2.5% of people aged 15 or over experienced problems in the year before the Survey as a result of *someone else's* gambling. This is around 89,000 people. This number should be considered conservative, particularly because it does not include problems experienced by children.
33. The 2006/07 New Zealand Health Survey (Ministry of Health 2009) included a question that was broadly similar, but that did not specify whether it meant problems as a result of the *respondent's* gambling or problems as a result of *someone else's* gambling. This means that the findings of the two surveys are not strictly comparable. Even so, there are indications that the vast majority of respondents in 2006/07 interpreted the question as referring to *someone else's* gambling, and the 2006/07 estimate (2.8% of people aged 15 or over) is similar to the subsequent 2011/12 estimate.
34. The household harm information from the 2010 Health and Lifestyles Survey (Health Sponsorship Council 2012) provides another perspective on the number of people affected by someone else's gambling.
 - Almost 22% of those aged 15 or over felt that, in the previous year, someone close to them had had a day or occasion where they spent much more time or money than they meant to on gambling (down from 35% in 2006/07).
 - Five percent of those aged 15 or over said that there had been some argument about time or money spent gambling in their wider family or household in the previous year.
 - Five percent of those aged 15 or over reported someone in their wider family or household going without something they needed or bills not being paid in the previous year because too much was spent on gambling.

Type of gambling and the risk of gambling-related harm

35. Numerous studies in New Zealand and around the world have found that 'continuous' forms of gambling¹ are much more likely than 'non-continuous' forms to be associated with harm and the risk of harm to gamblers and those around them.

¹ A continuous form of gambling is characterised by the opportunity to bet money, have the result determined, collect any winnings, and bet again, in a rapid cycle. Examples include gaming machines, casino table games, and betting on horse races. Continuous forms of gambling can be contrasted with non-continuous forms like lotteries, in which there is typically some time between the purchase of a ticket, determination of the result, and the opportunity to use any winnings to purchase another ticket.

36. For example, New Zealand's 2010 Health and Lifestyles Survey (Health Sponsorship Council 2012) found that around 57% of frequent continuous gamblers were categorised by the PGSI as at some level or risk, compared with only around 12% of frequent non-continuous gamblers.
37. Gaming machine gambling is a continuous form of gambling that is particularly likely to be associated with harm and the risk of harm. In Australia, for example, the Productivity Commission concluded after two inquiries a decade apart that people playing casino or non-casino gaming machines face much greater risks than people who participate in other gambling activities, and that the likelihood of harm rises steeply with the frequency of gaming machine gambling and with gaming machine expenditure levels (Productivity Commission 1999, 2010).
38. As noted earlier, most people in New Zealand do not play gaming machines, and most of those who do, play only occasionally. Yet most of the money spent on gambling in New Zealand is spent on gaming machines, substantial proportions of it by people who play machines frequently. In addition, numerous New Zealand studies (including Abbott and Volberg 2000; Gray 2011; Health Sponsorship Council 2012; Ministry of Health 2009, 2012a; SHORE 2008) have found that gaming machines are associated with harm more often than any other form of gambling.
39. For example, preliminary results from the 2011/12 New Zealand Health Survey (Ministry of Health 2012a) indicate that 24% of those whose preferred form of gambling was casino or non-casino gaming machines were at some risk of gambling problems. This compared with 16% of those who preferred betting on horse or dog races or sports events, 4.3% of those who preferred Instant Kiwi, and only 2.2% of those who preferred Lotto (including Big Wednesday and Keno). (However, 70% of gamblers preferred Lotto, while only 8% preferred gaming machines. As a result, while gaming machines were the preferred form of gambling for gamblers at any risk of problems, Lotto ranked second.)
40. Similarly, the 2010 Health and Lifestyles Survey (Gray 2011) estimated that 69% of fortnightly NCGM players were at some risk of gambling problems. The risks associated with casino machines appeared to be similar (Devlin 2012). By contrast, 85% of those who bought a Lotto or Big Wednesday ticket at least fortnightly were assessed as *recreational* gamblers (ie, not experiencing any negative consequences of gambling). (Once again, however, far more people played Lotto at least fortnightly.)
41. In another New Zealand study (SHORE 2008), heavier gaming machine gambling was associated with poorer self-ratings on numerous domains of life, particularly for Māori and Pacific people. Interestingly, however, heavier gambling on casino machines specifically was associated with several poorer self-ratings for Māori and Pacific people, but with more-positive self-ratings on several domains of life for Pākehā and one domain of life for Chinese/Korean people.
42. The differences in the risks associated with different forms of gambling seem to be similar whether the focus is on problems associated with a person's own gambling or on problems associated with someone else's gambling.
43. In the 2006/07 New Zealand Health Survey (Ministry of Health 2009), over half (53%) of those who had experienced problems in the previous year due to someone's gambling reported that NCGMs were at least one of the forms of gambling involved, and 33% named casino machines. The next-highest was 16% for betting on horse or dog races, followed by Lotto at 14%.

44. The 2010 Health and Lifestyles Survey asked those who reported various issues in the previous year what form of gambling was *most often* involved. Responses to these forced choice questions (Table 3) tended to confirm the rankings in the earlier New Zealand Health Survey (which permitted multiple responses).

Table 3: Issues in previous year, by type of gambling most often involved (2010 HLS)

Type of gambling most often involved	Respondent 'overdid it'	Friend or family member 'overdid it'	Argument or 'going without' in the household
Non-casino machines (%)	49	45	52
Casino machines (%)	13	12	10
Lotteries Commission (%)	13	8	14
Horse or dog races (%)	12	16	9
Casino tables (%)	10	6	3
Other / Don't know (%)	3	14	13

Source: 2010 Health and Lifestyles Survey (Health Sponsorship Council 2012).

45. The figures in Table 3 and the findings of the 2006/07 New Zealand Health Survey suggest that for many of those who experience problems with both casino gaming machines and non-casino gaming machines, non-casino gaming machines are more often involved. Similarly, the 2010 Health and Lifestyles Survey found that among those who had gambled at least once in a casino (on machines, tables or both) in the previous year, the proportion who had 'overdone it' most often on non-casino gaming machines was almost the same as the proportion who had 'overdone it' most often on casino gambling (Devlin 2012). Even so, casino gaming machines (around 2,800 machines in 6 venues) rank second or third on most indicators of harm, behind non-casino gaming machines (17,670 machines in 1,381 venues as at 31 December 2012).

Populations disproportionately at risk of gambling-related harm

46. Preliminary findings from the 2011/12 New Zealand Health Survey (Ministry of Health 2012a) indicate that Māori and Pacific people are disproportionately at risk of harm from their own or someone else's gambling.
47. These results are consistent with a wide variety of previous studies (including Abbott and Volberg 2000; Ministry of Health 2009; SHORE 2008; Health Sponsorship Council 2007, 2012). For example, the 2006/07 New Zealand Health Survey (Ministry of Health 2009) found that Māori and Pacific people were two to four times more likely than other ethnic groups to experience problems as a result of their own or someone else's gambling.
48. A few measures in the 2010 Health and Lifestyles Survey (Health Sponsorship Council 2012) also suggest higher risks of gambling-related harm among Asian people. However, another recent study suggests that these findings might reflect the situation for specific Asian sub-groups rather than for Asian people in general, and that gambling-related harm might be a particular issue among recent migrants and international students (Sobrun-Maharaj, Rossen and Wong 2013).

49. If this is the case, it suggests quite specific risks. New Zealand's Asian population is growing, international education is an important sector, and both migrants and international students may not have ready access to family or community networks that help mitigate the risk of gambling harm.
50. In New Zealand, gambling venues are more likely to be located in higher deprivation areas than in other areas. This situation is not new, and, despite the fact that the numbers of NCGMs and NCGM venues have been reducing for some years, there is little or no evidence that it is changing. (Allen and Clarke 2012a; Francis Group 2009; Ministry of Health 2006, 2008)
51. Unsurprisingly, many New Zealand studies (including Health Sponsorship Council 2007, 2012; Ministry of Health 2009) have found that people living in more deprived areas (areas in which Māori and Pacific peoples and recent immigrants are over-represented) are disproportionately at risk of harm from their own or someone else's gambling.
52. The available research evidence (for example Health Sponsorship Council 2012; Ministry of Health 2009) and data from gambling intervention services funded by the Ministry suggest that there are now far fewer significant differences between males and females in gambling participation, the prevalence of problem gambling, the prevalence of gambling harm, the risk of gambling harm or help-seeking.
53. However, females still make up most of those who seek help for problems associated with someone else's gambling, and it is likely that there are still some differences in problems by gender within different forms of gambling, and by gender within particular ethnic groups. For example, women, particularly Māori women, may now be more at risk than men of problems associated with NCGMs (Department of Internal Affairs 2008; Gray 2011; Health Sponsorship Council 2007).
54. Some studies in the past have found that younger people are more likely to be at-risk gamblers. However, recent results have been more mixed. Whether younger people are more at risk of harm from their own gambling might depend on ethnicity, gender and the form of gambling involved. Even so, it is clear that early exposure to gambling increases the risk of developing gambling problems (Abbott and Volberg 2000).

Re-distribution of money from high-deprivation communities

55. Spending in high-deprivation areas on non-casino gaming machines, and possibly on other forms of gambling, is disproportionately high (Allen and Clarke 2012a; Francis Group 2009).
56. Even if gambling is used to raise funds for community purposes and even if funds raised in a community are returned to that community, some money typically leaves the community in question. For example, gambling operators make deductions before determining the amount of funding available for distribution to community purposes. Deductions include taxes paid to central government. They also include gambling operators' running costs, which often entail the purchase of goods and services from businesses outside the community in which the funds are raised (for example, gaming machine purchases).
57. Any such re-distribution of money out of high deprivation communities can be considered a gambling-related harm. The situation is exacerbated if grants are made to community organisations in low-deprivation areas from funds raised in high-deprivation areas.

Help-seeking

58. In the three years from 2009/10 to 2011/12 inclusive, the total number of people helped each year by the gambling intervention services funded by the Ministry levelled off, at around 12,000 to 13,000. This includes over 6000 full and follow-up interventions, a figure that is approximately double the equivalent number in 2004/05.
59. The number of people calling the Gambling Helpline has been declining for some years. Statistics produced by the Helpline in 2013 (Gambling Helpline 2013) indicate that there were 1874 new clients in the 2012 calendar year, down from 4569 in 2002. Most of these new clients were referred to face-to-face intervention services.

Existing interventions

Legislative interventions

60. One objective of the Gambling Act 2003 (the Act) is 'to prevent and minimise the harm caused by gambling, including problem gambling' [section 3(b)]. In the Act, 'harm':
 - (a) means harm or distress of any kind arising from, or caused or exacerbated by, a person's gambling; and
 - (b) includes personal, social, or economic harm suffered –
 - (i) by the person; or
 - (ii) by the person's spouse, civil union partner, de facto partner, family, whānau, or wider community; or
 - (iii) in the workplace; or
 - (iv) by society at large. [Section 4(1)]
61. The Act includes a wide variety of regulatory provisions intended to help achieve this objective. For example, the Secretary for Internal Affairs is instructed to refuse an application for a non-casino gaming machine venue licence unless satisfied that (among other things) the risk of problem gambling at the venue is minimised. [section 67(1)(p)]
62. Part 4 of the Act, subpart 4, sets out the provisions that are relevant to this Regulatory Impact Statement.
63. Section 317 in that subpart sets out the requirements for an 'integrated problem gambling strategy focused on public health' (the strategy). It states that the strategy must include:
 - measures to promote public health by preventing and minimising harm from gambling
 - services to treat and assist problem gamblers and their families and whānau
 - independent scientific research associated with gambling, including (for example) longitudinal research on the social and economic impacts of gambling, particularly the impacts on different cultural groups
 - evaluation.
64. The Ministry is responsible for developing and implementing the strategy.

65. The Act anticipates that the Crown will recover the cost of ‘developing, managing and delivering’ the strategy, by way of a ‘problem gambling levy’ (the levy) [section 319(2)], set by regulation at a different rate for each of the main gambling sectors [section 319(3)(c)]. The levy means that the strategy is broadly fiscally neutral over time.
66. The Act includes a formula ‘to be used in estimating the proposed levy rates payable by gambling operators’ [section 320(2)].
67. The Act does not explicitly state that there must be a strategy. However, it anticipates that there will be a strategy and a levy, and that they will be replaced at least every three years [sections 318(1)(f); 318(5); 320(3)(c)(i); 321(2)(b)(ii); 322]. It also specifies consultation requirements for the development of the strategy and the levy rates [section 318].

The current strategy

68. On 12 April 2010, Cabinet approved the Ministry’s six-year strategic plan to 30 June 2016 (Ministry of Health 2010a) and a three-year service plan to 30 June 2013 (Ministry of Health 2010b). The six-year strategic plan to 30 June 2016 and the three-year service plan to 30 June 2013 were developed following a consultation process that met the requirements in the Act. The three-year service plan to 30 June 2013 includes all the elements that the Act requires of the ‘integrated problem gambling strategy focused on public health’, and is the integrated problem gambling strategy to 30 June 2013.
69. On 1 July 2010, the Gambling (Problem Gambling Levy) Regulations 2010 came into effect. They were intended to recover from gambling operators the funding appropriated to the Ministry to meet the costs of the three-year service plan to 30 June 2013, minus a small net over-collection in the previous levy period.
70. Table 4 shows the funding appropriated to the Ministry for 2010/11 to 2012/13, broken down by the forecast spending on each service line.

Table 4: Ministry of Health Budget (GST exclusive), 2010/11 to 2012/13

Services	2010/11 (\$m)	2011/12 (\$m)	2012/13 (\$m)	Total (\$m)
Public health services	6.758	7.091	6.965	20.814
Intervention services	8.413	8.549	8.564	25.526
Research contracts	2.499	2.224	1.423	6.146
Ministry operating costs	0.957	0.979	1.001	2.937
Total (\$)	18.627	18.843	17.953	55.423

71. Outputs purchased with this funding include:
 - primary prevention services – a variety of activities in the community to reduce gambling harm, with the number of staff for each region based on a model that reflects both population and need
 - a gambling harm awareness and education programme coordinated by the Health Promotion Agency
 - psychosocial intervention and support services that helped around 12,000 people in 2011/12

- a 24-hour seven-day-a-week Gambling Helpline
- an Asian Gambling Hotline
- public health and intervention workforce development and training
- audits of public health and intervention services
- data collection and reporting
- a research and evaluation programme following an agenda for the 2010/11 to 2015/16 six-year period that was developed after extensive stakeholder consultation
- the Ministry's operating costs.

72. The services purchased by the Ministry in the period to 30 June 2013 incorporate all the elements that the Act requires of the integrated problem gambling strategy focused on public health. Dedicated Māori, Pacific and Asian services are provided to ensure appropriate access and services for these vulnerable population groups.

Objectives

Immediate objectives

73. One immediate objective of the proposals that are the subject of this Regulatory Impact Statement is to determine whether to put in place a new service plan and levy. If there is to be a new service plan and levy, other immediate objectives are to decide :
- the amount to be appropriated to the Ministry to implement the service plan for 2013/14 to 2015/16 (the amount of the levy is calculated from the appropriation)
 - whether to split the non-casino gaming machine sector into two or more sectors (this decision essentially determines the gambling sectors that will be subject to the levy)
 - the weighting to use in a formula that determines the levy rate for each sector.

Strategic objectives

74. If there is to be a service plan the costs of which are recovered by way of the levy, it must include all the elements that the Act requires of the integrated problem gambling strategy focused on public health.
75. The Ministry's six-year strategic plans to prevent and minimise gambling harm are founded on these elements.
76. The Ministry is committed to a long-term approach that has not significantly changed since its first six-year strategic plan was developed in 2004. The overall goal of that approach is:
- Government, gambling industry, communities and families/whānau working together to prevent the harm caused by gambling and problem gambling and to reduce health inequalities associated with gambling and problem gambling.
77. A number of key principles underpin the latest six-year strategic plan (for 2010/11 to 2015/16) that Cabinet approved in 2010 (the strategic plan) and the Ministry's outcomes framework. These principles guided the development of the 2013/14 to 2015/16 service plan. The principles are to:
- maintain a comprehensive range of public health services based on the Ottawa Charter and New Zealand models of health (such as *Te Pae Mahutonga* and *Te Whare Tapa Whā*)
 - fund services that target priority populations
 - ensure culturally accessible and responsive services
 - maintain a focus on improving Māori health gain
 - address health inequalities
 - strengthen communities
 - ensure services are sustainable
 - develop the workforce
 - apply an intersectoral approach
 - ensure links between public health and intervention services.

78. The strategic plan Cabinet approved in 2010 also identifies the following 11 objectives.
- Objective 1: There is a reduction in health inequalities related to problem gambling.
 - Objective 2: Māori families are supported to achieve their maximum health and wellbeing through minimising the negative impacts of gambling.
 - Objective 3: People participate in decision-making about local activities that prevent and minimise gambling harm in their communities.
 - Objective 4: Healthy policy at the national, regional and local level prevents and minimises gambling harm.
 - Objective 5: Government, the gambling industry, communities, families/whānau and individuals understand and acknowledge the range of harms from gambling that affect individuals, families/whānau and communities.
 - Objective 6: A skilled workforce is developed to deliver effective services to prevent and minimise gambling harm.
 - Objective 7: People have the life skills and the resilience to make healthy choices that prevent and minimise gambling harm.
 - Objective 8: Gambling environments are designed to prevent and minimise gambling harm.
 - Objective 9: Problem gambling services² effectively raise awareness about the range of harms from gambling that affect individuals, families/whānau and communities for people who are directly and indirectly affected.
 - Objective 10: Accessible, responsive and effective interventions are developed and maintained.
 - Objective 11: A programme of research and evaluation establishes an evidence base, which underpins all problem gambling activities.
79. An additional objective is to ensure that the amount appropriated to the Ministry is consistent with the requirement for restraint and prudence in public sector spending, and the requirement for the public sector to do more with less.
80. The proposed service plan for 2013/14 to 2015/16 was developed within the context of the six-year strategic plan to 30 June 2016. It is also essentially develops and refines the three-year service plan to 30 June 2013.
81. The proposed service plan outlines the services that the Ministry considers are needed over the 2013/14 to 2015/16 period to advance the objectives in the six-year strategic plan to 30 June 2016.
82. The proposed service plan for 2013/14 to 2015/16 is the proposed integrated problem gambling strategy for that period. It includes all the elements that the Act requires of the strategy.

² The reference to problem gambling services for this objective includes health services that treat problem gamblers and excludes all primary health care services.

Regulatory impact analysis

Whether to allow the strategy and levy simply to expire

83. Various provisions in the Act anticipate that there will be a strategy and levy, and that a new strategy and levy will be put in place at least every three years. As a result, to simply allow the current service plan (the current strategy) and levy to expire without a new service plan and levy being put in place could be considered inconsistent with the intent of the Act.
84. To simply allow the current service plan and levy to expire would also be inconsistent with the six-year strategic plan for 2010/11 to 2015/16 that Cabinet approved in 2010.
85. If a new service plan (a new strategy) and new problem gambling levy regulations are not in place on 1 July 2013, then
 - either the Ministry will have to curtail the services to prevent and minimise gambling harm that it currently funds
 - or the Ministry will continue purchasing some services from its baseline, but gambling operators will not be required to reimburse, and will probably not reimburse, the Crown for the Ministry's costs or the costs of the services the Ministry purchases.
86. The latest research indicates that 0.3% of adults in New Zealand (around 11,000 people) are problem gamblers, a further 1.0% (around 35,000 people) are moderate-risk gamblers, and another 2.8% (around 64,000 people) are low-risk gamblers. Virtually all problem gambling, and some moderate-risk and low-risk gambling, causes harm. The same study indicated that, in the previous twelve months, around 90,000 adults experienced problems as a result of someone else's gambling.
87. There are indications that some of these rates are reducing. If the Ministry ceased or reduced its funding of public health services to prevent and minimise gambling-related harm, the rates might well increase.
88. Ministry-funded gambling intervention services have helped around 12,000 people in each year of the past three years. If the Ministry ceased or reduced its funding for the intervention services, these people might find it very difficult to get the help they need.
89. The negative impacts of reducing or ceasing funding for public health or intervention services to prevent and minimise gambling-related harm are likely to be greater for groups already disproportionately affected by gambling harm, such as Māori, Pacific peoples and people living in high-deprivation areas.
90. Reducing or ceasing funding is also likely to lead to increased pressure on the health, social welfare and criminal justice sectors.
91. Without a research and evaluation programme, it will not be possible to answer significant questions about the nature and prevalence of gambling-related harm, and about the effectiveness of the current mix of services.
92. If funding is reduced or ceases, there are likely to be job losses and service closures, including job losses in and possible closures of gambling research institutions.

93. If there were no strategy, gambling operators would retain around \$20 million annually (approximately 1% of their annual gross profit) that they are currently required to pay in levy and GST on levy payments. This would mean that:
- the non-casino gaming machine sector would have around \$12 million more available each year for allocation to community purposes
 - the casinos would have around \$4 million more in profits each year
 - the New Zealand Racing Board would have around \$2 million more available each year for distribution to the racing industry
 - the New Zealand Lotteries Commission could pay up to around \$2 million more to the Lottery Grants Board each year for allocation to community purposes.
94. The Australian Productivity Commission recently concluded that the significant social cost of problem gambling means that even harm minimisation measures with modest efficacy may generate net benefits as long as they do not also inadvertently generate excessive costs for industry or gamblers generally (Productivity Commission 2010).
95. For all these reasons, the option of allowing the current service plan and levy to expire without replacing them is not recommended.
96. On the assumption that there will be a new service plan and a new levy for the 1 July 2013 to 30 June 2016 period, this Regulatory Impact Analysis focuses on the three decisions that the Government must make:
- the amount to be appropriated to the Ministry to implement the strategy for 2013/14 to 2015/16 (the amount of the levy for the three-year period is calculated from the amount of the appropriation)
 - whether to split the non-casino gaming machine sector into two or more sectors (this decision essentially determines the gambling sectors that will be subject to the levy)
 - what weighting to use in a formula that determines the levy rate for each gambling sector that is subject to the levy.

Ministry's appropriation (and levy amount) for 2013/14 to 2015/16

97. The Ministry's proposed service plan to prevent and minimise gambling harm for 2013/14 to 2015/16 would require an appropriation of \$55.339 million (GST exclusive). This amount (\$55.339 million) is slightly less than the appropriation approved for the current (2010/11 to 2012/13) service plan (\$55.423 million).
98. Taking into account the forecast over-collection in the current period, the total amount of the levy for 2013/14 to 2015/16 would be \$54.047 million. This amount (\$54.047 million) is approximately \$1.3 million less than the current levy requirement (\$55.353 million).

Monitoring and evaluating services and the effectiveness of the strategy

99. The Ministry monitors and evaluates the services it purchases and the effectiveness of its on-going strategy to prevent and minimise gambling harm largely in two ways:
- through its research and evaluation programme, including evaluations of awareness-raising campaigns, evaluations of clinical intervention services, the national gambling study, a national effectiveness trial, gambling and non-gambling longitudinal studies, and a comprehensive outcomes monitoring and reporting project

- through its standard contract management processes, including monthly data collection, six-monthly reporting, routine audits, and verification visits.

100. There is already some evidence from these sources that the strategy is effective.
101. In addition, in 2011 KPMG reported the results of its independent Value for Money review of problem gambling services. It identified a range of strengths and some areas that would benefit from further development. It concluded that there had been a strong upward trend in value for money over the previous three years but that it was premature to assess overall value for money, as the Ministry's outcomes framework was still being implemented.
102. The outcomes monitoring and reporting framework will provide more systematic and comprehensive evidence on the effectiveness of the strategy. The baseline report should be publicly available in 2013. That report and subsequent reports on progress against the framework's indicators will inform the Ministry's approach to its public health and intervention services over the 2013/14 to 2015/16 period.

Gambling Commission's independent advice

103. After the Ministry completed its consultation process and revised its initial proposals, the Gambling Commission (the Commission) convened a meeting to consult key stakeholders on the proposals, as required by the Act. It also engaged a company to provide it with expert advice, as the Act anticipates it might choose to do.
104. In its independent advice to Responsible Ministers, the Commission endorses the Ministry's proposed appropriation and proposed levy requirement (Gambling Commission 2012).
105. The Commission comments that the service plan is comprehensive, well thought-out and targeted. It notes that the dollar amount sought is less than in each of the two previous three-year periods, and that this is a reasonably significant reduction in real terms. It notes that this fiscal constraint is further emphasised by the Ministry's intention to test the market for a range of services. It considers that the Ministry's approach is in accordance with the current need for the public sector to do more, with less.
106. The Commission also endorses specific details of the Ministry's proposals. In particular, it considers that there is a sound basis for reducing the funding for helpline services, and that the small proposed increase in funding for research contracts is appropriate.

Other feasible options for the Ministry's appropriation

107. The Act sets out requirements for the development of the strategy and specifies four elements that it must include. In 2010, Cabinet approved the six-year strategic plan through to 30 June 2016. The Ministry has developed its proposed service plan for 2013/14 to 2015/16 within this context and to comply with these requirements.
108. The proposed service plan is essentially a refinement of the 2010/11 to 2012/13 service plan Cabinet approved in 2010.
109. The costings for the service plan determine the appropriation.
110. The amount of the levy for 2013/14 to 2015/16 is calculated from the appropriation.

111. Given the constraints set out above, the Ministry considers that there are few feasible options for the amount of the Ministry's appropriation (and therefore for the amount of the levy) other than the \$55.339 million (GST exclusive) amount proposed.
112. The proposed appropriation could be *reduced* by approximately \$600,000 if the budget for the awareness and education programme coordinated by the Health Promotion Agency were not increased. This would mean that the HPA could not develop a non-casino gaming machine venue component for the programme, a component the sector (which is often associated with harm) has previously requested.
113. The proposed appropriation could be *increased* by approximately \$1.2 million if the budget for helpline services were not reduced. The Ministry currently anticipates making savings, without compromising service to users, by reviewing gambling helpline cost structures and by testing the market for helpline services. Maintaining the funding for helpline services at the current level would appear to be inconsistent with the requirement for restraint and prudence in public sector spending.
114. The proposed appropriation could be *reduced* by approximately \$500,000 if the research budget were not increased. This would remove the rare opportunity to derive significant benefit, at a modest cost, by adding modules onto existing research projects.
115. Other options for changes to the proposed appropriation are considered unlikely to be consistent either with the requirements of the Act or with the strategic plan to 30 June 2016 and the service plan to 30 June 2013 that were approved by Cabinet in 2010.

Proposals to split the non-casino gaming machine sector

116. When it was first set in 2004, the levy applied to four gambling sectors: non-casino gaming machine (NCGM) operators, casinos, the New Zealand Racing Board, and the New Zealand Lotteries Commission. However, the Act also anticipates that these sectors might change from time to time. [Sections 321(1) and 319(3)(a)]
117. In 2006, the Gambling Commission (the Commission) said it considered that there was a *prima facie* case for non-commercial ('club') NCGM venues to be a separate levy-paying sector from commercial ('non-club') NCGM venues. As a result, the Ministry arranged for presentations attributable to club and non-club gaming machines to be recorded separately from April 2008. In its 2009 report, the Commission agreed with the Ministry that the NCGM sector should be split into two separate sectors starting on 1 July 2013, if a continued trend in the relevant data justified the split.
118. In its August 2012 consultation document, the Ministry cited evidence that club machines were less likely to be associated with harm, even after taking into account the lower number of club machines and their lower average per-machine spend. However, it did not recommend the split because the Inland Revenue Department, which collects the levy, had advised that it had no capacity over the 2013/14 to 2015/16 period to implement it.
119. IRD had formally advised the Minister of Revenue in July 2012 that its system constraints and the work programme it had agreed with Ministers were such that it could not put in place different levy rates for different parts of the NCGM sector over the 2013/14 to 2015/16 period, unless Ministers made explicit trade-offs within the work programme. It also noted that the agreed work programme consisted of a number of significant projects and major deliverables.

120. The latest presentation figures and the longer-term trends in those figures no longer justify a split. By the time the Ministry put its final proposals to the Gambling Commission in October 2012, figures for 2011/12 (which continued trends in the figures dating from 2007/08) indicated that splitting the sector would make very little difference to the levy rates.
121. Figures for the first six months of 2012/13 (which became available early in 2013) also continue those trends. If figures for the first six months of 2012/13 were used to set the levy, clubs would actually pay a *higher* rate than non-club gaming machine societies at any of the four weightings canvassed in the original consultation document.
122. The Ministry is not aware of any evidence to support a New Zealand Racing Board submission that its machines too should be a separate sector.
123. The preferred option is that the levy continues to apply to the four sectors to which it has applied since 2004. This means that clubs and the New Zealand Racing Board would pay the same levy rate for their machines as operators of gaming machines in pubs.

Gambling Commission's independent advice

124. The Gambling Commission noted the evidence to 2011/12. In light of the IRD position, it considered the issue moot, but suggested it could be reconsidered in 2015, for the period starting 1 July 2016, and that the Ministry continue monitoring the evidence in the interim.

Weighting and resulting levy rates

125. The levy formula set out in section 320 of the Act helps calculate how much each gambling sector is expected to pay towards the total levy amount, and the levy rate necessary for each sector to raise its expected contribution.
126. The levy formula is:

$$\text{Levy rate} = \frac{((A \times W1) + (B \times W2)) \times C}{D}$$

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, (taking into account any under-recovery or over-recovery in the previous levy period)

D = forecast player expenditure in a sector for the period during which the levy is payable.

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

127. The top line of the formula determines the dollar amount that each sector is expected to pay. When a sector's share of player expenditure (**A**) is substantially different from its share of presentations (**B**), **W1** and **W2**, the weighting between expenditure and presentations, is critical to determining the amount that sector will be expected to pay.
128. Once the top line of the formula has determined the amount that each sector is expected to pay, the bottom line, **D**, determines how much, per dollar of player expenditure, each sector must pay (each sector's levy rate). The higher the forecast player expenditure in a sector, the lower that sector's levy rate.
129. Cabinet determines **C**, the total amount of the levy, and **W1** and **W2**, the weighting. The application of the formula then determines each gambling sector's levy rate.
130. It is important to note that different levy weighting options do not affect the total amount of the levy. The weighting chosen only affects the portion of the levy that each gambling sector is expected to pay.
131. The weighting was 10/90 (ie, 10% on expenditure and 90% on presentations - **W1** = 0.1; **W2** = 0.9), in all three three-year levy periods to 30 June 2013.
132. Any weighting in a range from 5/95 to 30/70 could be considered feasible.
133. The levy is intended to recover the cost of developing and implementing a strategy that addresses the risk of gambling harm. It is not intended to address the amount spent by gamblers *per se*. Therefore, any weighting of more than 30%, on *expenditure* is not considered feasible, because it would unfairly penalise operators of less-harmful forms of gambling with high expenditure. A weighting of 30% or less on *expenditure* necessarily implies a weighting of 70% or more on *presentations*.
134. A 'presentation' refers to a person who has sought help because they have been harmed, either by their own or by someone else's gambling. Each presentation is attributed across the primary problem gambling modes cited by the intervention service client. Therefore, it is appropriate for presentations, as one indicator of harm, albeit harm at the acute end of the continuum, to be allocated a substantially heavier weighting than expenditure. However, a problem with a very heavy weighting on *presentations* is that it may unfairly penalise gambling sectors that encourage gamblers to seek help if they need it.
135. A weighting of more than 95% on *presentations* could be considered inconsistent with the Act's requirement to use a weighting.
136. The Ministry presented four expenditure-to-presentations weighting options in its consultation document for the 2013/14 to 2015/16 levy period: 5/95; 10/90; 20/80; 30/70. However, it also invited submitters to nominate any other weighting options that they considered feasible.
137. Current player expenditure (**A** in the formula) is supplied by the Inland Revenue Department and is subject to tax confidentiality. However, other data on player expenditure are available on the Department of Internal Affairs website, www.dia.govt.nz. Typically, the most recent year's information on that website is a reasonably good guide to each sector's share of current player expenditure.
138. Presentations (**B** in the formula) derive from Ministry-funded intervention services.

139. Table 5 shows each sector's share of the player expenditure and presentations attributed to the four main gambling sectors in 2011/12.

Table 5: Share of expenditure and presentations (help-seeking) by gambling sector, 2011/12

Sector share	NCGMs	Casinos	New Zealand Racing Board	NZ Lotteries Commission
Expenditure (%)	41	25	14	20
Presentations (%)	64	21	9	6

140. Note that:

- the higher the weighting on *expenditure*, the higher the portion to be paid by the New Zealand Lotteries Commission, and to a lesser extent the New Zealand Racing Board (because those sectors' shares of gambling expenditure are much higher than their shares of presentations)
- the higher the weighting on *presentations*, the higher the portion to be paid by the non-casino gaming machine sector (because close to two-thirds of all presentations are attributed to that sector, but its proportion of gambling expenditure is much lower)
- the casino portion is not very sensitive to any change in the weighting (because that sector's share of expenditure is relatively close to its share of presentations).

141. Table 6 shows each sector's share of the total presentations attributed to the four main gambling sectors from 2006/07 to 2011/12 inclusive. The 2008/09 figures were used to set the current levy. The 2011/12 figures will set the levy for 2013/14 to 2015/16. (While not shown in the table, figures for the first half of 2012/13 suggest that the non-casino gaming machine share of presentations has continued declining, while the New Zealand Lotteries Commission share has increased.)

Table 6: Share of presentations (help-seeking) by gambling sector, 2006/07 to 2011/12

Sector share	NCGMs	Casinos	New Zealand Racing Board	New Zealand Lotteries Commission
2006/07 (%)	71	19	7	2
2007/08 (%)	71	20	7	2
2008/09 (%)	69	18	7	6
2009/10 (%)	69	19	7	6
2010/11 (%)	68	18	8	6
2011/12 (%)	64	21	9	6

142. The total amount of the levy (**C** in the formula) is determined by deducting any under- or over-collection forecast for the current levy period, from the Ministry's approved appropriation for the new levy period.

143. Player expenditure forecasts for the new levy period (**D** in the formula) are based on a range of information, including previous years' expenditure figures, industry reports and trends. The current economic climate makes forecasting expenditure for 2013/14 to 2015/16 particularly difficult. Expenditure on casino gambling, New Zealand Racing Board and New Zealand Lotteries Commission products is expected to grow over the levy period. However, zero growth is forecast for the non-casino gaming machine sector.
144. The levy rate for each sector is determined by dividing the amount that sector is expected to pay over the period, by the forecast player expenditure in that sector over the period.
145. Table 7 shows the amount each sector would be expected to pay towards the total amount of the levy under each of the four alternative expenditure-to-presentations weighting options set out in the Ministry's consultation document. To assist comparison, it also shows the amount each sector was expected to pay in the current (2010/11 to 2012/13) period, under a 10/90 weighting.
146. Note that:
- despite the reduction in the total levy requirement for 2013/14 to 2015/16, casinos and the New Zealand Racing Board are expected to pay more than in the current period, whatever the approved weighting in 2013/14 to 2015/16, because their shares of both expenditure and presentations have increased
 - the New Zealand Lotteries Commission will pay less than in the current period if the approved weighting in 2013/14 to 2015/16 is 5/95 or 10/90, but more if the approved weighting in 2013/14 to 2015/16 is 20/80 or 30/70, because its share of presentations is virtually the same, but its share of expenditure has increased
 - the non-casino gaming machine sector is expected to pay less than in the current period, whatever the approved weighting in 2013/14 to 2015/16, because its shares of both expenditure and presentations have decreased.

Table 7: Expected levy amount by gambling sector by weighting, 2013/14 to 2015/16, and at 10/90 in the current period (2010/11 to 2012/13)

Expenditure to presentation ratio	Expected levy (\$m; GST exclusive)			
	Non-casino gaming machines	Casinos	New Zealand Racing Board	New Zealand Lotteries Commission
5/95	34.117	11.184	5.202	3.551
10/90	33.353	11.337	5.381	3.945
20/80	32.335	11.490	5.650	4.734
30/70	31.062	11.643	5.830	5.392
Current period 10/90 (\$m)	36.819	10.324	4.303	3.973

147. Table 8 shows the levy rate for each sector under each of the alternative expenditure-to-presentations weighting options set out in the Ministry's consultation document. To assist comparison, it also shows the levy rate for each sector in the current (2010/11 to 2012/13) levy period, under a 10/90 weighting.

148. The patterns for levy rates under the alternative weightings in Table 8 are similar to the patterns in Table 7 for the amounts that the different sectors are expected to pay. However, it is worth noting that the casino levy rate hardly varies across the four alternative weightings presented, and is never more than four-hundredths of a cent in the dollar higher than the rate in the current period. This is because a forecast increase in player expenditure in casinos over the 2013/14 to 2015/16 period almost balances out the increase in the amount that casinos are expected to pay towards the total levy amount.

Table 8: Levy rate payable by gambling sector by weighting, 2013/14 to 2015/16, and at 10/90 in the current period (2010/11 to 2012/13)

Expenditure to presentation ratio	Levy rate payable (%; GST exclusive)			
	Non-casino gaming machines	Casinos	New Zealand Racing Board	New Zealand Lotteries Commission
5/95	1.34	0.73	0.58	0.27
10/90	1.31	0.74	0.60	0.30
20/80	1.27	0.75	0.63	0.36
30/70	1.22	0.76	0.65	0.41
Current period 10/90 (%)	1.48	0.72	0.51	0.34

149. Most submissions on the weighting issue to the Ministry's consultation document and to the Gambling Commission focused on the 10/90 weighting (as approved by Cabinet in the past) and the 30/70 weighting (as recommended by the Gambling Commission and the Ministry in 2009 and as recommended by the Ministry in its 2012 consultation document).

150. Each gambling operator and related industry organisation that made a submission on this point expressed a preference for a weighting that limited the levy liability of its sector. One gambling harm service provider supported 10/90, on the basis that non-casino gaming machines should pay most of the levy because they are responsible for most presentations (help-seeking). Other gambling harm service providers, health sector organisations and academic organisations that submitted on the point favoured 30/70.

151. Cabinet determines the Ministry's appropriation (and, by implication, the total levy amount), and the weighting. The application of the formula in the Act then determines each sector's levy rate.

Gambling Commission's independent advice

152. In its independent report to Responsible Ministers (Gambling Commission 2012), the Gambling Commission endorsed the Ministry's reasons for proposing a 30/70 weighting, and summarised its own reasons for again supporting 30/70 as follows:

- A 30/70 weighting still recognises that non-casino gaming machines generate the most gambling-related harm (it would require that sector to pay around 58% of the total amount of the levy as opposed to 62% under a 10/90 weighting).
- A 30/70 weighting recognises that there is a shift in both expenditure and presentations away from non-casino gaming machines and towards New Zealand Lotteries Commission and New Zealand Racing Board products.
- Much gambling harm is not reflected in presentations data, and a 30% weighting on expenditure more fairly reflects sector responsibility for overall harm.

- A 30/70 weighting is a logical extension of the public health approach (an approach that is broader than treatment at the acute end of the harm continuum) that is both required by the Act and integral to the proposed service plan.

Impact of the weighting option chosen

153. The weighting option chosen is not expected to have a significant impact on consumers. It will have an impact on the amount of money that non-casino gaming machine operators and the New Zealand Lotteries Commission have available for allocation to community purposes, the amount the New Zealand Racing Board can distribute to the racing industry, and the six casinos' net profits.

Summary of the two levy options

154. Table 9 summarises key trade-offs between the two options on which most submitters focused.

Table 9: Summary of levy-weighting option trade-offs

Levy weighting option	Key trade-offs
10/90 (current)	<p>A much higher weighting (90%) on presentations (help-seeking) than on player expenditure (10%)</p> <p>Non-casino gaming machines, which are most often associated with harm, pay more than under the other option</p> <p>Might deter gambling operators from encouraging those experiencing problems to seek help</p> <p>Less consistent with the public health focus of the Act, because it puts a very high weighting on harm at the acute end of the continuum</p>
30/70 (recommended by Ministry of Health officials and the Gambling Commission)	<p>A higher weighting (30%) on player expenditure than on presentations (70%)</p> <p>Casinos, the New Zealand Racing Board and New Zealand Lotteries Commission pay more than they would under the other option</p> <p>The expenditure weighting (30%) beyond which officials consider that less-harmful forms of gambling with relatively high expenditure (some Lotteries Commission products, for example) are penalised</p> <p>More consistent with the Act's public health focus, because it recognises a variety of harms and risks of harm at the less acute end of the continuum.</p>

Consultation

155. The Act details a lengthy consultation process. The Ministry must undertake a needs assessment, prepare a draft service plan with costings, and propose the amount of the levy and a levy rate for each affected gambling sector. The Ministry then consults relevant gambling operators, problem gambling service providers and other affected groups on the needs assessment and its proposals. It revises its proposals before submitting them to Ministers of Health and Internal Affairs, and to the Gambling Commission. The Gambling Commission undertakes an independent analysis of the Ministry's proposals, convenes its own consultation meeting and provides its own advice to Ministers.
156. The Ministry and the Gambling Commission followed the process set out in the Act.

Who has been consulted and the form of the consultation

157. Government agencies consulted before release of the Ministry's consultation document were:

- the Department of Corrections
- the Department of Internal Affairs
- the Inland Revenue Department
- the Ministry of Economic Development
- the Ministry of Education
- the Ministry of Justice
- the Ministry of Pacific Island Affairs
- the Ministry of Social Development
- the Ministry of Women's Affairs
- the Ministry of Youth Development
- the New Zealand Police
- the Office of Ethnic Affairs
- the Office of Disability Issues
- Sport NZ
- Te Puni Kōkiri
- The Treasury.

158. The Department of the Prime Minister and Cabinet was informed.

159. On 10 August 2012, after receiving Cabinet approval, the Ministry released its consultation document, *Preventing and Minimising Gambling Harm* (Ministry of Health 2012b). As required by the Act, the document included the Ministry's draft plan for services to prevent and minimise gambling harm (the draft strategy) and its draft problem gambling levy rates for 2013/14 to 2015/16. It also included a needs assessment, as required by the Act.

160. A wide range of gambling operators and other gambling industry groups, problem gambling service providers, health sector groups, researchers, and local government representatives were informed about the proposals.
161. Four weeks were allowed for written submissions. The Ministry also held ten consultation meetings in the five main centres, comprising five general meetings, three designed to obtain Māori, Pacific and Asian viewpoints, and two meetings with the gambling industry. Thirty-seven written submissions were received, from representatives of a wide cross-section of stakeholders and from two individuals. (Sixty-five submissions were received during the previous consultation period in 2009, and fifty-six in 2006.)
162. An independent contractor examined the submissions and produced an analysis (Allen and Clarke 2012b). The Ministry considered the submissions and the analysis, and prepared a table of responses to key issues raised and a final proposals document (Ministry of Health 2012c and 2012d). These documents were all made publicly available on the Ministry's website.
163. The Gambling Commission also provided these documents to invitees to its consultation meeting, which was held on 8 November 2012. As required by the Act, it requested the attendance at that meeting of the Ministry, the Department of Internal Affairs, representatives of gambling operators subject to the levy, representatives of providers of problem gambling services, and representatives of other groups that the Commission believed were likely to be significantly affected by the levy. All invitees had an opportunity to make submissions at the meeting. The Commission also engaged an expert, Synergia Limited, to advise it on the Ministry's proposed service plan and levy calculations.
164. On 20 November 2012, the Gambling Commission submitted its independent report (Gambling Commission 2012) to the Minister of Internal Affairs and the Associate Minister of Health. That report supports the Ministry's proposed service plan and levy rates.

Significant issues raised and changes as a result

165. Significant comments made during consultation on the service plan and levy proposals are summarised below.

Comments on the service plan

166. Most submitters who commented on the proposed service plan were supportive, albeit that this support was often qualified by comments on specific aspects of the plan and suggestions for enhancements.
 - There was widespread support for the outcomes monitoring project. Some submitters commented that the strategy should be modified over the next three years as results from the project become available, to ensure that levy funds are spent in ways that achieve positive outcomes and reflect value for money.
 - Some industry groups submitted that funding for the strategy should be reduced, because gambling expenditure has reduced and (they consider that) new client presentations are dropping. Conversely, other submitters recommended that funding should be increased so more comprehensive preventive and support services and further in-depth research could be provided.
 - Most submitters who commented on the Ministry's proposals to ensure value for money by testing the market for various services were supportive.

- Some submitters (including the Gambling Helpline and an associated group) opposed the proposal to reduce funding for helpline services.
- Several industry groups commented that funding should not be used for lobbying.
- Some industry groups submitted that the proposed public health funding was high when compared with other jurisdictions and other issues (such as hazardous drinking and smoking), and supported a more targeted approach. Conversely, other submitters recommended that funding for public health, particularly funding for awareness and education programmes, should be increased.
- Those who commented on targeted populations typically considered it appropriate to prioritise help for high-risk groups.
- Some submitters suggested that the service plan should do more to address the environmental factors relevant to gambling harm, and some suggested that gambling harm should be considered within the wider context of mental health and addictions.
- Some submitters suggested that the service plan should do more to address the potential for interagency collaboration and coordination, including the potential for gambling services and wider health services to work together and learn from one another.
- There was widespread support for the Ministry proposal to increase research and evaluation funding, and suggestions for a wide range of other potential areas of research. One gambling research institution suggested a smoother spread of research funding over the three-year period so that gambling research capacity and expertise would not be lost.

Changes to the service plan

167. The Ministry proposes no significant changes to the service plan.
168. Some of the suggestions made during consultation are not consistent with the Act's requirements for an integrated problem gambling strategy focused on public health.
169. Many of the suggested enhancements are already encompassed within the proposed service plan. Others are more appropriately considered when the next six-year strategic plan is being prepared in 2015.
170. The Ministry still expects to make substantial savings by reviewing the gambling helpline cost structures and by testing the market for gambling helpline services. As a result, the Ministry still proposes a reduction in the budget for helpline services
171. The Ministry still considers that an appropriation of \$55.339 million strikes an appropriate balance between:
- the requirements in the Act and in the six-year strategic plan approved by Cabinet in 2010, and the needs identified in the 2012 needs assessment on the one hand
 - and the requirements for restraint and prudence in public sector spending and for the public sector to do more with less on the other.

172. The total amount proposed for research and evaluation over the 2013/14 to 2015/16 period (\$6.630 million) represents an increase of just under \$500,000 on the amount budgeted for the current three-year period (\$6.146 million). In order to derive significant benefit from this modest proposed budget increase, the Ministry intends to add modules onto large research projects that are already under way. This would require the budget to be phased so that more funding is available in the first two years of the 2013/14 to 2015/16 period than in the last year.
173. In its consultation document and in its proposals to the Gambling Commission, the Ministry originally suggested that the budget taper off quite sharply over the three-year period. A leading gambling research institution suggested that new research projects should be funded consistently over the three-year period in order to retain gambling research expertise and capacity. On reflection, the Ministry considers that the budget could taper off more gradually over the 2013/14 to 2015/16 period, and this is what is now proposed.
174. It is important to emphasise that the Ministry still proposes the modest increase in research funding canvassed in its original consultation document. However, it now suggests a smoother phasing of that funding over the three-year period than it originally did.

Comments on the problem gambling levy

175. Most of the submissions about the proposed problem gambling levy focused on two issues. These were proposals to split the non-casino gaming machine sector into two or more sectors, and the proposed weighting.
- Four submitters (Clubs New Zealand, the Royal New Zealand Returned and Services Association, the New Zealand Racing Board, and one gambling harm service provider) argued that club gaming machines should be a separate sector, with separate levy rates, to acknowledge their effective harm minimisation work and as an incentive to other gambling operators. For similar reasons, the New Zealand Racing Board argued that its machines should be an additional sector.
 - Submissions on the weighting focused on two of the four alternative weightings canvassed in the Ministry's consultation document: 10/90 and 30/70. Each industry organisation that made a submission on the proposed weighting expressed a preference for a weighting that limited the amount its gambling sector would be required to pay. One gambling harm service provider supported 10/90. Other gambling harm service providers, health sector organisations and academic organisations that made a submission on this point favoured the 30/70 split.

Changes to the levy

176. After its consultation process and before submitting its final proposals to the Gambling Commission, the Ministry updated its levy proposals to reflect more recent forecasts of gambling expenditure through to the end of the current levy period on 30 June 2013.
177. As a result, the forecast net over-collection for the current period reduced. The Ministry's proposed budget did not change. However, the change in the forecast over-collection meant that the total amount of the levy would be around \$400,000 more than suggested in the initial consultation document (\$54.047 million rather than the \$53.621 million initially suggested). This levy requirement is still \$1.3 million less than the requirement in 2010/11 to 2012/13.

178. The Ministry also based its final levy proposals to the Gambling Commission on more recent (2011/12) presentations data than the presentations data in its initial consultation document (2010/11).
179. The number of presentations attributable to non-casino gaming machines decreased in 2011/12. However, the numbers attributable to casinos and New Zealand Racing Board products both increased. Largely as a result of this, the levy contribution required from non-casino gaming machines for the three-year period would be between \$1.1 million and \$1.6 million lower than suggested in the consultation document, depending on the weighting that is applied to expenditure and presentations. By contrast, the levy contribution required from casinos would be around \$1.1 million higher and the levy contribution required from the New Zealand Racing Board would be around \$600,000 higher than the figures set out in the initial consultation document.
180. The impacts of the changes in gambling expenditure and in presentations were flagged in the Ministry's final proposals document to the Gambling Commission. The Ministry put the proposals document on its website, and the Gambling Commission provided it to all those invited to make submissions at the Commission's consultation meeting.
181. The 2011/12 presentation figures (which the Ministry considers are the latest, most reliable and most appropriate source of information) suggest that splitting the NCGM sector would be unlikely to make much difference to the levy rates. The figures for 2011/12 continue a trend since 2007/08 for an increasing share of NCGM presentations to be attributed to machines in clubs. Figures for the first six months of 2012/13, which became available early in the 2013 calendar year, also tend to confirm this trend. Given this information, and given that IRD's system constraints and existing higher priority work programme would make it difficult to implement different levy rates for different parts of the NCGM sector, the Ministry does not support a split.
182. Ministry officials continue to recommend a 30/70 weighting, and the Gambling Commission endorses this recommendation.

Conclusions and Recommendations

Whether to allow the strategy and levy simply to expire

183. This option is inconsistent with the intent of the Act and with the six-year strategic plan for 2010/11 to 2015/16 that Cabinet approved in 2010. It is not recommended.

Ministry's appropriation (and levy amount) for 2013/14 to 2015/16

184. The Ministry seeks an appropriation of \$55.339 million (GST exclusive) to implement its service plan to prevent and minimise gambling harm for 2013/14 to 2015/16. See Table 10. The Gambling Commission endorsed the Ministry's service plan and costings.

Table 10: Proposed Ministry of Health budget (GST exclusive), 2013/14 to 2015/16

Services	2013/14 (\$m)	2014/15 (\$m)	2015/16 (\$m)	Total (\$m)
Public health services	6.779	6.858	6.835	20.472
Intervention services	8.330	8.550	8.420	25.300
Research and evaluation	2.630	2.125	1.875	6.630
Ministry operating costs	0.957	0.979	1.001	2.937
Total	18.696	18.512	18.131	55.339

185. This amount (\$55.339 million) is slightly less than the appropriation approved for the current (2010/11 to 2012/13) service plan (\$55.423 million). See Table 11.

Table 11: Services funded (GST exclusive), 2010/11 to 2012/13 service plan

Services	2010/11 (\$m)	2011/12 (\$m)	2012/13 (\$m)	Total (\$m)
Public health services	6.758	7.091	6.965	20.814
Intervention services	8.413	8.549	8.564	25.526
Research and evaluation	2.499	2.224	1.423	6.146
Ministry operating costs	0.957	0.979	1.001	2.937
Total (\$)	18.627	18.843	17.953	55.423

186. The most significant changes in the Ministry's proposed service plan for 2013/14 to 2015/16 when compared with the current service plan are an increase of \$600,000 in the budget for the awareness and education programme coordinated by the Health Promotion Agency, a decrease of around \$1.2 million in the budget for helpline services, and an increase of around \$500,000 in the budget for research and evaluation.

187. The non-casino gaming machine sector has previously expressed a wish for the awareness and education programme to include a venue component. The small increase proposed for the awareness and education programme budget would enable the Health Promotion Agency to develop such a component.

188. The number of calls to the Gambling Helpline has been declining for many years. The Ministry anticipates making savings, without compromising service to users, by reviewing the gambling helpline cost structures and by testing the market for helpline services.
189. The proposed increase in the research and evaluation budget would take advantage of the rare opportunity to derive significant benefit, at a modest cost, by adding modules onto large research projects that are already underway.
190. Assuming that the Ministry's appropriation is set at \$55.339 million, the total amount of the problem gambling levy for 2013/14 to 2015/16 would be set at \$54.047 million (taking into account the forecast net over-collection in the current period).
191. This proposed levy requirement for 2013/14 to 2015/16 (\$54.047 million) is approximately \$1.3 million less than the levy requirement for the current period (\$55.353 million).

Proposals to split the non-casino gaming machine sector

192. Ministry officials and the Gambling Commission recommend there be no change to the four sectors required to pay the problem gambling levy:
- non-casino gaming machine (NCGM) operators, including clubs and the New Zealand Racing Board in respect of their NCGMs
 - casinos
 - the New Zealand Racing Board in respect of its racing betting and sports betting products
 - the New Zealand Lotteries Commission.

Weighting and resulting levy rates

193. Ministry officials consider an argument could be made for any weighting of expenditure to presentations in a range from 5/95 to 30/70.
194. Ministry officials and the Gambling Commission prefer a weighting of 30/70, largely because it is seen as better reflecting the focus on public health that is both required by the Act and integral to the proposed service plan. A weighting of 30/70 takes into account indicators of harm other than presentations – that is, it focuses on all harm, 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 12.

Table 12: Recommended levy rate for each gambling sector, 2013/14 to 2015/16

Expenditure to presentation ratio	Levy rate payable (%; GST exclusive)			
	Non-casino gaming machines	Casinos	New Zealand Racing Board	New Zealand Lotteries Commission
30/70	1.22	0.76	0.65	0.41

Implementation

195. Assuming that Government decides to put in place a new service plan and levy, its decisions will be incorporated in problem gambling levy regulations to take effect on 1 July 2013 and remain in force until 30 June 2016. These regulations must be *Gazetted* by 30 May 2013 in order to comply with the 28-day rule.
196. Once the regulations are *Gazetted*, the Ministry will confirm contract arrangements with its service providers, and the IRD will conclude system changes to implement any changes to the levy rates. The Department of Internal Affairs will advise gambling operators of the new rates.
197. The Ministry has begun preparations for short-term rollovers of some contracts and to test the market in respect of many of its services. These arrangements are necessary to ensure stability in the sector during the transition from the 2010/11 to 2012/13 service plan to the 2013/14 to 2015/16 service plan.
198. If Cabinet's decision on the Ministry's appropriation for 2013/14 to 2015/16 differs from that in the proposed service plan, the Ministry will meet any shortfall in costs from within existing baselines, and realign (or exit) contracts from 1 January 2014 to remain within Cabinet's approved appropriation.

Monitoring, Evaluation and Review

199. In 2015, a new six-year strategic plan, three-year service plan and problem gambling levy regulations should be developed to come into effect on 1 July 2016. This process will entail a review of the strategy, and detailed consultation on a needs assessment, drafts of the strategic and service plans, costings for the service plan, and proposed levy rates. As required by the Act, the Ministry will consult widely on its proposals before providing them to the Gambling Commission. As it did in 2012, the Gambling Commission will again undertake its own analysis and consultation, and provide independent recommendations to Ministers.
200. In the meantime, the Ministry will continue monitoring and evaluating the services it purchases and the effectiveness of the strategy by:
- testing the market for many of the services it currently purchases
 - continuing its standard contract management processes, including monthly data collection, six-monthly reporting, routine audits, and verification visits
 - continuing its research and evaluation programme, including evaluations of awareness-raising campaigns, evaluations of clinical intervention services, the national gambling study, a national clinical effectiveness trial, and gambling and non-gambling longitudinal studies
 - fully implementing its comprehensive outcomes monitoring and reporting project.
201. KPMG's 2011 independent *Value for money review of problem gambling services* concluded that there had been a strong upward trend in value for money over the previous three years, but that it was premature to assess overall value for money as the Ministry's outcomes framework was still being implemented. The framework will be fully implemented over the 2013/14 to 2015/16 period.

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