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Report to Office of Meg Webb MLC

Tax impacts to the State of aspects of the Tasmanian Government's Future Gaming Markets proposal

Updated report



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Executive summary

Overview

ACIL Allen has been engaged by the Office of Meg Webb MLC to estimate the impacts of aspects of the Tasmanian Government's Future Gaming Markets proposal on Tax revenue to the Tasmanian Government. This analysis was initially undertaken in April 2021 and was updated in July to reflect the updates to the Future Gaming Markets proposal released as the Gaming Control Amendment (Future Gaming Market) Bill 2021 on 7 July 2021.

Limitations

This project aims to provide initial indicative estimates and insights into the proposed issues. This is not a full study into these issues. To understand with greater accuracy the impacts of the addressed issues further investigation is required. There is significantly more detail, data and nuance involved which is not addressed in this short report.

Key questions and findings

Poker machines in hotels and clubs

What is the estimated difference in State income between the Future Gaming Market proposed 20-year venue licenses to operate poker machines in hotels and clubs, and different possible market values of these licences?

Key Findings

The proposed Future in gaming EGM progressive licence fee is estimated to attract \$3.8 million in government revenue from hotels and clubs annually. If the EGM licence fee was to be increased and the same number of licences are purchased, then the government revenue will increase accordingly.

If the average EGM licence fee were to be increased to \$3,000 per EGM per annum, government revenue would increase to \$6.9 million per annum (or \$3.1 million of additional revenue per annum). If the average EGM licence fee were to increase to \$4,000 this would result in government revenue of \$9.2 million (or \$5.4 million of additional revenue) per annum. Over 20 years this \$4,000 EGM licence fee equates to \$108.7 million in additional government revenue.

Pokies in casinos

What would be the estimated State revenue forgone annually in implementing the proposed EGM rate of 13.91 per cent taxation (including CSL) on casino poker machines compared to the current rate of 25.88 per cent (no CSL currently required) or the rate proposed for hotels of 38.91 per cent (including CSL)? What is the forgone revenue over the proposed 20-year license?

Key Findings

The impact of adopting the lower 13.91 per cent tax rate rather than the 38.91 per cent tax rate assuming all else remains constant is \$14.9 million less in government tax income in 2024 and \$248 million over a 20 year period.

Keno tax rates -Casinos

What is the estimated State revenue impact annually if keno in Casinos is taxed at the proposed rate of 0.91 compared to the current rate of 5.88 per cent or the proposed rate applied to Hotels and Clubs of 20.31%? What is the total estimate of State revenue forgone over the proposed 20-year license period?

Key Findings – Casino Keno

The impact of adopting a casino Keno tax rate of 0.91 per cent rather than the current higher rate of 5.88 per cent assuming all else remains constant is \$0.13 million less in taxation revenue in 2024 and \$2.7 million less in government revenue over a 20 year period. The impact of adopting 0.91 per cent over the hotels and clubs proposed rate of 20.31 is \$10.5 million less in taxation revenue over a 20 year period.

Keno operator license

If Tasmania aligned with interstate models in relation to keno, what is the estimated value of the Tasmanian keno operator license if it was put out to market?

Key Findings

It is difficult to draw any clear conclusion on the estimated value of a keno operator license if it were put to market. However based on the licence rates published for Victoria and QLD it is possible that the license fee could be valued at higher than the proposed \$500,000.

However further investigation is required to draw any significant conclusions.

Licensed Monitoring Operator

Noting interstate models, what would be the estimated market value of the LMO in Tasmania?

Key Findings

We were not able to source any publicly available data for Tasmania or other jurisdictions which could be used to reasonably estimate the LMO's value.

Given the available time for this work, it was not feasible to do a bottom up estimate of the license monitoring operator estimated operations, costs, and revenues.

Summary of key impacts

The following table summarises scenarios investigated for each of the key research questions.

Table ES 1 Summary of key impacts for various scenarios investigated

Scenario	Estimated annual Government income	Difference from base case (2024)	20 year difference from base case
Poker machines in hotels and clubs			
Future of Gaming progressive annual license fee	\$3.8 million	N/A	N/A
Market license value of \$3,000 per EGM	\$6.9 million	\$3.1 million	\$62.6 million
Market license value of \$4,000 per EGM	\$9.2 million	\$5.4 million	\$108.7 million
Pokies in casinos			
Casino EGM tax rate at industry-requested 13.91 per cent	\$8.3 million	N/A	N/A
25.88% current casino rate	\$15.4 million	\$7.1 million	\$119 million
Casino EGM tax rate at the rate proposed for hotels of 38.91 per cent	\$23.2 million	\$14.9 million	\$248 million
Keno tax rate – Casinos			
0.91 per cent of gross profits	\$0.02 million	N/A	N/A
Keno tax 5.88 per cent of gross profit	\$0.16 million	\$0.13 million	\$2.7 million
20.31 per cent of gross profits	\$0.55 million	\$0.52 million	\$10.5 million

Source: ACIL Allen

Background

1

1.1 Introduction

ACIL Allen has been engaged by the Office of Meg Webb MLC to estimate the impacts of aspects of the Tasmanian Government's Future Gaming Markets proposal on Tax revenue to the Tasmanian Government. The key areas of investigation are as follows:

- **Poker machines in hotels and clubs**
 - What is the estimated difference in State income between the Future Gaming Market proposed 20-year venue licenses to operate poker machines in hotels and clubs, and different possible market values of these licences?
- **Pokies in casinos**
 - What would be the estimated State revenue forgone annually in implementing the proposed EGM rate of 13.91 per cent taxation (including CSL) on casino poker machines compared to the current rate of 25.88 per cent (*no CSL currently required*) or the rate proposed for hotels of 38.91 per cent (including CSL)? What is the forgone revenue over the proposed 20-year license?
- **Keno tax rates - Casinos**
 - What is the estimated State revenue forgone annually if keno remains taxed at the current rate of 5.88 per cent compared to Tasmania adopting the proposed Future Gaming Markets rates? What is the total estimate of State revenue forgone over the proposed 20-year license period?
- **Keno operator license**
 - If Tasmania aligned with interstate models in relation to keno, what is the estimated value of the Tasmanian keno operator license if it was put out to market?
- **Licensed Monitoring Operator**
 - Noting interstate models, what would be the estimated market value of the LMO in Tasmania?

1.2 Limitations

This project aims to provide initial indicative estimates and insights into the proposed issues. This is not a full study into these issues. To understand with greater accuracy the impacts of the issues further investigation is required. There is significantly more detail and nuance involved which is not addressed in this short report. If more detailed and accurate analysis is required, we recommend further analysis with a greater time allowance to further the estimates and insights.

As part of the analysis below we have made the following simplifying assumption – each sectors structure remains broadly static, with the sector size changing in line with historical trends.

All values provided are in 2021 dollars and unadjusted for inflation over future years.

Analysis

2

2.1 Poker machines in hotels and clubs

What is the estimated difference in State income between the Future Gaming Market proposed 20-year venue licenses to operate poker machines in hotels and clubs, and different possible market values of these licences?

2.1.1 Overview

The following section compares the state income expected based on the current proposed arrangements and different possible market values which could be expected.

2.1.2 Proposed arrangements

The draft Future Gaming Market Bill proposes that hotels and clubs will pay a progressive annual license fee between \$1000 and \$2500 per EGM. This amount varies depending on the number of EGMs located in a given venue. **Table 2.1** details these proposed license fees.

Table 2.1 Proposed EGM annual license fee

EGMs	Base \$	Plus \$ per EGM above base
0-5	0	1,000
6-10	5,000	1,300
11-15	11,500	1,600
16-20	19,500	1,900
21-25	29,000	2,200
26+	40,000	2,500

Source: https://www.treasury.tas.gov.au/Documents/Future_Gaming_Consultation_Fact_Sheet_no_2_-_Hotels_and_Clubs.pdf

2.1.3 Different possible market values

It is difficult to accurately estimate the expected market value of these EGM licences if they were to go to market, so representative values have been chosen for comparison.

In 2011 an EGM licencing auction in Victoria found that during the pre-auction club offer the average price was \$42,014 for a ten year licence, which equates to \$4,200 a year. As such, we have used this value as an upper bound for the prices analysed relating to Tasmania.¹

2.1.4 Analysis

The following sections compare State income across various options including:

- proposal of the Future of Gaming progressive annual license fee (**Table 2.1**)
- market license value of \$3,000 per EGM

¹ <https://www.parliament.vic.gov.au/papers/govpub/VPARL2010-14No41.pdf>

— market license value of \$4,000 per EGM.

Licence revenue of Future Gaming Market proposal

The following analysis estimates the expected Tasmanian government licence revenue of the proposed progressive annual license fee outlined in **Table 2.1**.

Table 2.2 outlines the current number of hotels and clubs with a given number of granted EMGs. As at July 2020 there was a total of 2,208 EMGs granted in Hotels and 97 in Clubs for a total of 2,305 EMGs. The table also includes the expected annual fee per venue and total for all venues. The total expected licence fee income to government of the Future Gaming Markets progressive licence fee is \$3.8 million annually, which equates to \$1,643 per granted EGM annually.

Table 2.2 Expected tax revenue of government proposed annual license fee arrangements

Granted EMGs*	Hotel*	Club*	Proposed annual fee per venue	Total
10	4	0	\$11,500	\$46,000
12	0	1	\$14,700	\$14,700
15	7	3	\$19,500	\$195,000
20	16	2	\$29,000	\$522,000
21	1	0	\$31,200	\$31,200
24	3	0	\$37,800	\$113,400
25	6	0	\$40,000	\$240,000
30	50	0	\$52,500	\$2,625,000
TOTAL	2208	97	-	\$3,787,300
Total machines	2305			
Average fee per EGM	-	-	-	\$1,643

Source: Analysis by ACIL Allen. * Gaming venue lists, https://www.treasury.tas.gov.au/Documents/Future_Gaming_Consultation_Fact_Sheet_no_2_-_Hotels_and_Clubs.pdf

Licence revenue compared to alternative market prices

Table 2.3 details the expected government licence income for various assumed EGM licence fees. If the price were increased from the proposed average of \$1,643 to \$4,000 on average, then that would result in an additional \$5.4 million in revenue for the government; similarly if it were to increase to \$3,000 per EGM additional revenue would be \$3.1 million annually.

Table 2.3 Total licence fee income for various EGM licence prices

Assumed market price per EGM licence	EGM count as of July 2021	Total income	Difference from proposed fee structure (2024)	20 year difference from base case
Proposed progressive annual license fee average \$1,643	2305	\$3,787,300	N/A	N/A
\$3,000	2305	\$6,915,000	\$3,127,700	\$62.6 million
\$4,000	2305	\$9,220,000	\$5,432,700	\$108.7 million

Source: ACIL Allen

This assumes all licences are purchased and any increase in price does not result in fewer licences being purchased.

2.1.5 Key findings

The proposed Future Gaming Market EGM progressive licence fee is estimated to attract \$3.8 million in government revenue from hotels and clubs. If the EGM licence fee was to be increased and the same number of licences are purchased, then the government revenue will increase accordingly.

If the average EGM licence fee were to be increased to \$3,000 per EGM per annum, government revenue would increase to \$6.9 million per annum (or \$3.1 million of additional revenue per annum). If the average EGM licence fee were to increase to \$4,000 this would result in government revenue of \$9.2 million (or \$5.4 million of additional revenue) per annum. Over 20 years this equates to \$108.7 million in additional government revenue.

2.2 Pokies in casinos

What would be the estimated State revenue forgone annually in implementing the proposed EGM rate of 13.91 per cent taxation (including CSL) on casino poker machines compared to the current rate of 25.88 per cent (no CSL currently required) or the rate proposed for hotels of 38.91 per cent (including CSL)? What is the forgone revenue over the proposed 20-year license?

2.2.1 Overview

The following section compares the approximate casino EGM tax government revenue under three alternatives:

- Casino EGM tax rate at proposed 13.91 per cent including CSL
- Casino EGM tax rate at the current rate of 25.88 per cent with no CSL required
- Casino EGM tax rate at the rate proposed for hotels of 38.91 per cent including CSL.

2.2.2 Estimating Casino gross revenue

The gross profit of Casinos EGMs in Tasmania is not readily available. As such the following section provides an estimate of casino gross profit. Both scenarios use the same assumed gross profit, so any errors in the estimate of gross profit will only marginally impact the result.

In 2015-16, real casino gaming expenditure in Tasmania was approximately \$90 million, of this, \$77 million was accounted for by EGMs (86% of total), \$10 million by table games (11%) and \$3 million by keno (3%).²

Using these proportions we can approximately estimate EGM gross profit from recently reported total Casino expenditure (Table 2.4).

Table 2.4 Estimating Casino EGM gross profit

Year	Total Gross Casino expenditure	Estimated gross Casino EGM profit (applying 86% to total revenue)	Annual growth in gross Casino EGM profit
2012-13	\$92.53	\$79.58	-13%
2013-14	\$90.59	\$77.91	-2%
2014-15	\$92.59	\$79.63	2%

² Fourth Social and Economic Impact Study Of Gambling In Tasmania (2017)

Year	Total Gross Casino expenditure	Estimated gross Casino EGM profit (applying 86% to total revenue)	Annual growth in gross Casino EGM profit
2015-16	\$89.80	\$77.23	-3%
2016-17	\$84.34	\$72.53	-6%
2017-18	\$81.16	\$69.80	-4%

Source: ACIL Allen, Australian gambling statistics <https://www.qgso.qld.gov.au/statistics/theme/society/gambling/australian-gambling-statistics>

The average growth rate over this 5 year period is (-2.6) per cent.³ Future estimated gross profit was estimated assuming this recent growth trajectory.

2.2.3 Analysis and results

Based on the industry analysis above, we have assumed the following:

- 2023-24 casino EGM gross profit: \$59.6 million, estimated by applying the historical 2.6 percent decline in in expenditure to 2017-18 data.
- Assume a continued decline in EGM expenditure, however at a lower rate over the long run. Assumed to be 2% per annum for 20 years.

Using these assumptions the annual estimated taxation revenue was estimated for 2024 through to 2043. **Table 2.5** details the tax calculation for 2024 for the three tax rates and reports the tax loss of adopting the lower tax rate. The cumulative tax impact over 20 years is also reported, this assumes a 2% decline in gross profit over that 20 years to account for the historical decline in EGM expenditure.

The impact of adopting the lower 13.91% tax rate over a 38.91% tax rate assuming all else remains constant is \$14.9 million less in government taxation revenue in 2024 and \$248 million over a 20 year period.

Table 2.5 2023-24 and 20 year Tax revenue estimation results

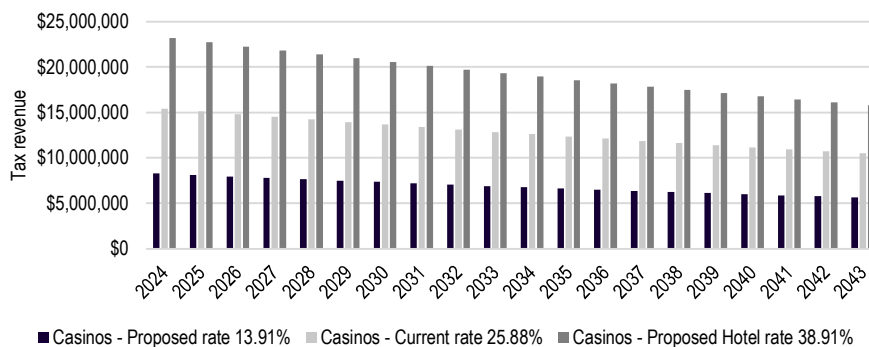
Scenario	Taxable Casino EGM gross profit 2024	Assumed tax rate	Tax revenue	20 years impact assuming 2% decline in industry
13.91% proposed rate for casinos	\$59.6 million	13.91% of gross profit	\$8.3 million	\$138 million
25.88% current casino rate	\$59.6 million	25.88% of gross profit	\$15.4 million (\$7.1 million difference)	\$256 million (\$119 million difference)
38.91% rate proposed for hotels applied to casinos	\$59.6 million	38.91% of gross profit	\$23.2 million (\$14.9 million difference)	\$385 million (\$248 million difference)

Source: ACIL Allen

Figure 2.1 plots the tax revenue of the three scenarios, and the resulting loss of adopting the lower tax rate.

³ This 5 year period was chosen due to the Australian Gambling Statistics being available up to 2017-18

Figure 2.1 20 year impact of three tax rates



Source: ACIL Allen

2.2.4 Key findings

The impact of adopting the lower 13.91 per cent tax rate rather than the 38.91 per cent tax rate assuming all else remains constant is \$14.9 million less in government tax income in 2024 and \$248 million over a 20 year period.

2.3 Keno tax rates - Casinos

What is the estimated State revenue impact annually if keno in Casinos is taxed at the proposed rate of 0.91 compared to the current rate of 5.88 per cent or the proposed rate applied to Hotels and clubs of 20.31%? What is the total estimate of State revenue forgone over the proposed 20-year license period?

2.3.1 Overview

The following section compares the expected State revenue from casino keno taxation under three alternatives:

- Keno casino taxation at the proposed rate of 0.91 per cent of gross profit
- Keno casino taxation at the current rate of 5.88 per cent of gross profit
- Keno casino taxation at the proposed Hotels and Clubs rate of 20.31 per cent

2.3.2 Estimating Casino Keno gross revenue

The gross profit of Keno in Tasmania is not readily available, as such we have used total Casino keno gaming expenditure as a proxy. In 2018-19 the estimated Keno spend in Casinos was \$2.7 million⁴.

We have used the same assumptions on growth as for hotels and clubs outlined below. As such, we have assumed no growth for the future.

Estimating hotel and clubs keno gross revenue

The gross profit of Keno in Tasmania is not readily available, as such we have used total keno gaming expenditure as a proxy (Table 2.6). Note the following excludes Keno in Casinos.

⁴ <https://www.treasury.tas.gov.au/Documents/Fifth%20SEIS%20Volume%201%20-%20Industry%20Trends%20and%20Impacts.PDF>

Table 2.6 Estimating Keno gross profit

Year	Total Keno gaming expenditure (\$ million)	Assumed gross profit (\$ million)	Annual growth in gross EGM profit
2012-13	\$29.2	\$29.2	5%
2013-14	\$32.4	\$32.4	11%
2014-15	\$30.2	\$30.2	-7%
2015-16	\$33.3	\$33.3	10%
2016-17	\$31.8	\$31.8	-5%
2017-18	\$31.0	\$31.0	-2%

Source: ACIL Allen, Australian gambling statistics <https://www.qgso.qld.gov.au/statistics/theme/society/gambling/australian-gambling-statistics>

The average growth rate over this 5 year period is 1.5 per cent, however recent years have seen only a decline. As such, we have assumed no growth for the future.

2.3.3 Analysis and results

The following assumptions were applied:

- 2023-24 Casino Keno gross profit: \$2.7 million, estimated by applying zero growth to the 2019-20 reported total keno expenditure.
- Assume a flat growth in Keno expenditure in line with historical Keno trends.

Using these assumptions the annual estimated taxation revenue was estimated for 2021 through to 2040. **Table 2.7** provides the tax calculation for the various tax rates and reports the relative tax loss of adopting the tax rate. The cumulative tax impact over 20 years is also reported, this assumes a 0 per cent change in gross profit over that 20 years.

The impact of adopting the 0.91 per cent tax rate over the higher current tax rate of 5.88 per cent (assuming all else remains constant) is \$0.13 million less in taxation revenue in 2024 and \$2.7 million less in government revenue over a 20 year period. The impact of adopting 0.91 per cent over the hotels and clubs proposed rate of 20.31 is \$10.5 million less in taxation revenue over a 20 year period.

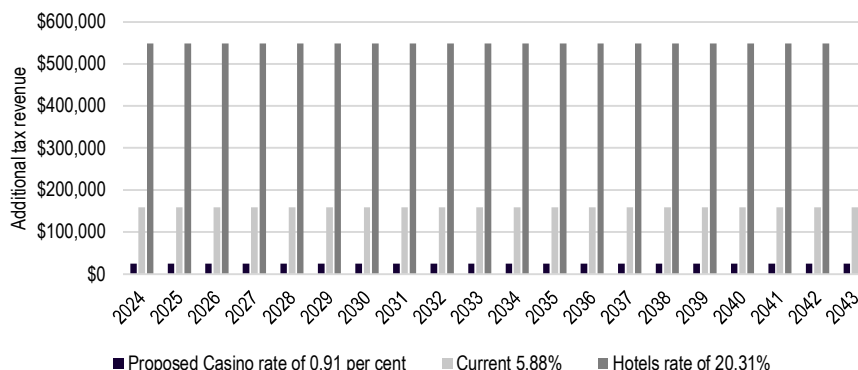
Table 2.7 2023-24 and 20 year Tax revenue estimation results - Casinos

Scenario	Taxable Keno expenditure 2024	2024 Tax revenue (annual)	20 years Tax revenue	Difference from 0.91% tax rate over 20 years
0.91 per cent	\$2.7 million	\$0.02 million	\$0.5 million	N/A
Current 5.88%	\$2.7 million	\$0.16 million (\$0.13 million difference)	\$3.2 million	\$2.7 million
20.31 per cent (hotels and clubs rate)	\$2.7 million	\$0.55 million (\$0.52 million difference)	\$11.0 million	\$10.5 million

Note: these figures include only keno in casinos
Source: ACIL Allen

Figure 2.2 plots the tax revenue of each scenario.

Figure 2.2 20 year impact of the Keno tax rate scenarios - Casinos



Source: ACIL Allen

2.3.4 Key findings

The impact of adopting a casino Keno tax rate of 0.91 per cent rather than the current higher rate of 5.88 per cent assuming all else remains constant is \$0.13 million less in taxation revenue in 2024 and \$2.7 million less in government revenue over a 20 year period. The impact of adopting 0.91 per cent over the hotels and clubs proposed rate of 20.31 is \$10.5 million less in taxation revenue over a 20 year period.

2.4 Keno operator license

If Tasmania aligned with interstate models in relation to keno, what is the estimated value of the Tasmanian keno operator license if it was put out to market?

2.4.1 Overview

The following section outlines selected publicly available information on Keno operating licence values in Australian jurisdictions. These values are used to give a broad indication of the estimated value of the Tasmanian licence. These are then compared to the Future in gaming proposed annual fee of \$500,000 for the state-wide keno operator license.

However, it should be noted that the true value is dependent on relative industry sizes, regulations, taxes and particular jurisdictional circumstances.

2.4.2 Analysis

Table 2.8 provides a summary of keno operator licenses interstate, together with keno expenditure and tax rate.

Table 2.8 Keno operating licenses

Jurisdiction	License details	Annual license value	Total Keno expenditure#	Tax rate summary*
Tasmania proposed licence fee	\$500,000 per annum	\$500,000	\$31.0 million	0.91 % gross profit for Casinos, 20.31 % for Hotels
Victoria	\$60 million for 10 years **	\$6 million	\$23.1 million	24.42 % of player loss

Jurisdiction	License details	Annual license value	Total Keno expenditure [#]	Tax rate summary [*]
QLD	Quarterly Licence Fee \$209,200. ^{***}	\$836,800	\$97.9 million	29.40% of monthly gross revenue

Note: Expenditure excludes Keno in Casinos.

Source:

[#]<https://www.qgso.qld.gov.au/statistics/theme/society/gambling/australian-gambling-statistics>

^{*}<https://www.treasury.nsw.gov.au/sites/default/files/2018-04/TRP18-01%20Interstate%20Comparison%20of%20Taxes%202017-18.pdf>

^{**}https://www.vcqlr.vic.gov.au/sites/default/files/vcqlr_kenolicenseandagreement.pdf

^{***}<https://www.treasury.tas.gov.au/Documents/Volume%201%20-%20Industry%20Trends%20and%20Impacts.PDF>

2.4.3 Key findings

It is difficult to draw any clear conclusion on the estimated value of a keno operator licence if it were put to market. However based on the licence rates published for Victoria and QLD it is possible that the licence fee could be valued at higher than the proposed \$500,000.

However further investigation is required to draw any significant conclusions.

2.5 Licensed Monitoring Operator

Noting interstate models, what would be the estimated market value of the LMO in Tasmania?

2.5.1 Overview

There is limited publicly available data for Tasmania and other jurisdictions which could be used to reasonably estimate Tasmania's LMO's value.

The licence fee charged by government needs to reflect the industry size, required functions, fixed and variable costs of operation and local industry characteristics. For example, the licence fee needs to reflect the costs of operation and requirements of the operator to ensure profitability and sustainability of the LMO organisation.

The Office of Liquor and Gaming Regulation Gaming licence fees and charges for 2020-2021 report the Queensland Licensed Monitoring Operator licence fee of \$442,500 for 10 years.⁵ Tasmania has less than 10 per cent of the number of EGMs located in Queensland. As such, the LMO value in Tasmania would be expected to be less than that of QLD. However we note that there are fixed costs of operation, and the circumstances in the two jurisdictions are quite different.

Given the time available for this work, it was not feasible to do a bottom up estimate of the license monitoring operator estimated operations, costs, and revenues.

⁵ https://www.publications.qld.gov.au/dataset/bcf03d20-ff59-4678-bdc7-2adfce2ee520/resource/cdf2614c-1c81-44fa-9ac8-ebc335c7ef26/download/gaming_licence_fees_-_2020-2021.pdf

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