



Regulation of gaming machines

PERFORMANCE AUDIT | 12 JUNE 2025

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General and the Audit Office, are set out in the *Government Sector Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of state public sector and local government entities' financial statements. We also audit the Consolidated State Financial Statements, a consolidation of all state public sector agencies' financial statements.

Financial audits are designed to give reasonable assurance that financial statements are true and fair, enhancing their value to end users. Also, the existence of such audits provides a constant stimulus to entities to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to entities and reports periodically to Parliament. In combination, these reports give opinions on the truth and fairness of financial statements, and comment on entity internal controls and governance, and compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These assess whether the activities of government entities are being carried out effectively, economically, efficiently and in compliance with relevant laws. Audits may cover all or parts of an entity's operations, or consider particular issues across a number of entities. Our performance audits may also extend to activities of non-government entities that receive money or resources, whether directly or indirectly, from or on behalf of government entities for a particular purpose.

As well as financial and performance audits, the Auditor-General carries out special reviews, compliance engagements and audits requested under section 27B(3) of the *Government Sector Audit Act 1983*, and section 421E of the *Local Government Act 1993*.



GPO Box 12
Sydney NSW 2001

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

In accordance with section 38EC of the *Government Sector Audit Act 1983*, I present a report titled '**Regulation of gaming machines**'.

A handwritten signature in black ink, reading 'Bola Oyetunji'.

Bola Oyetunji

Auditor-General for New South Wales
12 June 2025

RECONCILIATION STATEMENT

We pay our respects and recognise Aboriginal peoples as the traditional custodians of the land in NSW who have cared for and protected the environment, waterways, and sacred sites over many millennia. We honour and thank the traditional custodians of the land on which our office is located, the Gadigal people of the Eora Nation, and the traditional custodians of all the lands on which our employees live and work. We pay our respects to their Elders past and present, and to the next generation of leaders.

We acknowledge that our long history of helping to foster accountability and transparency in the government and Parliament is also shared with the histories of colonisation and the resulting disadvantage of Aboriginal and Torres Strait Islander peoples in this state.

We embrace our role in holding government agencies to account for the delivery of effective services for Aboriginal and Torres Strait Islander peoples. We are committed to ensuring that our audits are culturally responsive, respectful and inclusive, and that we engage with Aboriginal and Torres Strait Islander peoples and communities in a meaningful and collaborative way.

We recognise the ancestral tie of Aboriginal and Torres Strait Islander peoples to this land, and we acknowledge that we have much to learn from their wisdom, rich and diverse culture, languages, knowledge and practices.

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Section 1 –

Regulation of gaming
machines

1. Executive Summary

Context

Gambling is a recreational activity that contributes to employment and tax revenue in NSW. It is regulated because it has the potential to cause harm to individuals, including financial loss and psychological distress. Gambling can also have negative social and economic consequences for the broader community. The NSW Government defines gambling harm as any negative consequence of gambling that affects the wellbeing of a person gambling or their loved ones.

Gaming machines are one of the most common forms of gambling in NSW. In 2023–24, there were 87,749 gaming machines in NSW, operating across more than 2,000 clubs and hotels. Gambling on authorised gaming machines is a legal form of entertainment and registered clubs and hotels in NSW provide community-focused services and activities. However, research has shown that gaming machines can cause significant harm. Profit from gaming machines, which is the best available measure of losses to patrons, totalled more than \$8.4 billion in 2023–24. Gaming machines and losses are disproportionately concentrated in lower socio-economic areas of Greater Sydney.

The *Gaming Machines Act 2001* (the Act) provides for the regulation, control and management of gaming machines in clubs and hotels in NSW. The Act has five objectives:

1. to minimise harm associated with the misuse and abuse of gambling activities
2. to foster responsible conduct in relation to gambling
3. to facilitate the balanced development, in the public interest, of the gaming industry
4. to ensure the integrity of the gaming industry
5. to provide for an ongoing reduction in the number of gaming machines in the State by means of the tradeable gaming machine entitlement scheme.

Section 3 of the Act states that when exercising any functions under the Act, ‘due regard is to be had to the need for gambling harm minimisation and the fostering of responsible conduct in relation to gambling’. It also states that, ‘in particular, due regard is to be had to the need for gambling harm minimisation when considering for the purposes of this Act what is or is not in the public interest’.

To operate gaming machines, a venue must hold a liquor licence and be granted a specific number of gaming machine ‘entitlements’. Venue licences can include conditions such as limitations on operating hours and the minimum number of staff that must supervise gaming machine operations. There are also a range of legislative requirements that apply to all venues with gaming machines, including mandatory training for staff working in gaming rooms, restrictions on the location and visibility of gaming machines and the display of information about gambling support services.

The Independent Liquor and Gaming Authority (ILGA) and the Department of Creative Industries, Tourism, Hospitality and Sport (the Department) share responsibility for regulating gaming machines in NSW. ILGA is an independent statutory authority with responsibilities that include determining applications to operate gaming machines. ILGA has a Board with seven members who have a mixture of public and private sector experience and a staff agency with 13 staff. ILGA board members are appointed by the Governor on the recommendation of the Minister for Gaming and Racing.

The Department develops policies and regulatory strategies for gambling and conducts associated compliance and enforcement activities. It also provides information and administrative services to ILGA to support its licensing decision-making and makes some licensing decisions under delegation from ILGA.

Many factors can contribute to gambling harm levels, including policy settings and social and economic factors. While effective regulation alone cannot deliver harm minimisation outcomes, the Department and ILGA have a clear responsibility for implementing legislative objectives relating to harm minimisation. The Department states the purpose of gambling regulation is to ‘promote a culture of responsible gambling and protect people from problems associated with excessive gambling’.

Audit objective

The objective of the audit is to assess the effectiveness of the Department and ILGA's regulation of gaming machines in clubs and hotels, with a focus on harm minimisation requirements. This includes assessing the effectiveness of the administration of applications to operate gaming machines and the approach to the compliance and enforcement of harm minimisation requirements.

Conclusion

The Department and ILGA regulate gaming machines in a structured and consistent manner but are not supporting harm minimisation outcomes effectively.

The Department has developed a regulatory strategy that sets out its priorities clearly and has communicated this to stakeholders. However, the strategy does not have a sufficient focus on the areas that are considered high-risk for gambling harm and does not set any targets for reducing harm associated with gaming machines. Gaming machine losses and the social costs of gambling harm continue to be disproportionately concentrated in socio-economically disadvantaged communities.

Compliance and enforcement activities have largely focused on recent legislative changes relating to the layout of and signage for gaming machine rooms. The Department does relatively little to assess the actions taken by venue managers and staff to identify and prevent harmful gambling activities. There is a risk that this approach creates incentives for venues to focus on complying with specific regulatory requirements rather than taking meaningful actions to prevent observed examples of harmful gambling in their premises.

ILGA and the Department have clear processes for assessing applications to operate gaming machines. ILGA has focused on reducing the post-midnight operation of gaming machines when assessing recent applications for new or altered gaming machine operations. This is based on research showing that this is the time period most closely associated with harmful gambling. However, ILGA does not proactively review licence conditions after they are granted. This means many venues have not had their licence conditions reviewed in recent years and are operating gaming machines with licence conditions that may not be consistent with contemporary approaches to harm minimisation. Of the 20 clubs with the largest number of gaming machines, only two have applied for a change in their gaming machine operations since 2019–20.

The *Gaming Machines Act 2001* (the Act) establishes a tradeable gaming machine entitlement scheme that has a stated goal of reducing the number of gaming machines in NSW. The scheme has contributed to a decrease in the number of gaming machine entitlements, though this reduction has been gradual and there has been an increase in the number of gaming machines in NSW since 2021–22.

Key findings

NSW has 87,749 gaming machines, significantly more than all other Australian jurisdictions, despite legislative provisions that aim to reduce the number of machines

NSW has more than half of all of the gaming machines in Australia and has significantly more gaming machines as a proportion of the population than all other Australian states and territories. NSW has almost triple the number of gaming machines per 1,000 adults than Victoria, the next largest state by population. If the number of gaming machines in NSW was at the same level as the national per capita average, there would be 33,000 fewer gaming machines in NSW.

One of the objectives of the Act is to provide for an ongoing reduction in the number of gaming machines in the State. At the time the Act was introduced, there were more than 100,000 gaming machines operating in clubs and hotels in NSW. This number has reduced by 13,758 since 2001–02, which is an average of 598 machines per year. At this rate, it will take more than 55 years for NSW to reach parity with the national average for gaming machines per 1,000 adults.

The Act introduced a scheme designed to reduce the number of gaming machines in NSW. The scheme requires the compulsory forfeiture of some gaming machine entitlements when they are transferred between venues. There have been 3,546 machine entitlements forfeited under this scheme since 2011–12, an average of 273 machines per year. This is just over half the total reduction in gaming machines operating during this period. Multiple exemptions have been added to the scheme since its introduction, which has limited the number of machine entitlements forfeited.

The NSW Government lowered the legislative cap on gaming machine entitlements from 99,000 to 95,739 in December 2024. The legislative cap on gaming machine entitlements is higher than the number of machines that are actually operating; NSW had 87,749 gaming machines in operation in clubs and hotels at June 2024. This means the total number of machines operating in clubs and hotels could increase by almost 8,000 and remain within the current legislative cap. The total number of gaming machines operating in clubs and hotels has increased in each of the last two financial years, by a total of 958 machines. This followed large decreases in 2019–20 and 2020–21 (1,143 and 3,066 respectively) which occurred during the years when COVID-19 pandemic restrictions were in place.

The Department's strategy for regulating gaming machines is communicated to key stakeholders, but it does not articulate desired harm minimisation outcomes

The Department has developed a strategy that sets out its approach to regulating gambling in NSW, including gaming machines. A series of strategy and policy documents have been produced within the last two years. They provide a clear overview of regulatory priorities and planned compliance activities. The regulatory priorities were developed using available data and stakeholder feedback, although weaknesses in data on compliance and enforcement activities (discussed below) mean there is considerable scope for improvement in the use of data to inform regulatory strategy. The Department is transparent about its approach to regulation, publishing key documents on its website and proactively promoting its approach through regular industry forums.

However, the Department's strategy for regulating gaming machines is not based on a clear understanding of current levels of gambling harm and it does not set any targets for reducing harm associated with gaming machines. The progress of programs under the Department's delivery plan is tracked and reported through internal governance processes and monthly reports to ILGA. This reporting has focused on whether activities were delivered as planned. The Department does not have benchmarks, targets or other performance measures in place to assess outcomes against key measures of harm minimisation. There have been no evaluations of its compliance programs to measure their impact on harm minimisation outcomes. As a result, the Department does not know whether its regulatory strategy is effective in minimising gambling harm.

The Department and ILGA are required to have due regard to the need for harm minimisation and fostering the responsible conduct of gambling when exercising their functions under gaming machine legislation. Several sources indicate gambling harm levels are not falling. For example, calls to the GambleAware Helpline increased by 8.5% in 2023–24 and gaming machine losses have increased in each of the last three years. The results of the 2024 NSW Gambling Survey did not indicate a reduction in the level of gambling harm in NSW.

The Department has an active compliance program, although this is strongly focused on Greater Sydney

The Department's compliance and enforcement activities are aligned with its stated regulatory priorities. The number of compliance campaigns conducted has increased over the last two years as the Department prioritised the delivery of proactive compliance campaigns relating to new and upcoming legislative changes. Gaming machine inspectors conduct regular visits to licensed venues, although the scale of these operations is limited by staff resources. There are 12 gaming machine venue inspectors, all of whom are based in Greater Sydney.

The Department has a regional inspection program but has not conducted frequent inspections of regional venues. The majority of gaming machines and gaming machine losses are in the Greater Sydney region but there is also a high risk of gambling harm in some regional and rural areas. According to NSW Office of Responsible Gambling reporting, nine of the ten suburbs with the highest number of people accessing GambleAware services in 2023–24 were located outside Greater Sydney.

Most of the Department's regulatory activities for gaming machines focus on compliance with recent changes to legislative requirements

Recent regulatory activities have focused on educating venues and testing compliance with recent and upcoming harm minimisation reforms. These include the banning of external signs advertising gaming machines, the location of ATMs within venues, and the requirement for venues to have Gaming Plans of Management and assigned Responsible Gambling Officers. The Department's recent compliance campaigns found very high levels of compliance with these new requirements.

The actions of venue staff are important for the success of harm minimisation measures because they have direct contact with people at risk of harmful gambling. The Department assesses the knowledge that venue staff have of mandatory training courses they have completed but does not test whether staff apply this in practice. The Department conducts a small number of covert inspections of venues but does not have a clear strategy for assessing requirements that relate to the venue culture or the actions of staff.

The Department's approach focuses on engagement with industry to encourage voluntary compliance. The use of 'harder' regulatory approaches, such as fines and prosecutions, is reserved for serious and repeat breaches. However, it has not conducted any analysis to test the effectiveness of this approach.

Responsible Conduct of Gambling training is not effective in minimising gambling harm

All staff who work in venues that operate gaming machines are legally required to complete Responsible Conduct of Gambling (RCG) training. The Department administers RCG training programs by overseeing the development of course content and appointing providers to deliver the training.

An external review conducted in 2020 found that RCG training had little positive impact on harm prevention or reduction. The review found that staff who had completed the training often observed signs of harmful gambling in patrons but rarely approached patrons to offer assistance or referrals to support services. The Department updated its RCG training in 2023 in response to the 2020 review. The development of the course materials received funding from ClubsNSW and the Bankstown Sports Club (the club with the largest number of gaming machines in NSW).

The revised course content does not encourage venue staff to proactively address potentially harmful gambling behaviour. Formal guidance included in the training only requires staff to speak to a patron directly about their gambling or to offer referrals to gambling counselling services if extreme gambling behaviour is observed. Only two per cent of people accessing the NSW Government's counselling service were referred by venues in 2023–24.

The Department does not have a structured approach to monitoring the quality of RCG training, despite this being a key harm minimisation measure under the Act. It relies on feedback from training participants or complaints about the quality of the courses.

Information about gaming machine numbers and profits is published regularly, but there are known data quality issues with the Department's data on its compliance activities which limit its ability to measure regulatory impact

The Department has published detailed data on the gaming industry since 2017. These reports provide transparency on the number of gaming machines and profits generated across local government areas. The Department also publishes data on venues and their licence status. Transparency could be improved further if the Department published this information in a consolidated format that is more accessible to the public.

The Department has not collected compliance and enforcement data in a way that can be used to accurately report on the number and types of activities undertaken. Compliance and enforcement data is stored in a legacy case management system with known data quality issues and limited reporting capabilities. The weaknesses in this data limits the Department's ability to track its activities and measure its impact. It also reduces the quality of the information the Department can provide to support decision-making about applications for gaming machine entitlements, because data on the compliance history of venues is unreliable. The Department is progressing work to improve this, including replacing the legacy system by June 2025 and finalising a data strategy to improve data analytics capabilities.

The Department has only recently begun to use data it holds in other systems strategically to monitor and enforce compliance with harm minimisation measures. For example, Department systems collect data on when gaming machines are operating, but this data was not used systematically to monitor and enforce compliance with mandatory shutdown periods prior to 2023.

There are consistent processes for assessing applications for gaming machine entitlements

ILGA has documented processes for the assessment and determination of applications to operate gaming machines. The Department supports ILGA's administration of gaming machine applications, including making decisions under delegation for specified types of applications and providing material required for ILGA's assessments and decision-making. Governance arrangements between ILGA and the Department are defined under a Memorandum of Understanding and delegation manual.

ILGA and the Department have policies and procedures in place to support consistent assessments of gaming machine applications. ILGA Board papers, to which the Department contributes information, use a template to provide consistent information for each gaming machine application. This supports the ILGA Board's assessment of the risks of gambling harm and informs decisions about which licence conditions should be imposed. ILGA has drawn on contemporary evidence regarding gambling harm to inform its gaming machine licensing decisions, such as recent research on the link between post-midnight gaming and gambling harm.

However, there are some gaps in the data used for decision-making. For example, ILGA is not always able to consider the compliance history of venues making applications because many venues have not been inspected recently and the Department's data on its compliance activities is flawed (as discussed above). ILGA and the Department have commenced work to improve the collection and use of data to further improve the evidence base for decision-making on gaming machine entitlements and licence conditions.

ILGA engages proactively with stakeholders about its approach to decision-making, but has not consistently published reasons for its decisions

ILGA publishes the guidelines it uses to inform its decisions under gaming and liquor legislation and has updated these in response to changes in the regulatory environment. ILGA conducts regular stakeholder forums in Sydney and regional NSW to explain its role and regulatory approach to members of the gambling industry and other stakeholders.

In most cases, there is no legal requirement for ILGA to provide reasons for its decisions on specific gaming machine applications. However, ILGA's guidelines state that it will provide reasons when asked, or if it judges that the matter is of significant concern to the community or industry. Previous statements of reasons published by ILGA indicate that decisions to refuse applications for gaming machines have been based on harm minimisation grounds after consideration of socio-economic factors and rates of gambling in the local area. However, these statements of reasons do not provide applicants with a detailed rationale for the decision.

Some industry stakeholders have argued that the reasons for ILGA's decisions on gaming machines are not transparent and are causing uncertainty for venues with gaming machines. The limited detail provided in its formal statements of reasons for ILGA's decisions may have contributed to this. In 2024, ILGA cleared a backlog of more than 100 statements of reasons from the previous four years. ILGA has increased the number of statements of reasons on gaming machine applications recently. This indicates it is seeking to take a more proactive approach to communicating the reasons for its key decisions.

ILGA does not proactively review licence conditions relating to gaming machines to ensure consistency with contemporary approaches to gambling harm minimisation

ILGA only reviews licence conditions for venues with gaming machines when a venue makes an application to change its gaming machine operations. ILGA has the power to impose conditions on venues with a licence to operate gaming machines at any time, but most of the venues that have the largest number of gaming machines have not had their licence conditions reviewed for at least the past five years because they have not applied for changes to their gaming machine operations.

Many venues have current licence conditions relating to gaming machines that may not be consistent with contemporary approaches to harm minimisation. Of the ten clubs with the highest profits from gaming machines, six are located in areas considered high-risk for gambling harm. All of these clubs have permission to conduct late-night gaming and none have any additional harm minimisation conditions on their licences. Around 20% of venues with gaming machines have exemptions that allow them to operate during the legislatively mandated shutdown period of 4 am to 10 am. In addition, 36 venues have 'hardship' provisions in their licences that give them exemptions from harm minimisation measures. These were granted more than 20 years ago and have not been reviewed since.

Recommendations

By June 2026, the Department of Creative Industries, Tourism, Hospitality and Sport should:

1. Increase the focus of its regulatory strategy on improving harm minimisation outcomes by:
 - a) establishing baselines and targets for improvements relating to gambling harm minimisation
 - b) increasing its focus on enforcing regulatory requirements that have the most direct impact on harm minimisation outcomes, including staff compliance with responsible conduct of gaming requirements and the operations of venues with late-night opening hours for gaming machines
 - c) evaluating and reporting publicly on its activities with a focus on outcomes achieved, in addition to activities or outputs.
2. Review the operation of the gaming machine forfeiture scheme to ensure it is achieving the legislative objective of reducing the number of gaming machines in NSW. This should include:
 - a) reviewing all current exemptions to the scheme and removing exemptions that are not clearly justified by evidence
 - b) proposing additional measures for clubs and hotels to forfeit gaming machine entitlements voluntarily, with a focus on clubs and hotels in locations classified as at higher risk of harmful gambling.

By June 2026, the Independent Liquor and Gaming Authority should:

3. Commence periodic reviews of licence conditions for venues operating gaming machines in the highest risk locations and make amendments to these where required to ensure that licence conditions align with current evidence on gambling harm minimisation.
4. Increase clarity about its decision-making for gaming machine applications to industry and other stakeholders by:
 - a) ensuring statements of reasons for decisions are published in a timely manner
 - b) providing venues whose applications are refused with a detailed rationale for the decision.

2. Introduction

2.1. Gaming machines in clubs and hotels in NSW

The 2024 NSW Gambling Survey, which is the NSW Government's primary source of information on gambling activity and behaviour, found that gaming machines are the second most common form of gambling in NSW, after lotteries. Fourteen per cent of adults surveyed in NSW reported having used a gaming machine in the previous 12 months. The Department of Creative Industries, Tourism, Hospitality and Sport (the Department) does not collect data on the actual number of people who use gaming machines in NSW but based on NSW Gambling Survey data and Australian Bureau of Statistics (ABS) population data, this audit estimates that more than 900,000 adults in NSW use gaming machines each year.

Gambling on authorised gaming machines is a legal recreational activity, and almost all of the gaming machines in NSW are in clubs and hotels. Registered clubs and hotels in NSW provide community services and activities, which may be particularly important in regional and remote areas. For example, clubs offer public facilities like sports fields and function spaces, and they serve as venues for community events and hubs for essential services during emergencies. These services are funded in part by gaming machine revenue, which made up around 48% of total revenue for clubs in 2022, according to research commissioned by ClubsNSW. According to the most recent ABS Census data (2021), approximately 50,000 people are employed in clubs, hotels and gambling-related jobs in NSW.

An established body of research indicates that gaming machines can cause significant harm. Gambling harm can include emotional and psychological harms such as feelings of regret, shame and distress, and financial harms such as a reduction in savings, late payment of bills and bankruptcy. Research from Victoria estimates that gambling harm contributed to over four per cent of suicides between 2009 and 2016. The NSW Government defines gambling harm as any negative consequences to a person that result from gambling. It most often arises as a result of excessive spending on gambling.

The 2024 NSW Gambling Survey found that 20% of NSW residents surveyed reported having experienced some form of gambling harm. This included experiencing harm as the result of someone else's gambling. The 2024 NSW Gambling Survey estimates that gaming machines account for more than half of the total harm to gamblers in NSW. The NSW Office of Responsible Gambling reported that gaming machines were the main form of gambling for 63% of people accessing GambleAware support services in 2023–24.

Figure 1: How gaming machines work

Gaming machines are games of chance that are designed to generate profit for the licensed venues that operate them. Gaming machines convert cash into credits, which are used to bet on each game. The cost per game (spin) depends on the number of lines played and the number of credits bet per line.

The gaming machine displays spinning reels with symbols on each reel. The outcome of each game is determined by the final placement of symbols on each spinning reel, which is decided by the machine's random number generator. When the reels stop spinning, a prize (win) is awarded based on the combination of symbols shown on each line. Each outcome is independent, meaning that there is no way to predict the outcome of a spin. A winning combination results in credits being paid back to the player, which can be exchanged back into cash.

Gaming machines are intentionally designed to maximise time and money spent. Some of the intentional design elements include:

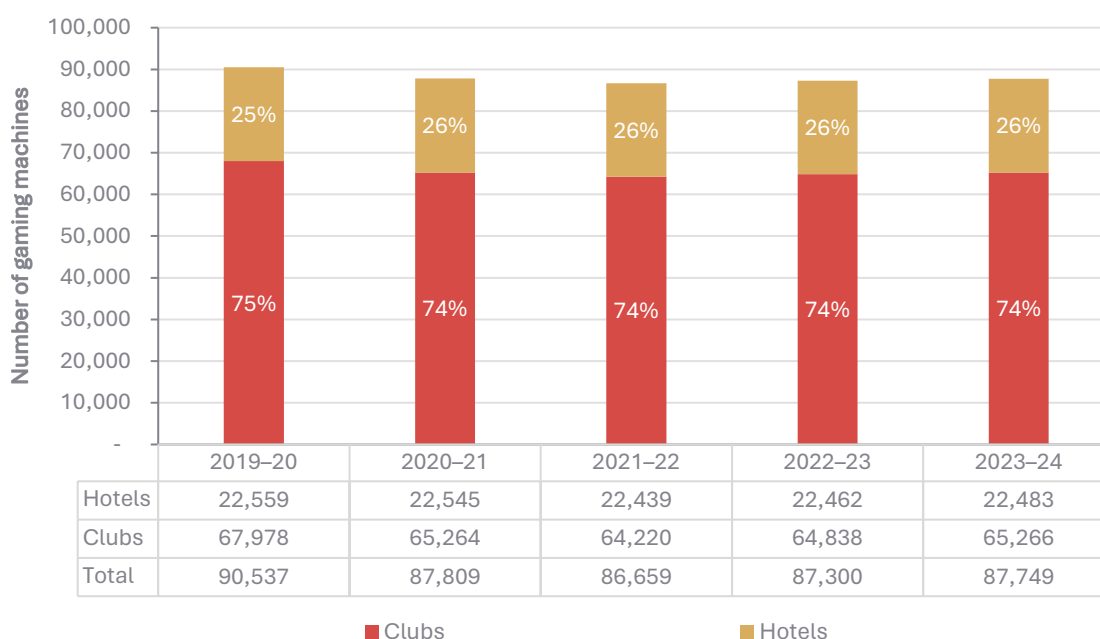
- audio and lighting effects, particularly after a win
- animations and graphics
- disproportionately placed winning symbols to make the user feel that they are more likely to win
- frequent small wins
- winning 'features' that give the player a number of free spins
- the ability to play games quickly (every three seconds) and the ability to bet anywhere between 1c and \$10 per spin.

In NSW, gaming machines must have a 'return to player' ratio of at least 85%. This is checked by the NSW Government. This means that over the long term, a gaming machine must return at least 85% of the amount wagered.

Source: Australian Institute of Family Studies and GambleAware.

In 2023–24, there were more than 2,000 clubs and hotels in NSW that operated gaming machines. Clubs and hotels in NSW had a combined total of 87,749 gaming machines, with 74% of these located in clubs (Figure 2). Clubs and hotels require a liquor licence to be able to apply to operate gaming machines. Licences specify the number of gaming machines that a venue can hold and operate, which are described as gaming machine entitlements. The *Gaming Machines Act 2001* (the Act) specifies that hotels can have a maximum of 30 gaming machine entitlements. There is no cap on the number of gaming machine entitlements that can be granted for clubs.

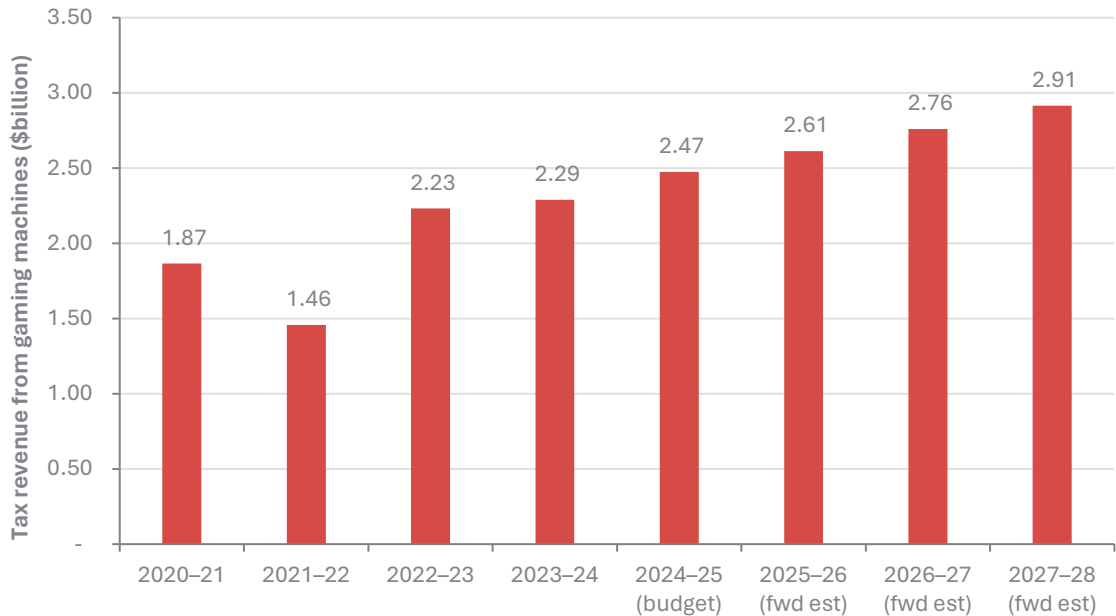
Figure 2: Number of gaming machines operating in NSW, by venue type, 2019–20 to 2023–24



Source: Premises list gaming machine data (the Department). Gaming machine numbers are the values as of June in each financial year.

Tax on gambling profits is the fourth largest category of tax revenue in NSW, after stamp duties, payroll tax and land tax. The tax revenue from gaming machines in NSW totalled almost \$2.3 billion in 2023–24 (Figure 3), which was 66% of the total amount of tax revenue from gambling in NSW in that financial year. Tax revenue from gaming machine profits is expected to continue to increase, reaching more than \$2.9 billion in 2027–28 (Figure 3). The forecast increase in gaming machine profits is due to expected increases in the use of gaming machines.

Figure 3: Tax revenue from gaming machines in clubs and hotels in NSW, actual and projected, 2020–21 to 2027–28



Source: NSW Budget Papers 2019–20 to 2024–2025. Forward estimates sourced from NSW Treasury 2024–25 Budget.

NSW Treasury forecasts that the growth rate for gaming machine profit in clubs will be around four per cent per annum from 2023–24 to 2027–28. Despite hotels being subject to a maximum of 30 gaming machines per venue, hotel gaming machine profit is forecast to grow at eight per cent per annum over the same period. NSW Treasury forecasts that the average growth rate of all gambling and betting taxes revenue from 2023–24 to 2027–28 will be around five per cent per annum.

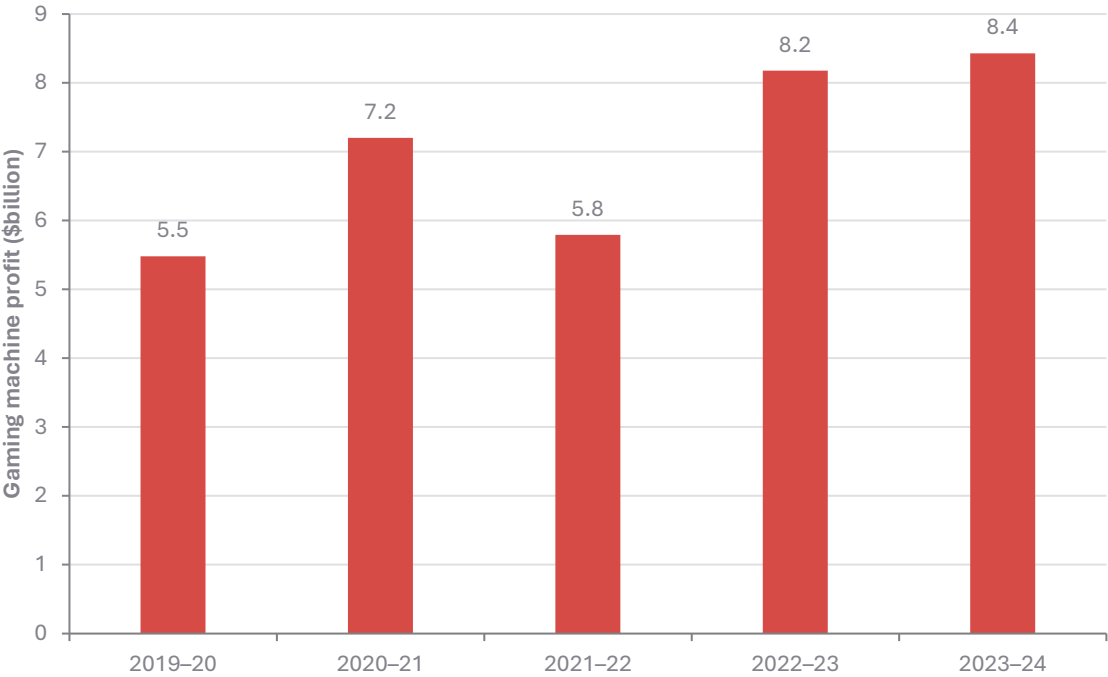
The tax rate applied to gaming machine profits varies based on the total quarterly profit made, and whether the gaming machines are located in a club or hotel. For hotels, the tax rate applied to gaming machine profit ranges from 33% to 50% for quarterly profit more than \$50,000. For clubs, the tax rate ranges from 18% to 28% for quarterly profit above \$250,000.

Profit from gaming machines in clubs and hotels in NSW has increased each year since 2021–22, following a temporary reduction when public health orders related to the COVID-19 pandemic were in place. In 2023–24, gaming machines in NSW generated \$8.4 billion in profit to venues (Figure 4).

Venue profit is the best available indicator of the amount that people have lost on gaming machines. Using this measure, losses on gaming machines in 2023–24 equated to an average of more than \$23 million per day. The Department does not analyse or report on the proportion of gaming machine profits that are derived from people who gamble in a harmful way. The 2024 NSW Gambling Survey found that gamblers classified as high-risk (defined as showing a high level of gambling problems) made up 1.7% of people who gamble but accounted for an estimated 17.1% of gambling spending. Based on this data and the Department’s data on gaming machine profits, this audit estimates that high-risk gamblers lost more than \$1.4 billion using gaming machines in clubs and hotels in 2023–24.

The 2024 survey used a representative sample and tools such as the Problem Gambling Severity Index to measure harm. It calculated the average gambling losses based on self-reported estimates, which survey authors state is likely to be an underestimation. This audit acknowledges the limitations of this data source but has used it because it is the best available information for estimating gaming machine losses by high-risk gamblers.

Figure 4: Total profit from gaming machines in NSW, 2019–20 to 2023–24



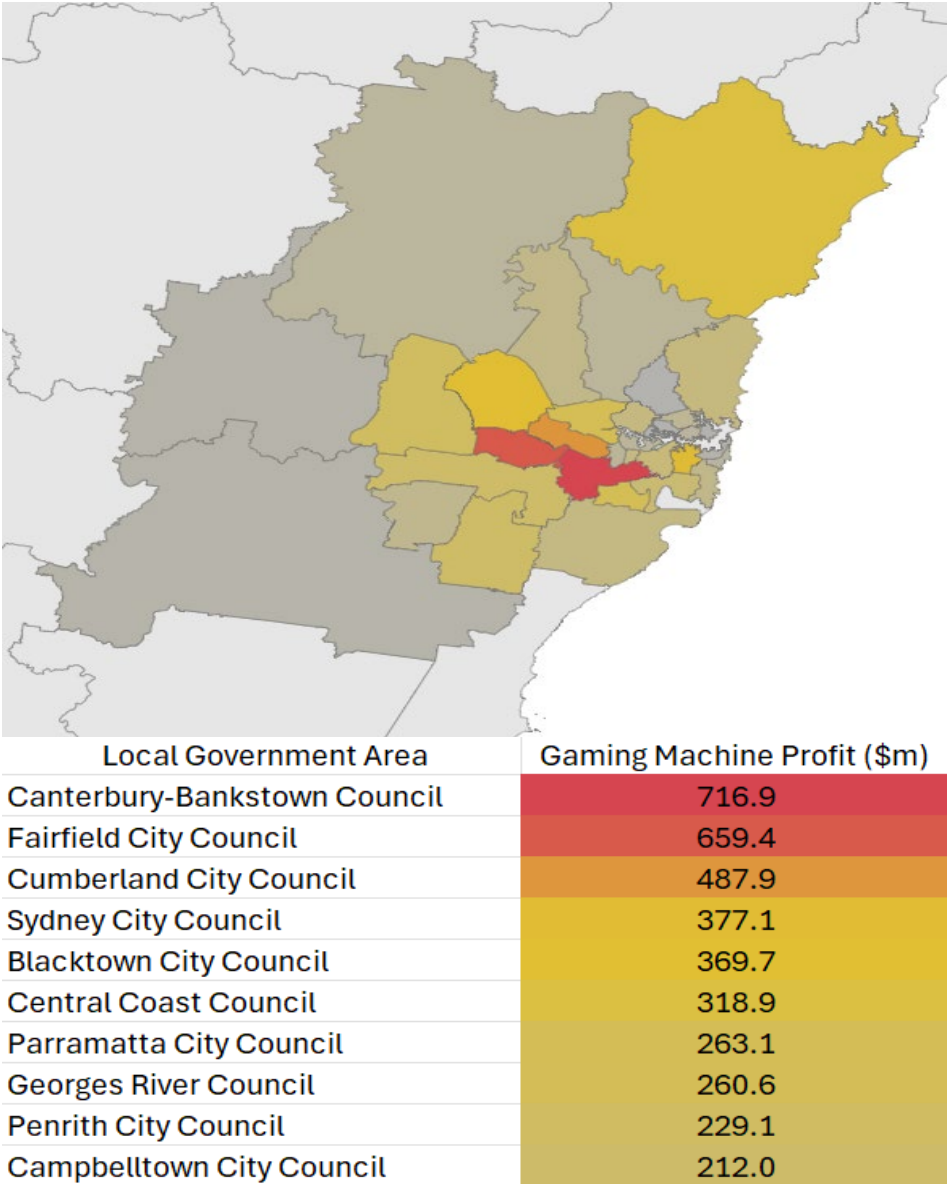
Note: Values are not adjusted for inflation. Clubs and hotels have different financial reporting periods. For clubs, the end of the financial year is May. For hotels, the end of the financial year is June.

Source: Hotel and club gaming machine data annual reports by LGA (the Department).

Venues in Western Sydney had the highest total profits from gaming machines in NSW. In 2023–24, gaming machines in clubs and hotels generated a profit of \$717 million in the Canterbury-Bankstown local government area (LGA), \$659 million in Fairfield and \$488 million in Cumberland (see Figure 5). This combined profit of around \$1.9 billion across the three LGAs accounted for 22% of NSW’s gaming machine profit in 2023–24 despite these LGAs having only 13% of NSW’s total number of gaming machines and ten per cent of NSW’s population.

The LGAs in Greater Sydney with the lowest profits from gaming machines in 2023–24 were Hunters Hill, Lane Cove, Ku-ring-gai and Mosman. The annual profit in each of these LGAs was less than \$10 million.

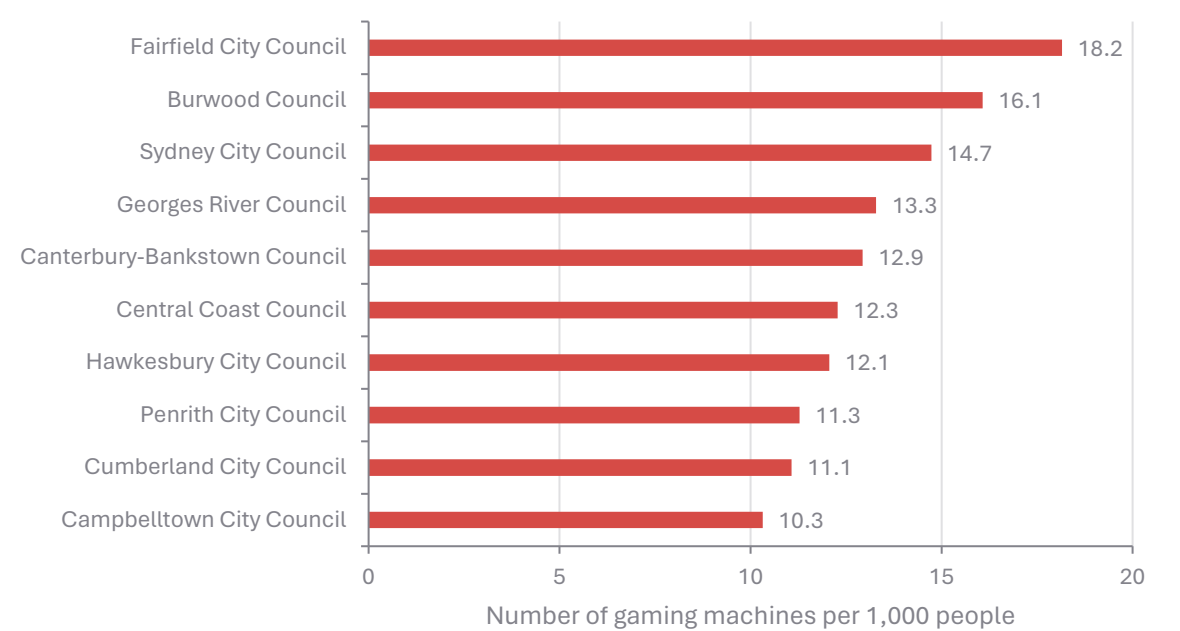
Figure 5: Gaming machine profit by local government area (Greater Sydney only) 2023–24



Source: Data on gaming machine numbers and profit by financial year (the Department).

The ten LGAs in Greater Sydney with the highest concentration of gaming machines per 1,000 people in 2023–24 are shown in Figure 6. Around 31% of all gaming machines in NSW (27,205) were in venues located in these ten LGAs. Eight of the ten LGAs with the highest concentration of gaming machines were also in the top ten LGAs for gaming machine profits.

Figure 6: Ten local government areas in Greater Sydney with the highest number of gaming machines per 1,000 people, 2023–24



Source: Hotel and club gaming machine data by LGA 2023–24 (the Department).

The ten clubs with the highest gaming machine profits in the most recent quarter reported by the Department (1 September 2024 to 30 November 2024) were all located in LGAs in Western Sydney (Table 1). The Department publishes rankings but does not publish the profits by venue. Each of these venues had more than 400 gaming machines in operation.

Table 1: Top ten clubs by gaming machine profit, 1 September 2024 to 30 November 2024

Ranking	Club name	LGA
1	Mt Pritchard & District Community Club (trading as Mounties)	Fairfield City Council
2	Bankstown Sports Club	Canterbury-Bankstown Council
3	Wentworthville Leagues Club	Cumberland City Council
4	Canterbury Leagues Club	Canterbury-Bankstown Council
5	Dooleys Lidcombe Catholic Club	Cumberland City Council
6	Rooty Hill RSL Club	Blacktown City Council
7	Cabra-Vale Ex-Active Servicemen’s Club	Fairfield City Council
8	Revesby Workers’ Club	Canterbury-Bankstown Council
9	Liverpool Catholic Club	Liverpool City Council
10	Parramatta Leagues Club	City of Parramatta Council

Source: Clubs gaming machine data quarterly report (the Department).

Research has shown that high levels of socio-economic disadvantage are a significant risk factor for gambling-related harm and that gaming machines are often concentrated in areas with high levels of socio-economic disadvantage. Figure 7 shows the correlation between the number of gaming machines and the relative disadvantage of LGAs in Greater Sydney using the Australian Bureau of Statistics Socio-Economic Indexes for Areas (SEIFA). SEIFA summarises the economic and social conditions of people and households within an area. A low SEIFA score indicates relatively greater disadvantage. Measures include employment and household income.

Fairfield, Canterbury-Bankstown and Cumberland LGAs had the highest concentration of gaming machines in 2023–24 and were ranked as the three most socio-economically disadvantaged LGAs in Greater Sydney (see Figure 7). Fairfield LGA had the highest levels of socio-economic disadvantage and the highest concentration of gaming machines.

LGAs such as Ku-ring-gai, Hunters Hill and Lane Cove, in comparison, had the lowest number and concentration of gaming machines in Greater Sydney and had among the highest SEIFA scores among LGAs in Greater Sydney. In 2023–24, Ku-ring-gai LGA had one gaming machine for every 1,443 people and Fairfield had one gaming machine for every 55 people.

Figure 7: Correlation between gaming machine concentration and Socio-Economic Indexes for Areas scores, Greater Sydney local government areas, 2023–24



Note: The SEIFA scores are the most recent available and are based on data from the 2021 ABS Census.

Source: Hotels and clubs gaming machine data 2023–24 (the Department); ABS SEIFA 2021.

While gaming machines and gaming machine losses are most concentrated in the Greater Sydney region, there is also a significant gaming industry presence in regional and rural NSW. In 2023–24, around 43% of gaming machines (37,678) were located in venues outside Greater Sydney. Gaming machines outside Greater Sydney were concentrated in regional centres such as Newcastle and Wollongong. These regional centres also generated the highest profits outside of Greater Sydney. For example, Wollongong and Newcastle LGAs were ranked 12th and 13th for gaming machine profits, which were \$195 million and \$187 million respectively in 2023–24.

NSW LGAs that have a border with Victoria have the highest concentration of gaming machines and losses by population, with the top five LGAs in regional and rural NSW by gaming machine losses per capita all including border towns (Table 2). For example, in 2023–24, Murray River Council had over 1,000 gaming machines and \$78.6 million in profits. This equates to one gaming machine for every 13 people and almost \$6,000 in gaming machine losses per person. In comparison, Wollongong had 2,786 gaming machines that generated \$195 million in 2023–24, which equates to one gaming machine for every 79 people and \$890 in losses per person. The concentration of gaming machines in areas on the southern border of NSW is influenced by the fact that these venues historically served

both NSW and Victorian markets, because gaming machines were not legal in Victoria prior to the early 1990s. Current profits from gaming machines in LGAs close to the Victorian border may also be influenced by patronage from nearby Victorian towns.

Table 2: Local government areas in regional and rural NSW with the highest gaming machine losses per person, 2023–24

Local government area	Gaming machine losses per person
Balranald Shire Council	\$6,736
Murray River Council	\$5,898
Federation Council	\$3,370
Wentworth Shire Council	\$2,818
Berrigan Shire Council	\$2,365
Walgett Shire Council	\$1,855
Albury City Council	\$1,595
Griffith City Council	\$1,299
Cobar Shire Council	\$1,208
Moree Plains Shire Council	\$1,195

Source: Hotels and clubs gaming machine data (the Department), 2023–24.

2.2. Jurisdictional comparison

NSW has more gaming machines in clubs and hotels than all other Australian states and territories combined (Table 3). Western Australia does not allow gaming machines in clubs or hotels. The audit team used data from 2022–23 in this section because it is the most recent year with complete data for all jurisdictions.

Table 3: Total number of gaming machines in clubs and hotels by jurisdiction, 2022–23

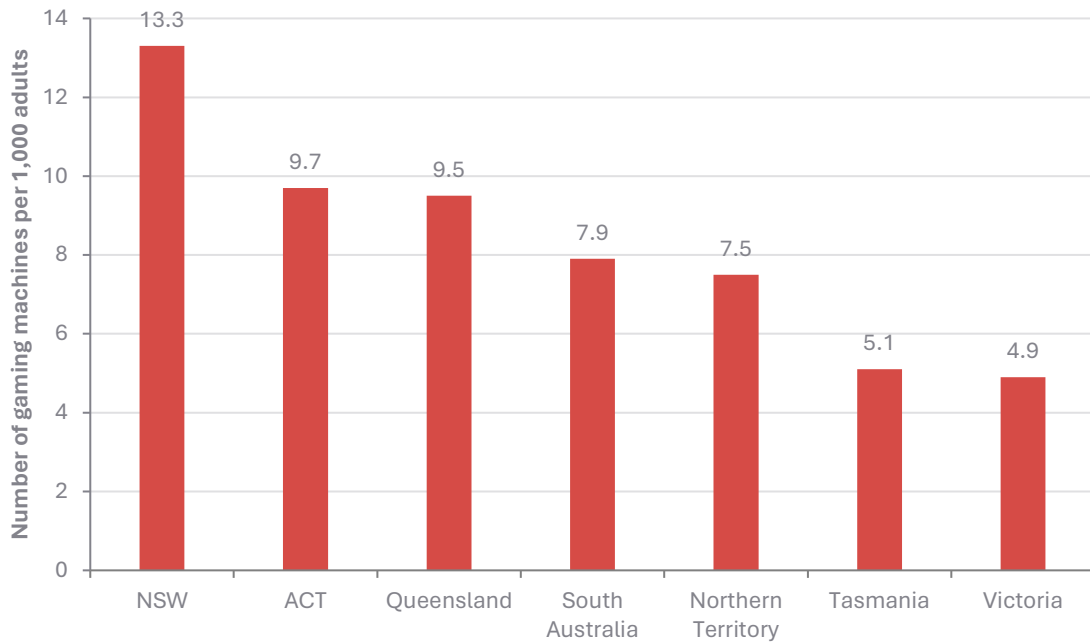
Jurisdiction	Number of gaming machines	% of national total
NSW	87,328	50.6
Queensland	40,124	23.2
Victoria	26,284	15.2
South Australia	11,618	6.7
ACT	3,555	2.1
Tasmania	2,329	1.3
Northern Territory	1,443	0.8
Western Australia	0	0
Total	172,681	

Source: Australian Gambling Statistics, 39th edition, 1997–98 to 2022–23. 2022–2023 is used because it is the most recent period with complete jurisdictional data.

NSW has significantly more gaming machines in clubs and hotels as a proportion of its population than all other Australian states and territories. In 2022–23, NSW had 13.3 gaming machines per 1,000 adults, compared to a national average of 8.3 gaming machines per adult (excluding Western Australia) (Figure 8). If the number of gaming machines in NSW was at the same level as the national average on a per capita basis, there would be 33,000 fewer gaming machines in NSW. The next two largest states and territories on a per capita basis, the ACT and Queensland, had 9.7 and 9.5 gaming

machines per 1,000 adults respectively. NSW had almost three times as many gaming machines as Victoria on a per capita basis.

Figure 8: Number of gaming machines in clubs and hotels per 1,000 adults, by jurisdiction, 2022–23



Note: Number of adults per gaming machine is Audit office analysis using ABS population data as of June 2023. 2022–2023 is used because it is the most recent period with complete jurisdictional data.

Source: Australian Gambling Statistics, 39th edition, 1997–98 to 2022–23. ABS Population Data, June 2023.

NSW has the highest profits from gaming machines in clubs and hotels in Australia, accounting for 52% of national gaming machine profits in 2022–23. Gaming machines losses in NSW equated to \$1,242 per adult, which is significantly higher than the next two states and territories by this measure (Figure 9). Gaming machine losses per person in NSW are more than double the equivalent amount in Victoria (\$562 per adult).

Figure 9: Losses per adult to gaming machines in clubs and hotels, by jurisdiction, 2022–23



Note: In Western Australia, gaming machines are only authorised for use in the casino. Adult refers to persons 18 years old and above.

Source: Australian Gambling Statistics, 39th edition, 1997–98 to 2022–23. The profit values are not adjusted for inflation. The profit per adult is Audit office analysis using ABS population data as of June 2023. 2022–2023 is used because it is the most recent period with complete jurisdictional data.

2.3. Regulation of gaming machines in NSW

The Minister responsible for gaming machine legislation is the Minister for Gaming and Racing. The Independent Liquor and Gaming Authority (ILGA) and the Department share responsibility for the regulation of gaming machines in NSW. NSW Police provide support to some of the Department’s compliance and enforcement activities and the most serious enforcement matters may be referred to the Director of Public Prosecutions for consideration (Figure 10).

Figure 10: Parties involved in the regulation of gaming machines in NSW

Minister	Minister for Gaming and Racing
Lead agencies	Independent Liquor and Gaming Authority Department of Creative Industries, Tourism, Hospitality and Sport
Supporting agencies	NSW Police, Director of Public Prosecutions

Source: Department of Creative Industries, Tourism, Hospitality and Sport Annual Report 2023–24.

The Act provides for the regulation, control and management of gaming machines in hotels and clubs in NSW. The Act has five objectives:

1. minimise harm associated with the misuse and abuse of gambling activities
2. foster responsible conduct in relation to gambling
3. facilitate the balanced development, in the public interest, of the gaming industry
4. ensure the integrity of the gaming industry, and
5. provide for an ongoing reduction in the number of gaming machines in the state by means of the tradeable gaming machine entitlement scheme.

Section 3 of the Act states that when exercising any functions under the Act, due regard must be had for gambling harm minimisation and the fostering of responsible conduct in relation to gambling. It also states that, in particular, due regard is to be had to the need for gambling harm minimisation when considering what is or is not in the public interest. Measures that focus on gambling harm minimisation listed under Part 4 of the Act include:

- gaming machine thresholds limiting the number of gaming machine entitlements and/or poker machine permits each club and hotel licence is approved to hold
- mandatory shutting down of gaming machines between 4 am and 10 am each day of the week to limit the opportunity for continuous gaming machine play
- mandatory ‘responsible conduct of gambling’ training for staff in hotels and clubs
- the provision of programs that allow patrons to exclude themselves from using gaming machines at specified hotels and clubs.

The NSW Government has committed to delivering responsible gambling reforms that prevent harm. It introduced several harm minimisation measures following the 2023 NSW State Government election. These include:

- decreasing the number of gaming machine entitlements
- reducing cash input limits from \$5,000 to \$500 for new gaming machines
- requiring venues with more than 20 gaming machines to have a dedicated Responsible Gambling Officer on duty while machines are in operation
- prohibiting signs that advertise or direct to cash facilities from areas with a gaming machine
- requiring venues to maintain a gaming plan of management and gambling incident register
- requiring ATMs to be at least five metres from the entry or exit to a gaming room and to not be visible from the entrance to a gaming room or from any gaming machines.

ILGA is an independent statutory authority established under the *Gaming and Liquor Administration Act 2007* (the GALA Act). ILGA is the primary decision maker for licensing and disciplinary actions taken under liquor and gaming legislation. Venues are required to seek approval for gaming machine threshold increases, the transfer or lease of gaming machine entitlements, and changes to mandatory shutdown periods and trading hours. ILGA is also responsible for authorising gaming machines and approving new games and gaming machine technology.

As an independent statutory authority, ILGA makes decisions independently of the responsible Minister. However, under the GALA Act, the responsible Minister can issue directions to ILGA on the exercise of its functions generally. The Minister for Gaming issued a Statement of Expectations to ILGA in February 2024 that describes how ILGA and the Department should work together to regulate the liquor and gaming industry in NSW. The Statement of Expectations included requirements that ILGA must:

- consider the objects of the Acts it administers in the exercise of its functions, which include minimising harm from the industries it regulates and facilitating their balanced development in the public interest
- consider that the operation of gaming machines and the sale of liquor are legal
- consider that matters of policy are set by the NSW Government and that ILGA must consider these policies in the exercise of its functions
- assess each application on its merits.

Liquor & Gaming NSW, a unit within the Department, is responsible for supporting ILGA in its roles, conducting lower-risk licensing matters under delegation from ILGA, and delivering compliance, enforcement and assurance activities (see Table 4).

ILGA receives its annual funding via a grant from the Department, which is drawn from the Department's annual appropriation funding. ILGA's budget was approximately \$4.9 million in 2023–24 and \$3 million in 2022–23. Staff from the Department provide additional functional and administrative support to ILGA, as described above.

Funding allocated to the regulation of gaming machines is not tied to tax revenue collected from gaming machine profits. As noted above, gaming machine profits were \$8.4 billion in 2023–24 and tax revenue to the NSW Government was \$2.3 billion.

Table 4: Summary of roles and responsibilities of ILGA and the Department relating to gaming machines and harm minimisation

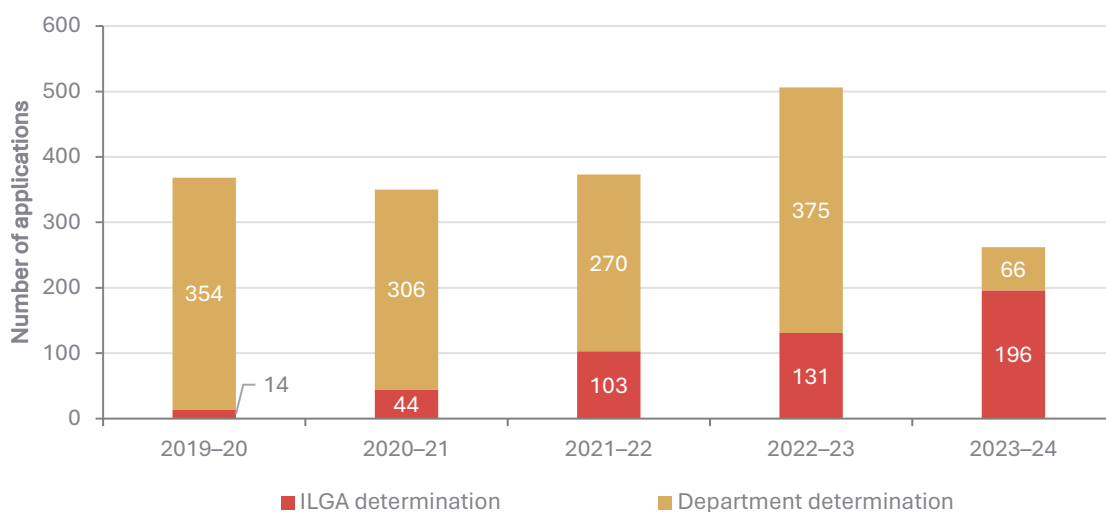
Agency	Summary of role
Independent Liquor and Gaming Authority	- determines the outcome of licensing and gaming applications, most often relating to: - the number of gaming machines a venue can hold - the movement of gaming machines between venues - the hours that a venue can operate its gaming machines. - issues orders, such as requiring licensed premises to close and banning persons from entering licensed premises for a period of time - determines disciplinary and remedial actions to be taken against licensees and others - reviews certain delegated decisions made on its behalf by Liquor & Gaming NSW and certain decisions made by the Department Secretary.
Department of Creative Industries, Tourism, Hospitality and Sport	- administers licensing applications - supervises industry through compliance and enforcement activities - manages stakeholder engagement and provides regulatory education - undertakes policy and program implementation, monitoring and evaluation - leads strategic initiatives and planning - provides gaming machine revenue assurance.

Source: Department of Creative Industries, Tourism, Hospitality and Sport Annual Report, Independent Liquor and Gaming Authority Annual Report, *Gaming Machines Act 2001*.

The Department can determine gaming machine applications under delegation from ILGA, except for cases that are ‘especially contentious, novel, precedent-setting or has attracted a very significant degree of public interest’. The Department has made significantly fewer decisions about gaming machine applications under delegation since June 2023, when ILGA issued a direction that all gaming machine applications be escalated to the board for determination (Figure 11). According to ILGA reporting, the board determined only four per cent of gaming machine applications in 2019–20, while in 2023–24 it made 75% of decisions.

ILGA and the Department determined 262 gaming machine applications in 2023–24. This was significantly fewer than the average of 399 per year over the previous four years (Figure 11). A factor contributing to this reduction was ILGA’s decision to pause the consideration of gaming machine applications between July and September 2023 while it appealed a Supreme Court ruling about its decision-making powers relating to gaming machines. Some industry representatives have stated that ILGA’s recent decisions that reduced the existing operating hours of some venues (discussed in section 2.2) provided a disincentive for venue operators to make gaming machine applications to ILGA.

Figure 11: Gaming machine applications by determination type, 2019–20 to 2023–24



Source: Independent Liquor and Gaming Authority internal reporting on gaming machine applications (unpublished).

Over the past decade there have been several machinery of government changes for the agencies that oversee gaming machines and gambling harm minimisation measures in NSW. Both ILGA and Liquor & Gaming NSW have been transferred between departments, including the former Department of Justice and the Department of Customer Service in the period 2014–23.

A separate staff agency was established to provide support for ILGA’s functions in 2014. This was abolished in 2015 and all administrative support for the ILGA board was provided by Liquor & Gaming NSW. The Office of the Independent Liquor and Gaming Authority was re-established as a separate agency in 2023 and currently has 13 staff. As noted above, the Department still provides significant functional and administrative support to ILGA.

2.4. About the audit

The objective of the audit is to assess the effectiveness of the Department of Creative Industries, Tourism, Hospitality and Sport and the Independent Liquor and Gaming Authority’s regulation of gaming machines in clubs and hotels, with a focus on harm minimisation requirements. This includes assessing the effectiveness of the administration of applications to operate gaming machines and the approach to the compliance and enforcement of harm minimisation requirements.

The audit did not assess the regulation of gaming machines in casinos or other types of gambling, including wagering and lotteries. In line with the legislative mandate of the Audit Office of New South Wales, the audit does not comment on the merits of government policy objectives.

For further detail on the audit procedures see Appendix 2.

3. Administration of licensing for gaming machines

3.1. Decision-making for applications to operate gaming machines

ILGA and the Department have clear processes to assess applications to operate gaming machines

The Independent Liquor and Gaming Authority (ILGA) has documented processes for the assessment and determination of applications to operate gaming machines. It has decision-making guidelines to determine gaming machine applications. The Department of Creative Industries, Tourism, Hospitality and Sport (the Department) supports ILGA's administration of gaming machine applications, including the assessment of applications and providing material to enable ILGA's decision-making.

Governance arrangements between ILGA and the Department are defined under a Memorandum of Understanding and delegation manual. The functions of the Department, including case management and assessment of gaming applications, are supported by operational guidelines and templates. The template is designed to assist the Department in assessing the risks of gambling harm. Consistency in assessing gaming machine applications is important to ensure transparency and accountability in the decision-making process.

ILGA and the Department have probity procedures in place for the assessment and administration of gaming machine applications. The ILGA code of conduct recognises that regulation of the liquor and gaming industry requires additional probity and procedural responsibilities due to the nature of the work. ILGA maintains a register of disclosures that is made publicly available as well as a register with the standing interests of each member. The Department's staff make a conflict of interest declaration as part of the gaming machine application assessment process. The assessment is reviewed and signed off by senior staff. A review of 12 months of gaming machine application assessments by the audit team confirms that the Department consistently follows this procedure. ILGA also has an internal audit plan to review areas of governance risk. For example, an internal audit on ILGA's decision-making framework was completed in October 2024.

However, there are some gaps in ILGA's approach to assessing gaming machine applications. For example, ILGA does not have guidelines or clear processes to assess whether hotels meet the requirements under the 'primary purpose test' when deciding gaming machine applications. The primary purpose of a business carried out under a hotel liquor licence must be the sale of liquor under liquor and gaming legislation. This means ILGA must ensure that the keeping and operation of gaming machines in hotels does not 'unduly detract' from the service of liquor. Gambling is the primary purpose of casinos. ILGA does not have a standard for the primary purpose test when assessing applications to increase gaming machine operations in a hotel. In comparison, the Department has published guidance on the primary purpose test for licensed restaurants and the requirement that liquor can be sold or supplied with a meal.

ILGA's 'Guideline 7. Authority decision-making and the provision of reasons for decisions' also needs to be updated. The Guideline refers to the Gaming and Liquor Administration Regulation 2008, which was repealed in 2016 and 2024. Having an up-to-date guidance document is important because ILGA's decisions have been challenged in court as a result of the use of out-of-date guidance.

ILGA uses data to support its decisions, but does not have access to all relevant information about venues applying for changes to their gaming machine operations

ILGA uses evidence to inform its decision-making on gaming machine applications. It considers data that includes risk factors for harmful gambling, such as:

- the age profile, education levels and rates of employment in the local government area
- rates of gambling participation and harmful gambling prevalence in the Local Health District as reported in the NSW gambling survey.

However, there are gaps in the data used to inform ILGA's decisions on the applications and the conditions imposed. For example, ILGA has limited access to information about the levels of gambling harm and compliance history of individual venues. The Department does not have a way to measure the levels of gambling harm in individual venues, such as the number of people self-excluding or incidents recorded in a gambling incident register.

The Department does not include a venue's compliance history in most gaming machine application assessments. This may be because venues have not been inspected recently or because the data on compliance history is not comprehensive due to weaknesses in the Department's system for recording compliance activities (see section 3.1 for more information). A review of the compliance history of a sample of venues with gaming machine applications approved in 2024 did not find significant breaches. ILGA and the Department have commenced work to improve its data and reporting on compliance and enforcement actions.

The Department does not provide information to ILGA on corporations that operate multiple venues, such as business strategies or information about corporate culture regarding harm minimisation. This means the corporation's compliance history is not visible to ILGA. Access to this analysis could also provide ILGA with information on the levels of risk for individual gaming machine applications, as well as insights into broader industry trends. For example, it could provide information on whether gaming machines are becoming increasingly concentrated in communities at greater risk of gambling harm or in venues with a poor history of compliance with harm minimisation measures.

The Department has recently improved the data available for the licensing team to assess gaming machine applications, including a dashboard to compare gaming machine profits across venues, and access to the Centralised Monitoring System to report on the times of day gaming machines are being operated.

ILGA does not have a consistent approach to publishing the reasons for its decisions

ILGA is only required to provide reasons for its decisions, which are described as a 'statement of reasons', for certain types of 'prescribed decisions' specified in legislation and regulations. These make up a small proportion of ILGA's decisions. However, ILGA's guidelines state that it will provide statements of reasons for a broader range of decisions including:

- when exercising its power to impose, revoke or vary licence conditions
- if there is a written request for detailed reasons and resourcing is available
- if ILGA judges that the decision is of significant concern to the community or may provide guidance to the industry.

ILGA has increased the number of statements of reasons on gaming machine applications recently. This increase followed a Court of Appeal decision in September 2023 regarding ILGA's discretion to consider harm minimisation in its decision-making on gaming machine applications (discussed in section 2.2). In the 12 months before this decision, ILGA published only two statements of reasons for decisions about gaming machines, while in the year after the court decision it published 18.

ILGA had a backlog of statements of reasons for liquor and gaming decisions made between 2020 and 2023. According to internal ILGA reporting, the backlog was addressed in March 2024 by holding additional board meetings, which decreased the number of outstanding cases from 107 to seven. Addressing the backlog required additional resources. According to financial reporting, ILGA's expenditure for 2023–24 included an additional \$20,000 to complete 26 outstanding statements of reasons.

ILGA's statements of reasons indicate the factors that were considered, but do not provide applicants with a detailed rationale for the decision. This may leave applicants with little understanding of the specific reasons applications were denied.

ILGA publishes its board meeting decisions on its website. An internal audit in October 2024 found that ILGA's timelines for communicating decisions to applicants were not clearly defined. In response, ILGA updated its operational guidelines to include a target of two days for notifying applicants of its decisions.

ILGA engages proactively with stakeholders about its regulatory priorities but formal processes for engaging the community regarding gaming machine applications are rarely used

ILGA currently engages with stakeholders using a variety of communications channels. For example, ILGA publishes information to communicate its regulatory approach and expectations, including guidelines on gaming machine application processes and what information ILGA will consider in its decision-making. Recent industry communications from ILGA have included information about its focus on harm minimisation measures, such as restrictions on late-night gaming in high-risk venues. ILGA has also published its board meeting agendas and decisions since 2022.

ILGA holds stakeholder meetings in regional areas several times a year. In 2023–24 ILGA visited Albury, Newcastle, Griffith and Orange and met with local business owners, councils, police and other organisations, including GambleAware representatives. According to ILGA's regional engagement strategy, the objective of these meetings is to build positive relationships with regional stakeholders and better understand the impacts of liquor and gaming on regional communities.

However, ILGA has not documented its key stakeholders and communications strategy. Some industry stakeholders have stated that there is uncertainty about ILGA's decision-making due to its discretionary powers, and that this may discourage venues from making applications to change their gaming machine operations. Effective engagement with all stakeholders is important for transparency and public confidence in decision-making.

There are limited opportunities for community organisations to provide advice on specific gaming machine applications. The Local Impact Assessment process supports community consultation for applications to increase the number of gaming machines in a local area. According to ILGA's data, eight per cent of all gaming machine applications it determined between September 2023 and August 2024 (12 applications) included a Local Impact Assessment, and only one application received a submission from a community organisation.

3.2. Impact of gaming machine licensing on harm minimisation

ILGA has used evidence on harm minimisation to inform its decisions about gaming machine applications

Over the past two years, ILGA has focused on reducing the availability of late-night gaming in response to evidence about the higher risk of gambling harm during this period. Research from 2023 found that people who use gaming machines after midnight are significantly more likely to be classified as moderate or high-risk gamblers compared to people who use gaming machines but do not gamble after midnight. The research found this cohort was more likely to gamble frequently, gamble larger amounts of money and be members of loyalty schemes. ILGA updated its 'Guideline 16. Late-night gaming applications' in February 2024 following the publication of this research.

ILGA has applied this guideline in its recent decision-making. Its internal reporting shows that in multiple cases when venues applied for increases to their gaming machine entitlements, ILGA identified a high risk of harmful gambling and reduced the venues' approved gaming machine operating hours. In these cases, ILGA allowed the venues to have more gaming machines, but placed additional restrictions on the post-midnight operation of the machines.

ILGA did not publish all of its reasons for imposing additional late-night gaming restrictions on some venues and not others, but decisions were made on a case-by-case basis, considering the gambling harm risk factors for each venue. The Ministerial Statement of Expectations issued in 2024 states that ILGA must assess each application on its merits and not apply blanket conditions.

ILGA does not proactively review licence conditions for venues operating gaming machines, which means that it does not know whether some high-risk venues have appropriate harm minimisation licence conditions in place

ILGA has the power to impose, vary or revoke liquor licence conditions at any time under section 53 of the *Liquor Act 2007*. The Court of Appeal confirmed that this power includes the ability to impose conditions on gaming machines with the *ILGA v Whitebull* decision in September 2023. ILGA uses this power to impose gaming machine-related conditions on liquor licences as part of the approval process for gaming machine applications. ILGA imposed 54 gaming machine-related conditions on 48 licences in 2024, including gaming plans of management requirements for 23 venues and late-night gaming restrictions for 15 venues. Almost half (55) of the 118 gaming machine applications ILGA approved in 2024 included a licence condition. However, ILGA does not proactively review licence conditions in place and does not know if high-risk venues have conditions imposed or if those imposed are consistent with contemporary harm minimisation measures.

ILGA does not have a strategy to review venue operating hours currently in place. Department analysis from 2022 showed that one in five venues have an exemption that allows them to operate gaming machines during the mandatory 'shutdown period' of 4 am to 10 am. Around 36 venues had hardship exemptions that had been in place for over 20 years without review of the continued appropriateness and relevance of the exemptions. These venues generated a combined total of \$645 million in gaming machine profits in 2022–23. The Independent Panel report (November 2024) included a recommendation to retain a mandatory six-hour shutdown period and repeal all existing exemptions to this. The Minister for Gaming and Racing stated on 26 November 2024 that the NSW Government would consider the report and its recommendations and respond in due course. At the time of writing, the NSW Government had not responded to the Panel's report.

ILGA's approach is reliant on receiving gaming machine applications to assess a venue's risk and impose gaming harm minimisation conditions. Only two of the 21 clubs that have over 400 gaming machines have applied for a change in gaming machine operations since 2019–20. ILGA analysis also indicates that five of the clubs with the highest gaming machine profits in June–August 2024 had not made a gaming-related application to ILGA for at least the past ten years. Four of these clubs are in areas that ILGA considers high-risk for gambling harm, and none have gaming machine-related conditions. This means ILGA has not reviewed the risks of gambling harm or the harm minimisation measures in these clubs during this period.

Figure 12: Licence conditions placed on venues with the highest gaming machine profits

The most profitable venues do not have licence conditions that are consistent with contemporary approaches to gambling harm minimisation

The ten clubs with the highest profits from gaming machines made nearly \$785 million in 2023–24 and have over 5,500 gaming machines in operation. Six of these are in areas considered high-risk for gambling harm. Of the ten clubs:

- none have additional gambling harm minimisation conditions imposed
- all have permission to conduct late-night gaming
- nine have varied or reduced gaming machine shutdown hours, including one on hardship grounds.

The ten hotels with the highest gaming machine profits made over \$192 million in 2023–24 and have 300 gaming machines in operation. Five of these are in areas considered high-risk for gambling harm. Of the ten hotels:

- eight do not have additional gambling harm minimisation conditions imposed
- all have permission to conduct late-night gaming
- six have varied or reduced gaming machine shutdown hours.

Source: Hotels and clubs gaming machine data (the Department) and the NSW public register of liquor licences.

ILGA frequently imposes licence conditions that are intended to minimise gambling harm but it does not know whether these are effective

ILGA has five licence conditions it has commonly imposed as mitigation against gambling harm (Table 5). However, ILGA has not reviewed the effectiveness of these conditions or whether they remain the best way to mitigate gambling harm. ILGA does not have any evidence about the effectiveness of responsible gambling officers and gambling incident registers in mitigating gambling harm. The Department has plans to review these measures once the regulations have been in place for two years.

ILGA’s published guidance encourages applicants to include additional strategies beyond the minimum legislated requirements to support their gaming machine applications. However, any additional harm minimisation measures included in a gaming plan of management are not subject to approval and are not enforceable.

Following the July 2024 amendments to the Gaming Machines Regulation 2019, two of the conditions that ILGA commonly imposed were made mandatory: the requirements for a venue to have a gaming plan of management and a gambling incident register. The amended regulation also requires venues with more than 20 gaming machines to have a responsible gambling officer on duty. ILGA can continue to impose a responsible gambling officer condition on venues with fewer than 20 gaming machines.

Table 5: Licence conditions relating to gaming machines that are commonly imposed by ILGA

Licence condition	Description
Gaming plan of management	A document that explains how staff will meet responsible conduct of gambling obligations. A venue is required to operate in accordance with the gaming plan of management provided to ILGA. A venue can only vary the plan after consultation with ILGA.
Gambling incident register	A licensee must keep and maintain a register to record any incidents where a patron displays or engages in problematic gambling behaviours. The register must include the time, machine number and description of the patron, as well as any action taken in response to the incident. The licensee must review the register on a monthly basis and consider whether to exclude any person experiencing gambling harm who has previously declined self-exclusion.

Licence condition	Description
Responsible gambling officer	The licensee must ensure that a dedicated staff member who holds a current advanced Responsible Conduct of Gambling certificate is on duty and monitoring gaming machines in the venue. The condition can either be in place whenever gaming machines are in operation or from midnight during late-night gaming. The responsible gambling officer's duties include maintaining the gambling incident register, identifying patrons who display signs of problematic gambling behaviour, and providing support for and information to patrons about the importance of taking a break from gaming, how to access gambling counselling or how to participate in a self-exclusion scheme.
CCTV	The licensee must maintain a closed-circuit television (CCTV) system on the premises to record activity from opening until one hour after closing. The CCTV should cover entry and exit points and all publicly accessible areas (other than toilets). All recordings must specify the time and date and be kept for 30 days. The licensee must provide any recordings within 24 hours of any request by a police officer or Liquor & Gaming NSW inspector.
Reduced late-night gaming	Gaming machines must cease operation by the time indicated in the condition, most often either 12 am or 2 am.

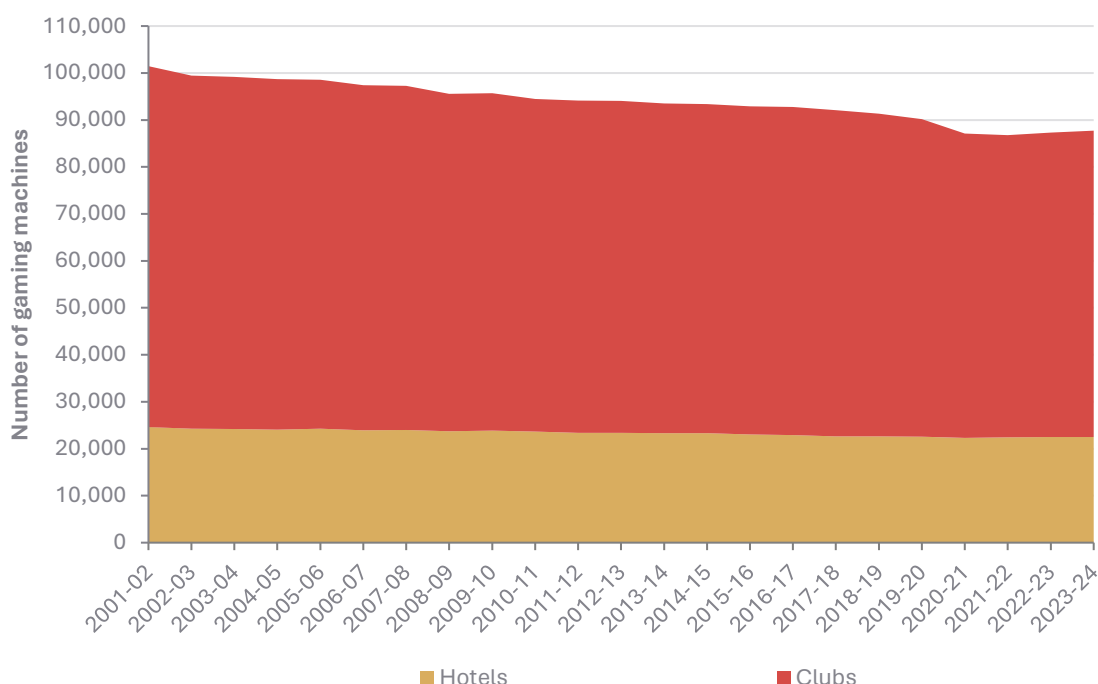
Source: Independent Liquor and Gaming Authority approved licence conditions and the NSW public register of licence information.

The number of gaming machines in NSW has not reduced significantly in recent years, despite a reduction in gaming machines being a stated objective of the *Gaming Machines Act 2001*

One of the objectives of the *Gaming Machines Act 2001* (the Act) is to reduce the number of gaming machines in NSW. This was in response to rapid growth in the number of gaming machines in NSW, which peaked at more than 100,000 in the early 2000s. Regulatory changes in the mid-1990s eased some restrictions, including increasing the maximum number of gaming machines a hotel could operate from ten to 30.

There has been a reduction of 13,758 gaming machines in NSW since 2001–02, when the Act came into force (Figure 13). This is an average reduction of around 600 machines per year. Clubs accounted for 86% of the overall reduction in gaming machines (11,602 machines) during this period. However, the total number of gaming machines operating has increased by 953 over the past two financial years. This followed large declines in 2019–20 and 2020–21 (1,143 and 3,066 respectively). COVID-19 pandemic restrictions were in place during both of these financial years.

Figure 13: Number of gaming machines in operation in NSW, 2001–02 to 2023–24



Source: Australian Gambling Statistics, 39th edition, 1997–98 to 2022–23.

As shown in Chapter 1, NSW has far more gaming machines on a per capita basis than all other Australian states and territories. There were 87,749 gaming machines in clubs and hotels in NSW in 2023–24. At the current rate of reduction of around 600 gaming machines per year, it would take more than 55 years for NSW to reach parity with the national average on a per capita basis.

The Act introduced a tradeable gaming machine entitlement scheme that is intended to reduce the number of gaming machines in operation in NSW. Not all reductions in the number of gaming machines are attributable to this scheme. For example, venue closures can result in a reduction in the number of gaming machines in operation without using the forfeiture scheme. According to ILGA reporting, around 3,500 gaming machine entitlements were forfeited in NSW between 2011–12 and 2023–24 through the scheme. This equates to fewer than 300 machines per year. There were 168 applications that were approved to transfer gaming machine entitlements that resulted in 116 gaming machines being forfeited in 2023–24.

In June 2023, the NSW Government amended gaming machine legislation to lower the overall state cap on gaming machine entitlements from 99,000 to 95,994. From December 2024 the state cap on gaming machine entitlements was reduced to 95,739. This means that the total number of gaming machines in clubs and hotels in NSW could increase by almost 8,000, from the current number of 87,749, and still remain within the current cap. The total number of gaming machines can vary depending on business activities such as venue renovations or technical issues.

A gaming machine entitlement gives the licensee the right to operate a gaming machine at their venue. The number of gaming machine entitlements available for venues is limited to those currently in circulation. This means that a venue can only increase its number of gaming machine entitlements by transferring them from other venues with approval from ILGA. Under the Act, one gaming machine entitlement must be forfeited for every three gaming machine entitlements transferred between venues. The decisions to transfer gaming machine entitlements are made by venues rather than being facilitated by ILGA, but approval from ILGA is required for the transfers to take place.

There are legislative exemptions to the gaming machine entitlement trading scheme and forfeiture requirements. For example, venues are not required to forfeit gaming machine entitlements when transferring between premises in the same local area or between affiliated clubs. There are also 2,300 poker machine permits in circulation, a legacy approval which authorises a hotel to operate a gaming machine. Poker machine permits are similar to gaming machine entitlements and are included in the state cap and reporting on gaming machine entitlements. However, the transfer of a poker machine permit must be approved by the Secretary of the Department and is exempt from the forfeiture scheme.

Under the Act, gaming machine entitlements can only be transferred to another venue with the same type of liquor licence. According to ILGA reporting, around 92% (7,401) of unfilled gaming machine entitlements were held by clubs at 30 June 2024.

4. Regulation of gaming machines in clubs and hotels

4.1. Strategic approach to regulation

The Department has a strategic approach to the regulation of gaming machines in clubs and hotels but this does not link clearly enough to harm minimisation outcomes

The Department of Creative Industries, Tourism, Hospitality and Sport's (the Department) approach to regulating gaming machines, as well as its approach to regulating other areas within its area of responsibility, is documented in a series of policy and planning documents (Figure 14). These documents have been produced within the last two years and are published on the Department's website. They provide a clear overview of regulatory priorities and planned compliance activities. The Department uses research from the Office of Responsible Gambling and other evidence sources to identify risks and inform its regulatory approach.

The Department is transparent about its approach to regulation, publishing key documents on its website and promoting them through its engagement with stakeholders. The Department engages with industry stakeholders through targeted communications, webinars and regulatory roadshows. The Department's stakeholder engagement is consistent with its regulatory approach to use education and capacity building to support voluntary compliance. The Department's regulatory engagement team has developed stakeholder engagement guidance for staff that includes approval pathways and a stakeholder register.

Figure 14: The Department's key regulatory documents

Strategy 2025: overall statement of the Department's approach to the regulation of gambling, liquor and racing industries (2023–25).

Compliance and Enforcement Policy: sets out the details of the processes and governance arrangements for the Department's compliance and enforcement work (last updated January 2024).

Delivery Plan: describes the areas of focus for compliance and enforcement work in the coming years (2024–2026).

Regulatory Priorities: provides details of the key areas of focus in the short-term (updated every six months).

Source: Department of Creative Industries, Tourism, Hospitality and Sport published regulatory documents.

The Department states that its regulatory priorities for gaming machines focus on 'reducing gambling harm from gaming machines and ensuring people can more effectively manage their gambling activities'. The Department's recent regulatory documents define harm minimisation as 'reducing gambling-related harm' but the strategy for regulating gaming machines is not based on a clear understanding of current levels of gambling harm and it does not set any targets for reducing harm associated with gaming machines. Potential sources of evidence on current levels of gambling harm include the use of the GambleAware Helpline, the NSW Gambling Survey, other academic research and data on gaming machine losses. The Department has not had reliable systems for capturing or reporting on its compliance and enforcement activities in recent years, which means its regulatory approach has not been fully informed by operational data. A new business system is being implemented and a data strategy is being finalised which aims to improve the understanding of harm detection and prevention and enable an evidence-based regulatory approach (discussed below).

The Department has increased its regulatory focus on gambling harm minimisation in recent years. Liquor & Gaming NSW was formed in 2016 and published its first strategic plan for 2017–19. This plan referred to ensuring the integrity of the gaming industry and minimising harm, but actions were largely focused on reducing the regulatory burden on industry. The Department did not have a strategic plan or regulatory priorities for gambling in place between 2020 and 2022. The responsibility for the regulation of liquor and gaming was split between functional areas across the Department of Customer Service and regulatory activities were focused on compliance with COVID-19 public health orders during this period.

The Department does not have fit-for-purpose data management and reporting systems to inform its regulatory approach but is working to improve the use of data to identify risks and inform decision-making

The Department's compliance and enforcement data is extracted from a legacy case management system that has significant data quality weaknesses and limited reporting capabilities. The case management system the Department uses lacks data governance and quality assurance controls and relies heavily on the manual entry of free text to record information on compliance inspections of venues that have gaming machines. This means the current data on inspections is fragmented, incomplete and inaccurate.

Our review of data on venue inspections found frequent duplication of the recording of activities, making it impossible to report accurately on the volume and type of inspections conducted. Our analysis also identified a high proportion of missing data in several key fields required to report on the details of inspections conducted. For example, 20% of records examined did not have information on the type of inspection activity that was conducted.

NSW Government guidance on regulation states that regulators should aim to use data effectively to identify risks and inform decision-making. The Department acknowledges the weaknesses in its data systems and is in the process of replacing its legacy case management system with a newer system. It is also finalising a data strategy to improve the data analytics capabilities in its regulation of gambling.

The Department has a Centralised Monitoring System (CMS) that collects information from all licensed gaming machines, including turnover and profits. The primary purpose of the system is to calculate a venue's gaming machine tax liability. The CMS also collects information on when gaming machines are operating, which enables proactive monitoring of compliance with gaming machine shutdown periods. This information has been gathered in the CMS for several years but has only been monitored regularly over the past 12 months.

The Department does not use a structured approach to monitor the impact of responsible conduct of gambling training, and previous reviews have indicated it is not effective

Gaming room staff in clubs and hotels have a key role in harm minimisation because they can potentially identify and respond to harmful gambling behaviour in real time. All gaming venue staff are required by law to complete Responsible Conduct of Gambling (RCG) training before they can carry out work related to gaming machines. The objective of the RCG training is to provide staff with knowledge about problem gambling and build the skills required to assist patrons experiencing gambling harm.

A 2020 review commissioned by the NSW Responsible Gambling Fund found that RCG training had little positive impact on harm prevention or reduction and 'substantial changes' to the training were needed. Key findings of the review include:

- venue staff rarely approached patrons displaying signs of gambling harm, despite receiving training in how to identify and respond to this
- venue staff reported that management at most venues did not show genuine commitment to patron welfare in relation to harmful gambling
- monitoring of patrons who had registered for a self-exclusion program was limited due to poor implementation of the program.

The Department refreshed its RCG training in 2023 in response to the review and introduced an advanced RCG certification, which was made mandatory for responsible gambling officers and senior staff in clubs and hotels in 2024. The advanced RCG training objective is the ‘promotion of responsible gambling culture and proactive harm minimisation based on the concept of corporate social responsibility’. The training is focused on developing communication skills, conflict management and awareness of harm minimisation requirements. The development of the course materials received funding from ClubsNSW and Bankstown Sports Club. Bankstown Sports Club has 745 gaming machines, the largest number of any venue in NSW.

The current guidance provided in RCG training does not strongly promote active engagement from venue staff in addressing potentially harmful gambling behaviour. For example, the guidance states that an appropriate response to observing patron behaviour such as gambling most days and gambling on multiple machines is to ‘monitor and report’ rather than to speak to a patron about their gambling or to offer referrals to gambling services or self-exclusion programs (Table 6). According to NSW Office of Responsible Gambling reporting, only two percent of people accessing GambleAware services were referred by venues in 2023–24.

Table 6: Guidance from Responsible Conduct of Gambling training regarding warning signs of harmful gambling behaviour

Classification	Description of behaviour	What to do
General warning signs	Starts gambling when the venue is opening, or only stops when the venue is closing. Gambles most days. Gambles on more than one machine at once, or rushes from one machine to another. Asks to change large notes before gambling. Significant increase in spending pattern. Complains to staff about losing, or blames venue or machines for losing. Uses rituals or has superstitious behaviours, such as talking to the machine.	Monitor and report.
Probable warning signs	Finds it difficult to stop gambling at closing time. Often gambles for long periods without a break (more than three hours). Plays very fast. Does not react to what is going on around them. Gets out cash more than once. Puts large wins back into the machine. Becomes angry if someone takes their favourite machine or spot.	Monitor and report. The manager should speak to the patron.

Classification	Description of behaviour	What to do
Strong warning signs	Gambles from opening to closing. Shows obvious signs of distress or anger. Tries to borrow money from other patrons or staff. Tells staff that gambling is causing them challenges, or family or friends are raising concerns. Significant decline in personal appearance.	Monitor and report. The manager should speak to the patron, refer them to counselling services and offer the opportunity to self-exclude.

Source: Advanced responsible conduct of gambling course participant workbook.

The Department does not have a structured approach to monitor the quality of training being delivered. The Department is reliant on training participants to provide feedback or complaints. The Department has not assessed the impact of the refreshed training on gambling harm minimisation in venues. The January–June 2025 regulatory priorities include a plan to review the suitability of the training materials for the RCG course.

4.2. Compliance and enforcement activities

The Department's activities are aligned with its documented regulatory priorities

The Department has prioritised compliance campaigns focused on gambling harm minimisation requirements since 2022. While the number of activities was likely limited between 2019–20 and 2021–22 due to COVID-19 public health orders, the increase in compliance activities is also consistent with the Department's prioritisation of gaming machine regulations from 2022. The Department has shifted to a more proactive approach to the regulation of gaming machines and the delivery of operational campaigns rather than responding to complaints. However, as noted above, the Department does not collect data in a way that can be used to accurately report on the number and types of activities undertaken.

Recent compliance activities have focused largely on information and education campaigns relating to several new regulatory requirements for gaming machine venues. For example, the July–December 2024 regulatory priorities included a focus on monitoring industry implementation of the new gaming harm minimisation measures in the Gaming Machines Regulation 2019 and compliance with safeguards such as mandatory gaming machine shutdown periods and prohibition of gaming-related signage. In 2023–24, gaming and wagering inspectors conducted inspections focused on gaming-related signage and other harm minimisation requirements.

The Department advised that it has focused on monitoring and enforcing compliance with gaming machine requirements in hotels. For example, the Department reported that 64% (522) of the 817 venues inspected during a compliance campaign between July and October 2024 were hotels. However, the Department has not documented the reason for this approach.

The Department has not prioritised monitoring and enforcement actions that are likely to have the biggest impact on gambling harm minimisation

The Department's activities focus on compliance with legislative harm minimisation requirements for gaming machines, rather than staff actions and venue culture. According to Department reporting on venues visited between July and October 2024 to assess compliance with new harm minimisation requirements, there was:

- 99% compliance with the requirement that venues have a gambling incident register
- 98% compliance with the requirement to have a responsible gaming officer on duty
- 95% compliance with ATM signage rules
- 70% compliance with the requirement that venues have a gaming plan of management.

The actions of gaming room staff and the effectiveness of self-exclusion schemes are two important elements of minimising gambling harm. Compliance activities have not focused on requirements that relate to the venue culture or the actions of staff. Department inspections include assessing venue staff knowledge of harm minimisation measures. However, these assessments do not test whether staff are applying this knowledge while working in gaming rooms. The Department has not monitored the quality of responsible gambling officers or their impact on gambling harm minimisation in clubs and hotels, despite having these positions being a condition for some venues for several years. Nor does it play an active role in overseeing the operation of self-exclusion programs. NSW Government research from 2024 indicates that less than two per cent of gamblers had accessed a gaming machine self-exclusion program.

The Department has stated that it is focused on monitoring compliance with the requirement that venues do not supply any free or discounted liquor to a patron as an inducement to gamble. This is important for harm minimisation because inducing patrons to play gaming machines may result in gambling harm as people may play for longer periods of time and spend more money than they can afford. The Department's data does not include how many venues were inspected as part of a campaign to monitor compliance with these requirements. It is unlikely that breaches of requirements such as the supply of liquor will be identified without a significant covert operation in venues. The Department conducts a small number of covert inspections of venues, but this has not been a major part of its regulatory approach in recent years.

The Department has a regional inspection program, but has not conducted frequent inspections focusing on gaming machines in regional venues

There are more than 30,000 gaming machines in regional NSW, which is approximately 35% of all gaming machines in NSW. Gaming machines in regional NSW made almost \$2 billion in profits in 2023–24. The Department has 12 inspectors dedicated to the regulation of gaming machines across NSW, which equates to one inspector for every 178 venues in NSW. All gaming and wagering inspectors are located in Greater Sydney, which means that the Department does not conduct monitoring and enforcement of gaming machine regulations in regional NSW frequently. The Department has a regional inspection program, and in 2024, five inspection campaigns were conducted in regional NSW.

According to NSW Office of Responsible Gambling reporting, nine of the ten suburbs with the highest number of people accessing GambleAware services in 2023–24 are located outside Greater Sydney. Six of the ten suburbs are located in areas the Independent Liquor and Gaming Authority (ILGA) classifies as Band 3 (high-risk) because of factors such as gaming machine density, profits and relative socio-economic disadvantage. The NSW Gambling Survey also found that the prevalence of high-risk gambling in regional NSW was the same as in Greater Sydney.

Outside the regional gaming inspection program, the Department relies on local licensing police to conduct compliance and enforcement activities in venues that are not in Greater Sydney. However, licensing police are largely focused on compliance with liquor regulations and the reduction of alcohol-related harm and crime. Industry stakeholders have reported that there can be inconsistency between the Department's inspectors and police. The Department has advised that it meets with NSW Police regularly and also engages with them on local issues at liquor accords and regional roadshows. Some of the other inspection teams within the Department may also informally assess gaming machine compliance while conducting inspections focused on liquor or other gambling types, but this is not their focus or main area of expertise.

The Department does not know if its compliance activities are effective in reducing gambling harm

The Department does not have a formal continuous improvement process for its compliance and enforcement activities and does not review regulatory actions to identify lessons learnt or opportunities for improvement. The Department has not conducted any evaluations of its compliance programs to measure their impact and does not assess the timeliness or effectiveness of interventions. This means the Department does not know which of its regulatory activities are more or less effective in reducing gambling harm in clubs and hotels in NSW. Regulators should have clear and measurable objectives and report on the outcomes being achieved so that they are accountable and can prioritise regulatory approaches that are most effective.

The Department's performance monitoring and reporting has focused on whether activities were delivered as planned. The Department does not have benchmarks, targets or other performance measures in place to assess progress against strategic priorities. For example, the Department does not report on how it is targeting activities to address increased risks of gambling harm among culturally and linguistically diverse communities. The Department has acknowledged this and advises that future project planning will include measures for evaluation.

While the Department has not monitored changes to the level of gambling harm caused by gaming machines, there are several indicators that harmful gambling behaviour is not reducing in NSW. In 2023–24, there were 20,875 calls from NSW residents to the GambleAware Helpline, an increase of 8.5% from the previous year. Gaming machine data also shows increased profits over this period. While this does not necessarily mean that gambling harm has increased, the increased gaming machine profits could indicate a potential increase in harmful gaming activity.

4.3. Compliance and enforcement outcomes

The Department has governance arrangements and probity processes in place for making enforcement decisions

The Department has governance arrangements and procedures in place to support consistent decision-making in the enforcement of gaming machine regulation. An 'enforcement panel' determines enforcement actions when non-compliance has been identified by inspectors. The enforcement panel is responsible for ensuring enforcement action is appropriate, proportionate and consistent, and aligns with the compliance and enforcement policy. The enforcement panel also considers whether there is sufficient evidence to support a proposed enforcement action. The enforcement panel includes senior staff in the Regulatory Operations branch. Decisions are recorded as meeting minutes. However, the Department has not always been timely in making decisions to determine an enforcement action. According to the Department's data, it took an average of almost three and a half months (104 days) to determine an enforcement action following an investigation.

Public service employees involved in the regulation of gaming machines are required to have 'the highest standard of integrity' under the *Gaming and Liquor Administration Act 2007*. The standards that staff are required to meet are outlined in the Department's integrity policy and workforce probity program. However, the Department has advised that high staff turnover and limited access to the Department's conflicts of interest register mean there is a risk that managers are not aware of staff conflicts. There are also limited quality assurance mechanisms in place for inspections.

The Department generally uses engagement with gaming venues, rather than other types of enforcement action, in response to breaches of gambling harm minimisation measures

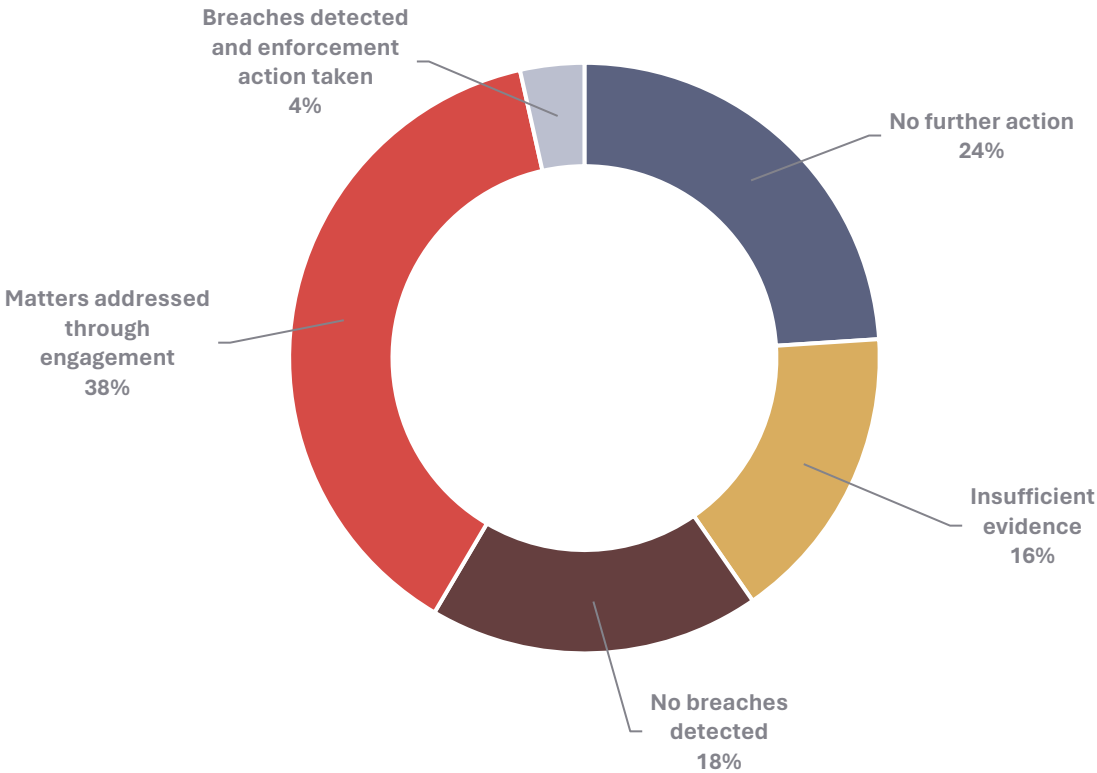
The Department's enforcement powers include issuing directions and warning notices, penalty infringement notices (fines), referring matters for prosecution and referring matters to ILGA for disciplinary action. Under section 139 of the *Gaming Machines Act 2001* (the Act), the Secretary can make a disciplinary complaint to ILGA, which has broader enforcement powers, including the ability to:

- impose a monetary penalty
- cancel, suspend or disqualify a liquor or gaming-related licence
- cancel, suspend or modify authorisation to keep approved gaming machines
- disqualify the hotelier or club from keeping gaming machines for such a period as ILGA sees fit
- impose or vary a licence condition.

ILGA has not determined any disciplinary actions referred to it under the Act since 2020–21. In comparison, the Victorian Gambling and Casino Control Commission reported that it took disciplinary action against five venues and 72 employees in 2023–24. ILGA is currently reviewing two recently referred matters that relate to the display of gaming-related signs. The Department advises that its enforcement approach considers an infringement notice or prosecution can be more effective and more timely in changing behaviour than taking disciplinary action. However, the enforcement powers available through disciplinary action are much broader and provide an opportunity to identify venues that could have licence conditions imposed to address non-compliance with harm minimisation measures.

As previously noted, the Department has focused on education campaigns related to new regulatory requirements to support voluntary compliance. This is consistent with Department policy, which encourages venues to self-regulate. The Department’s data indicates that it addressed 38% (65) of complaints finalised in 2024 through engagement with the venues (Figure 15). Engagement includes actions such as remedial letters, emails and phone correspondence, as well as in-person education. In comparison, the Department only escalated six complaints (four per cent) for enforcement action.

Figure 15: Responses by the Department to complaints about gaming machine venues, 2024



Source: Department of Creative Industries, Tourism, Hospitality and Sport compliance and enforcement data (unpublished).

Limitations in the Department’s data mean that it cannot accurately report on enforcement actions. According to this data, it undertook 351 enforcement actions in response to gaming machine regulation breaches in 2023–24. However, the data cannot be used to show what those actions were because 60% were recorded only as ‘action taken’.

The Department publishes detailed data on gaming machine operations, but this information could be more accessible

The Department has published detailed data on the gaming industry since 2017. These reports provide transparency on the number of gaming machines and profits generated across local government areas (LGAs). Monthly reports are published on licensed premises and quarterly reports are published on:

- gaming machine data that combines the number of venues, number of gaming machines, and net profit and tax from gaming machines operating in the LGA
- state ranking of venues by net profit from all gaming machines
- state ranking of venues by net profit per gaming machine.

However, this information is spread across multiple spreadsheets and is not consolidated in a way that enables an overall view of gaming machines in clubs and hotels across NSW. The quarterly gaming machine data is separate for clubs and hotels due to differences in financial reporting periods. The separate gaming machine data also uses different geographical areas in reporting. This makes it challenging to combine data for a statewide view, which reduces the accessibility and transparency of data on gaming machines in NSW.

The Department also reports publicly on some enforcement actions through media releases and industry alerts. However, these do not link activities with harm minimisation outcomes. It is important for transparency that the Department effectively measures, evaluates and reports on the outcomes of its compliance and enforcement activities. Reporting could also be more structured and comprehensive. For example, the Department does not currently report on complaints it receives about gaming machine operation in clubs and hotels. The Department advises that it intends to publish all enforcement outcomes on its website but does not have a firm timeline for this work.

Section 2 –

Appendices

Appendix 1 – Responses from audited entities

Response from Department of Creative Industries, Tourism, Hospitality and Sport

Department of Creative Industries,
Tourism, Hospitality and Sport

Our ref: A9445627
Your ref: R009-170535826-46182
26 May 2025

Bola Oyetunji
Auditor-General for NSW
Audit Office of NSW

By email

Performance audit – Regulation of gaming machines

Dear Mr Oyetunji

Thank you for your letter dated 5 May 2025 providing the Department of Creative Industries, Tourism, Hospitality and Sport (DCITHS) the opportunity to respond to the Performance Audit – Regulation of Gaming Machines (the Report).

DCITHS has considered the Report, and the recommendations made relevant to DCITHS. DCITHS accepts Recommendation 1 and Recommendation 2(a) and accepts in principle Recommendation 2(b). It is noted that there are policy, resource and timeframe implications associated with Recommendation 2(b) that will need to be considered by Government.

Please find enclosed detailed responses for each of the recommendations.

Initial steps have already been taken to embed improvements in the way gambling harm minimisation is prioritised in our regulatory approach. Improvements have also been made to how outcome indicators are set, measured and publicly reported. These efforts were underway prior to the commencement of this audit, however DCITHS acknowledges the audit findings and is committed to taking further action to address the recommendations.

DCITHS remains committed to creating vibrant, safe and responsible hospitality and racing sectors for NSW, while enabling and supporting industry to minimise harm and develop responsibly.

I would like to thank the audit team for its collaborative engagement with DCITHS.

Sincerely,



Lyndal Hayward
A/Secretary

Encl. DCITHS response to audit recommendations

Enclosure: DCITHS response to audit recommendations

Recommendation	DCITHS response	DCITHS commentary
By June 2026, the Department of Creative Industries, Tourism, Hospitality and Sport should: 1. Increase the focus of its regulatory strategy on improving harm minimisation outcomes by: a. establishing baselines and targets for improvements relating to gambling harm minimisation b. increasing its focus on enforcing regulatory requirements that have the most direct impact on harm minimisation outcomes, including staff compliance with responsible conduct of gaming requirements and the operations of venues with late-night opening hours for gaming machines c. evaluating and reporting publicly on its activities with a focus on outcomes achieved, in addition to activities or outputs.	Accept	The Department has initiated steps to embed significant improvements in the way gambling harm minimisation is prioritised in our regulatory approach. Improvements have also been made to how outcome indicators are set, measured and publicly reported. For example, the Hospitality and Racing division is currently undergoing a functional review, informed by independent experts to ensure we are organised in a way which maximises regulatory outcomes and prioritises resources efficiently and dynamically so the Department can adapt and respond to evolving regulatory challenges, including gambling harm minimisation. Also, the Department has created a new Director Data Strategy senior executive role to lead implementation of a new Data Strategy for the Hospitality and Racing division, which will improve the Department's data capabilities and associated evaluation and reporting on regulatory outcomes, including gambling harm minimisation.
By June 2026, the Department of Creative Industries, Tourism, Hospitality and Sport should: 2. Review the operation of the gaming machine forfeiture scheme to ensure it is achieving the legislative objective of reducing the number of gaming machines in NSW. This should include: a. reviewing all current exemptions to the scheme and removing exemptions that are not clearly justified by evidence b. proposing additional measures for clubs and hotels to forfeit gaming machine entitlements voluntarily, with a focus on clubs and hotels in locations classified as at higher risk of harmful gambling.	Accept (2. a.) Accept in principle (2. b.)	In relation to recommendation 2. b., the parameters for the operation of the forfeiture of gaming machine entitlement requirements under the 'tradeable gaming machine entitlement scheme' are established by Part 3 Division 2 of the <i>Gaming Machines Act 2001</i>; any variation to that scheme is a policy decision for Government and necessitates amending that Act. Recommendation 2.3 of the Independent Panel on Gaming Reform's 'Roadmap for Gaming Reform' report suggests "the NSW Government consider ways to simplify forfeiture requirements and exemptions to best achieve the objective of reducing the number of Gaming Machine Entitlements [GMEs] in NSW", accompanied by a note that "the NSW Government has committed to increasing this forfeiture to one in two GMEs to accelerate the rate at which GMEs are removed from circulation". The Government is considering its response to the Panel's recommendations. The Department awaits the Government's consideration of the Panel's recommendations. In the meantime, the Department is continuing to actively implement, monitor and evaluate the Government's current suite of gaming reforms.

Response from NSW Independent Liquor and Gaming Authority

NSW Independent Liquor & Gaming Authority

Mr Bola Oyetunji
Auditor-General of NSW

2 June 2025

Dear Mr Oyetunji

Response to the Auditor-General's Performance Audit on Regulation of Gaming Machines

Thank you for your letter dated 5 May 2025 providing the NSW Independent Liquor and Gaming Authority (ILGA) the opportunity to respond to the *Performance Audit – Regulation of Gaming Machines* report.

ILGA is committed to continuous improvement in fulfilling its harm minimisation mandate and accountability for outcomes. We therefore welcome the recommendations, which we support, and look forward to implementing them, as detailed in the attachment to this letter.

In addition to the formal recommendations, ILGA has taken note of the importance of maintaining up to date Guidelines for the benefit of those we regulate. We propose to take a more structured approach to stakeholder engagement and acknowledge our responsibility, in conjunction with Hospitality and Racing, to ensure licensees meet their statutory obligations, such as complying with the 'primary purpose' of their licence.

ILGA appreciates the time and effort taken by the Audit Office of NSW to examine and understand the complex regulatory and operating environment surrounding gaming machines in NSW.

Finally, I would especially like to acknowledge the constructive engagement of the Audit Office of NSW Performance Audit team with ILGA and to thank your staff for their courtesy and professionalism. It has been a pleasure working with them.

Yours sincerely



Caroline Lamb

Chairperson
Independent Liquor & Gaming Authority

Number	Recommendation	ILGA Response
1	By June 2026, ILGA should increase clarity about its decision-making for gaming machine applications to industry and other stakeholders by: a) ensuring statements of reasons for decisions are published in a timely manner b) providing venues whose applications are refused with a detailed rationale for the decision.	<u>ILGA accepts this recommendation.</u> ILGA is committed to ensuring that its decisions are clearly and promptly communicated. Since 2024 ILGA has a target of publishing statements of reasons for decisions within 30 days of the relevant board meeting, a timeframe which is usually met. ILGA will continue to meet this standard. ILGA agrees to produce and publish detailed statements of reasons for all refused gaming machine applications, and update Guideline 7 both to reflect this change and more broadly.
2	By June 2026, ILGA should commence periodic reviews of licence conditions for venues operating gaming machines in the highest risk locations and make amendments to these where required to ensure that licence conditions align with current evidence on gambling harm minimisation.	<u>ILGA accepts this recommendation.</u> ILGA will develop a risk-based program to assess the adequacy of licences and licence conditions to mitigate the risk of harm from the operation of gaming machines, particularly where a licence and its conditions have not been reviewed for some time.

Appendix 2 – About the audit

Audit objective, criteria and scope

This audit assessed the effectiveness of the regulation of gaming machines in clubs and hotels, with a focus on harm minimisation requirements.

The audited entities were:

- The Department of Creative Industries, Tourism, Hospitality and Sport (the Department)
- The Independent Liquor and Gaming Authority (ILGA).

We addressed the audit objective by examining the following criteria:

- Are the Department and ILGA effectively administering licence applications for gaming machines?
 - Decision-making processes for licensing and licence conditions are clear and consistent
 - Decisions about licences and licence conditions are made in an efficient and timely manner
 - Decisions about licences and licence conditions are reported and communicated clearly.
- Are the Department and ILGA effectively monitoring and enforcing compliance with policy and legislative requirements for gaming machines?
 - Regulatory activities are guided by a clear and comprehensive strategy
 - There is proactive engagement with stakeholders to support the implementation and regulation of harm minimisation requirements
 - Compliance activities are regularly monitored, reported on and evaluated for continuous improvement.

The audit scope was informed by the key themes for effective regulation in the Auditor-General's Regulation insights report published in 2024.

Audit exclusions

The audit did not:

- examine the regulation of gaming machines in casinos
- examine other types of gambling, including wagering and lotteries
- question the merits of government policy objectives.

Audit approach

Our procedures included:

- interviewing key personnel from the Department and ILGA who are responsible for regulating gaming machines, in addition to other relevant staff such as data custodians
- examining documents relating to the regulation of gaming machines, including strategic plans, policies and procedures, governance, previous reviews and evaluations
- analysing activity and performance data
- assessing licence decisions for gaming machines, including reviewing controls and processes, and a sample of decisions made
- assessing compliance and enforcement activities, including the development and communication of an overall regulatory approach, engagement with industry on harm minimisation, and documentation of inspections and responses to identified non-compliance.

The audit approach was complemented by quality assurance processes within the Audit Office to ensure compliance with professional standards.

Audit methodology

Our performance audit methodology is designed to satisfy Australian Auditing Standard ASAE 3500 Performance Engagements and other professional standards. The standards require the audit team to comply with relevant ethical requirements, plan and perform the audit to obtain reasonable assurance, and draw a conclusion on the audit objective. Our processes have also been designed to comply with requirements specified in the *Government Sector Audit Act 1983* and the *Local Government Act 1993*.

Acknowledgements

We gratefully acknowledge the cooperation and assistance provided by staff from the Department of Creative Industries, Tourism, Hospitality and Sport, and from the Independent Liquor and Gaming Authority.

Audit cost

The estimated cost of the audit, including staff costs and overheads, is approximately \$500,000.

Appendix 3 – Performance auditing

What are performance audits?

Performance audits assess whether the activities of State or local government entities are being carried out effectively, economically, efficiently and in compliance with relevant laws.

The activities examined by a performance audit may include a government program, all or part of an audited entity, or more than one entity. They can also consider particular issues that affect the whole public sector and/or the whole local government sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake audits is set out in the *Government Sector Audit Act 1983* for State Government entities, and in the *Local Government Act 1993* for local government entities. This mandate includes audit of non-government sector entities where these entities have received money or other resources (directly or indirectly) from or on behalf of a government entity for a particular purpose (follow-the-dollar).

Why do we conduct performance audits?

Performance audits provide independent assurance to the NSW Parliament and the public.

Through their recommendations, performance audits seek to improve the value for money the community receives from government services.

How are performance audits selected?

When selecting and scoping topics, we aim to choose topics that reflect the interests of Parliament in holding the government to account. Performance audits are selected at the discretion of the Auditor-General based on our own research, suggestions from the public and consultation with parliamentarians, agency heads and key government stakeholders. Our three-year performance audit program is published on our website and is reviewed annually to ensure it continues to address significant issues of interest to Parliament, aligns with government priorities and reflects contemporary thinking on public sector management. Our program is sufficiently flexible to allow us to respond readily to any emerging issues.

What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase, the audit team develops an understanding of the audit topic and the responsible entities, and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the audited entity, program or activities are assessed. Criteria may be based on relevant legislation, internal policies and procedures, industry standards, best practice, government targets, benchmarks or published guidelines.

During the fieldwork phase, audit teams require access to books, records or any documentation deemed necessary in the conduct of the audit, including confidential information which is either Cabinet information within the meaning of the *Government Information (Public Access) Act 2009*, or information that could be subject to a claim of privilege by the State or a public official in a court of law. Confidential information will not be disclosed, unless authorised by the Auditor-General.

At the completion of fieldwork, the audit team meets with management representatives to discuss all significant matters arising from the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with management representatives to check that facts presented in the draft report are accurate, and to seek input in developing practical recommendations for areas of improvement.

A final report is then provided to the accountable authority of the audited entity(ies), which is invited to formally respond to the report. If the audit includes a follow-the-dollar component, the final report is also provided to the governing body of the relevant entity. The report presented to the NSW Parliament includes any response from the accountable authority of the audited entity. The relevant Minister and the Treasurer are also provided with a copy of the final report for State Government entities. For local government entities, the Secretary of the Department of Planning, Housing and Infrastructure, the Minister for Local Government and other responsible Ministers will also be provided with a copy of the report. In performance audits that involve multiple entities, there may be responses from more than one audited entity or from a nominated coordinating entity.

Who checks to see if recommendations have been implemented?

After the report is presented to the NSW Parliament, it is usual for the entity's Audit and Risk Committee/Audit Risk and Improvement Committee to monitor progress in implementing recommendations.

In addition, it is the practice of NSW Parliament's Public Accounts Committee to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report is received by the NSW Parliament. These reports are available on the NSW Parliament website.

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian standards.

The Public Accounts Committee appoints an independent reviewer to report on compliance with auditing practices and standards every four years. The reviewer's report is presented to the NSW Parliament and is available on its website.

Periodic peer reviews by other audit offices test our activities against relevant standards and better practice.

Each audit is subject to internal review prior to its release.

Who pays for performance audits?

No fee is charged to entities for performance audits. Our performance audit services are funded by the NSW Parliament.

Further information and copies of reports

For further information, including copies of performance audit reports and a list of audits currently in progress, please see our website www.audit.nsw.gov.au or contact us on 02 9275 7100.

Appendix 4 – Report snapshot

About this report

This audit assessed the effectiveness of the regulation of gaming machines in clubs and hotels, with a focus on harm minimisation requirements.

In NSW, the Independent Liquor and Gaming Authority (ILGA) and the Department of Creative Industries, Tourism, Hospitality and Sport (the Department) share responsibility for regulating gaming machines in clubs and hotels.

Findings

More than half of all gaming machines in Australia are located in NSW.

The Department and ILGA regulate gaming machines in a structured and consistent manner but are not supporting harm minimisation outcomes effectively.

The Department has a regulatory strategy that sets out its priorities clearly. It has communicated this to stakeholders. However, the strategy does not have a sufficient focus on the areas that are considered high-risk for gambling harm and does not set targets for reducing harm associated with gaming machines. Gaming machine losses and the social costs of gambling harm continue to be disproportionately concentrated in socio-economically disadvantaged communities.

ILGA and the Department have clear processes for assessing applications to operate gaming machines. However, ILGA does not proactively review licence conditions after they are granted.

Most venues that have the largest number of gaming machines have not had their licence conditions reviewed in recent years and are operating gaming machines with licence conditions that may not be consistent with contemporary approaches to harm minimisation.

A legislated forfeiture scheme that aims to reduce the number of gaming machines in NSW has existed since 2001. The number of gaming machines operating in NSW has decreased gradually, noting there has been an increase in the number of gaming machines in NSW since 2021–22.

Recommendations

The report made recommendations including:

- the Department should increase the focus of its regulatory strategy on improving harm minimisation outcomes and ensure the gaming machine forfeiture scheme is achieving its legislative objectives
- ILGA should commence periodic reviews of licence conditions for venues operating gaming machines and increase clarity to industry and other stakeholders about the reasons for its decisions.

Fast facts

\$8.4b

net profits for clubs and hotels from gaming machines in 2023–24

\$2.3b

tax revenue from gaming machines in NSW in 2023–24

\$4.9m

ILGA's budget in 2023–24

87,749

gaming machines operating in clubs and hotels in NSW at June 2024

1 in 5

venues with an exemption that allows gaming machine operation from 4am to 10am

55 years

time for NSW to reach parity with the national per capita average for gaming machines at the current rate of reduction

Tabled in NSW Parliament 12 June 2025

OUR VISION

Our insights inform and challenge
government to improve outcomes
for citizens.

OUR PURPOSE

To help Parliament hold
government accountable for its
use of public resources.

OUR VALUES

Pride in purpose
Curious and open-minded
Valuing people
Contagious integrity
Courage (even when it's uncomfortable)



Audit Office of New South Wales

Level 19, Darling Park Tower 2
201 Sussex Street
Sydney NSW 2000 Australia

t +61 2 9275 7100

mail@audit.nsw.gov.au

Office hours: 8.30 am–5.00 pm

audit.nsw.gov.au