

PARLIAMENT OF THE PROVINCE OF THE WESTERN CAPE

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ANNOUNCEMENTS, TABLINGS AND COMMITTEE REPORTS

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THURSDAY, 15 OCTOBER 2015

COMMITTEE REPORT

Report of the Standing Committee on Finance on its oversight visits to a racing and betting and limited payout machine establishment, dated 23 June 2015, as follows:

DELEGATION

Members of the Standing Committee on Finance

Joseph, D (DA) (Chairperson and leader of delegation)

Dyantyi, QR (ANC)

Mnqasela, M (DA)

Max, LH (DA)

Uys, P (ANC)

1. Introduction

Section 114(2)(b)(i) of the Constitution of the Republic of South Africa, 1996, mandates provincial legislatures to provide for mechanisms to maintain oversight over the exercise of Provincial Executive Authority in the province, including the implementation of legislation. To this end the Standing Committee on Finance undertook oversight visits to a racing and betting and limited payout machine (LPM) establishment to oversee the way in which the Provincial Treasury and the Western Cape Gambling and Racing Board (WCGRB) perform their respective responsibilities to ensure compliance with the Western Cape Gambling and Racing Act (Act 4 of 1996, as amended) and associated regulations.

There are two LPM route operators, namely Grand Gaming and Vukani Gaming. Each operator has 1 000 LPMs and jointly they have 381 operational sites across the province. Route operators enter into standard premises agreements with primary business operators that detail the duties and responsibilities of both parties. In the province there are 38 bookmakers who operate 194 bookmaker premises and one totalisator operator that operates 57 totalisator premises. A totalisator bet is when a person stakes money or anything of value on the outcome of an event or combination of events by means of a system in which the total amount staked, after deductions provided for by law or by agreement, is divided among the persons who made winning bets in proportion to the amount staked by each of them in respect of a winning bet.

2. Overview of the visit

On 12 May 2015 the Committee held a meeting at the Mitchells Plain subcouncil offices located in Lenteguur during which the WCGRB briefed the Committee on how the LPM and racing and betting industries operate. The briefing also covered measures instituted by the WCGRB to ensure compliance with industry regulations. Following deliberations by the Committee, Mr Dean Finder from the Western Cape Bookmakers' Association, addressed the Committee on how bookmakers manage and operate their businesses.

Following the meeting the Committee undertook oversight visits to racing and betting and LPM establishments in Mitchells Plain. Mr Finder accompanied the Committee on a visit to the Beacon Valley Betting World located in Charlie Street. Here the Committee was introduced to the layout of the establishment, the functioning of the betting terminals and how fixed-odds and totalisator bets are placed. A fixed-odds bet refers to a bet on one or more contingencies in which odds are agreed at the time the bet is placed.

The Committee then proceeded to the Premium Sports Bar located in Westridge, which is a LPM establishment. The business manager and site operator, Mr Goliath, introduced the Committee to the primary business, which is a sports bar. LPMs are intended to be a secondary and value-added component to a primary business. Mr Goliath informed the Committee that the relationship between him and the community had improved considerably since the business was first established.

3. Findings and observations

- 3.1 The Western Cape Gambling and Racing Act (Act 4 of 1996, as amended) prescribes that all licences be issued for a period of 12 months. The WCGRB reported that it agreed with the 12-month validity period of licences, that they had sufficient capacity to process the applications for renewals and that processing these applications did not pose an administrative burden.
- 3.2 Applications for the renewal of such licences are to be submitted three months before their expiration and late renewal applications are to be penalised.

- 3.3 Upon the first application for a licence, a full investigation is undertaken of both the premises on which the activity will take place and the financial good standing of the potential licence holder. A limited investigation is undertaken during the two years following the granting of the application.
- 3.4 Licence applications are advertised and the application process provides for interested and affected persons to lodge site-specific objections to applications. Public hearings are held in specific instances.
- 3.5 The WCGRB undertakes scheduled and unscheduled compliance assessments at gambling establishments. These assessments include the testing of compliance in respect of, among other, adherence to licence conditions and the accurate reporting of payouts. The WCGRB has recently started to undertake assessments as part of joint operations with the Liquor Authority, the South African Police Service (SAPS) and the Fire Department.
- 3.6 Where transgressions on the part of licence holders are reported, these transgressions are investigated by the WCGRB and allowance is made for licence holders to make representations. Instances of non-compliance could result in sanctions being imposed, the suspension of a licence or the revocation of a licence.
- 3.7 Income generated by the WCGRB in the form of taxes are transferred to the Provincial Revenue Fund from where it is allocated to provincial departments.
- 3.8 Both LMP and racing and betting activities can only take place at business that has been registered as a business at the Companies and Intellectual Property Registration Office (Cipro).
- 3.9 Route operators contribute to corporate social-responsibility initiatives in varied forms, one example being an LPM route operator that has a condition attached to its licence that states that 5% of its taxed profits are to be donated to charities selected by the route operator and reviewed by the WCGRB.
- 3.10 All racing and gambling establishments have to display adequate branding of the route operator as well as the licence certificates of both the route and site operator.
- 3.11 Representatives of the Western Cape Bookmakers' Association reported that the WCGRB is very active with regard to ensuring compliance with regulations.

3.12 Limited payout machines

- 3.12.1 When the WCGRB released the Request for Proposal (RFP) for LPM route operators in 2003, the WCGRB initially intended to approve three applications and allocate 1 000 machines to each. However, following objections from interested and affected parties, the Board decided to approve only two applications following a process of competitive bidding. As part of the applications, applicants had to indicate the extent to which they would provide activities in less advantaged areas.

- 3.12.2 LPMs accept a maximum bet of R5 per game and a maximum payout of R500. No progressive jackpots can be linked to an LPM.
- 3.12.3 In the 2014/15 financial year, gross gaming revenue from the LPM industry amounted to R632 million.
- 3.12.4 The Western Cape's specific return-to-player percentage for LPMs is 85% but in practice machines operate at approximately 90%.
- 3.12.5 LPMs are intended to be a secondary and value-added component to a primary business and, therefore, LMPs can only operate during the business hours of the primary business.
- 3.12.6 The licenced employee at each site is responsible for monitoring gambling activities (for example ensuring that machines are not tampered with) although the registered manager or owner of the establishment is responsible for ensuring compliance.
- 3.12.7 The gross gaming revenue generated by an LPM is split 60:40 between the route operator and the site operator.
- 3.12.8 Licences will only be issued for premises that are deemed to be desirable with reference to social, religious, educational, cultural, economic, environmental, transport and land-use aspects.
- 3.12.9 Sites are only allowed to have a maximum of five machines on the premises and the on-site licenced employee has a Smart Keypad (SKP) card that is required for the machine to operate. When payouts are made, the SKP card owner must sign the manual payment so that there is an audit trail.
- 3.12.10 All LPMs are linked to a central electronic monitoring system operated by Zonke Monitoring Systems that keeps record of transactions and can be accessed by the WCGRB remotely.
- 3.12.11 Among the regulations that businesses have to comply with are as follows:
 - 3.12.11.1. LPMs may not be visible from outside the establishment; and
 - 3.12.11.2. No person under the age of 18 may play on a machine and if the primary business allows access to minors, the LPMs are to be placed in a designated area that is not visible to such minors.
- 3.12.12 Before machines are allowed to be put into operation, the machines are issued with letters of certification by the Gaming Laboratory that also issues a test report. It is the responsibility of the WCGRB to ensure that the specific LPM complies with the Western Cape requirements. LPM's operate using a random number generator so no person can determine when the machine will pay out. The only thing that can be determined is the return-to-player percentage.

3.13 Racing and betting establishments

- 3.13.1 The taxes generated by the racing and betting industry amounted to R50,3 million in the 2013/14 financial year.
- 3.13.2 Upon approval of the licence, the applicant is required to pay a security amount of at least R75 000 for eventualities that may occur.
- 3.13.3 In order to accept online bets, an operator must create an online website with a betting platform. This requires operators to have software that has been tested and approved by the Gaming Laboratory.
- 3.14 Mr Dean Finder of the Western Cape Bookmakers' Association addressed the Committee and advised that there were no formal qualifications required for working as a bookmaker. Until March 2014 when the board introduced a Request for Proposal (RFP) process, there had been very few barriers to entry. During the application process, provision is made for the Western Cape Bookmakers' Association to comment on the suitability of potential applicants and submit their recommendation to the WCGRB. Bookmakers do not reinsure but they are allowed to offset liability among each other. Grand Gaming have 80 bookmaker establishments in the country of which 20 are located in the Western Cape.

3.15 Observations at Betting World in Beacon Valley

- 3.15.1 Until 2014 the route operator occupied the building as a tenant but has subsequently purchased the building.
- 3.15.2 The route operator has set aside R1,2 million for upgrading the premises which will include the addition of an air-conditioning system, seating, terminals and an undercover smoking area.
- 3.15.3 The establishment has experienced two break-ins recently.
- 3.15.4 The route operator dispatches area managers to sites to ensure that site operators meet compliance requirements.
- 3.15.5 The site operator has allowed a local business to operate a restaurant from the premises. The restaurant owner is not charged rental as the restaurant provides meals to the persons who frequent the racing and betting establishment.
- 3.15.6 The establishment has recently introduced a system that allows players to place bets by coupons they have completed themselves. This shortens the queues at terminals and also reduces the opportunity for human error on the part of the terminal operators.

3.15.7 Activities on the floor and at the stations of terminal operators are monitored by closed-circuit television (CCTV) cameras.

3.15.8 The establishment is located in an industrial area and secure parking should be arranged for similar visits.

3.16 Observations at the Premium Sports Bar in Westridge

3.16.1 The establishment prominently displayed its operating hours.

3.16.2 The licenced employee demonstrated to the Committee that his SKP card was matched to the LPMs in operation.

3.16.3 The business manager reported that the relationship with the community was initially not amicable but that this has improved.

3.16.4 There is no membership fee or cover charge for persons wanting to enter the establishment.

LIST OF PERSONS WHO WERE PRESENT AT THE MEETINGS:

Western Cape Gambling and Racing Board

Mr D Polovin, Vice-chairperson

Mr D Frederick, Board Member

Mr T Arendse, Board Member

Mr H Malila, Board Member

Ms M Basson, HOD: Licencing

Mr L Mbunge, HOD: Horse racing

Mr R Bennett, HOD: Compliance

City of Cape Town

Ms G Timm, Ward Councillor

Provincial Treasury

Ms M Korsten, Chief Director: Fiscal Policy

Ms C Horton, Deputy Director: Fiscal Policy

Members of the public

Mr D Finder, General Manager: Western Cape Bookmakers' Association (Present at meeting and visit to Betting World, Beacon Valley)

Mr R Daries, Area Manager: Grandslots (Present at Premium Sports Bar, Westridge)

Mr W Golliath, Manager: Premium Sports Bar (Present at Premium Sports Bar, Westridge)