

<b>Title:</b> Gambling Act 2005: Triennial Review of Stake and Prize Limits <b>IA No:</b> DCMS0054 <b>Lead department or agency:</b> Department for Culture, Media and Sport <b>Other departments or agencies:</b> N/A	Impact Assessment (IA)
	<b>Date:</b> 28/06/2011
	<b>Stage:</b> Consultation
	<b>Source of intervention:</b> Domestic
	<b>Type of measure:</b> Secondary legislation
	<b>Contact for enquiries:</b> Alistair.Boon@culture.gsi.gov.uk 02072116486
<b>Summary: Intervention and Options</b>	<b>RPC Opinion:</b> Awaiting Scrutiny

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, One-Out?	Measure qualifies as One-Out?
£853m	£853m	£0m	No	Zero Net Cost

**What is the problem under consideration? Why is government intervention necessary?**

The Government is committed to creating the conditions for growth by stimulating investment and ensuring the regulatory burden on business is the minimum needed to ensure adequate public protection. In response to concerns from the British gambling industry that some of its sectors are continuing to struggle in the current economic climate, the Government has agreed to establish a more coherent and systematic approach to reviewing the regulatory controls on the maximum stake and prize limits permitted for gaming machines covered by the Gambling Act 2005. The vehicle for this change is the reintroduction of a triennial review.

**What are the policy objectives and the intended effects?**

Implement an approach to stake and prize regulation that will:

1. Consider the relativities between different categories of gaming machine to ensure balanced competition across the gambling industry
2. Help to create the conditions to encourage the growth and development of the gaming machine market in order to support economic recovery and create jobs
3. To do so only to an extent consistent with player protection and minimisation of gambling related harm.

**What policy options have been considered, including any alternatives to regulation?**

The Government has considered four packages of options:

- Package 1 – Do nothing and retain current stake and prize limits. This option is rejected because it does not create the conditions for growth.
- Package 2 – Uplift of stake and prize limits to take account of inflation since 2007. This option is rejected because overall it does not create sufficient conditions for growth.
- Package 3 – Industry proposals for stake and prize limit obtained in a pre-consultation process. This option is rejected because it does not meet the objective of balanced competition within the market or offer sufficient assurances on public protection.
- Package 4 – The preferred option for each category of gaming machine. This is the preferred option because it creates strong conditions for growth whilst taking into account balanced competition and the need to minimise gambling related harm.

**Will the policy be reviewed?** It will be reviewed. **If applicable, set review date:** 01/2016

Does implementation go beyond minimum EU requirements?			Yes / No / N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	<b>Micro</b> Yes	<b>&lt; 20</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes	<b>Large</b> Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			<b>Traded:</b> N/A	<b>Non-traded:</b>	

***I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.***

Signed by the responsible Minister: \_\_\_\_\_ Date: \_\_\_\_\_

# Summary: Analysis & Evidence

Package 1

Description: Do nothing

## FULL ECONOMIC ASSESSMENT

Price Base Year 2011	PV Base Year 2013	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 0	High: 0	Best Estimate: 0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0	0	0
High	0	0	0
Best Estimate	0	0	0

### Description and scale of key monetised costs by 'main affected groups'

The "do nothing" option Package 1 represents no change in the status quo. It therefore has no costs associated with it, and serves as the baseline from which the costs of other option packages are assessed.

### Other key non-monetised costs by 'main affected groups'

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	0	0
High	0	0	0
Best Estimate	0	0	0

### Description and scale of key monetised benefits by 'main affected groups'

The "do nothing" option Package 1 represents no change in the status quo. It therefore has no benefits associated with it, and serves as the baseline from which the costs of other option packages are assessed.

### Other key non-monetised benefits by 'main affected groups'

Key assumptions/sensitivities/risks	Discount rate (%)	3.50%
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## BUSINESS ASSESSMENT (Package 2)

Direct impact on business (Equivalent Annual) £m:	In scope of OIOO?	Measure qualifies as
Costs: 0	No	Zero net cost
Benefits: 0		
Net: 0		

# Summary: Analysis & Evidence

Package 2

Description: Inflation uplift

## FULL ECONOMIC ASSESSMENT

Price Base Year 2011	PV Base Year 2013	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 428	High: 723	Best Estimate: 569

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	27	3	0	26
High	33		0	31
Best Estimate	30		0	29

### Description and scale of key monetised costs by 'main affected groups'

There are no direct costs associated with policy option; the proposed legislation is permissive rather than compulsory. It is, however, likely that the gambling industry will take advantage of more liberal market conditions. Investment will be needed to realise potential demand. This is recognised as an indirect cost that accrues to retail businesses. Estimate is based on industry and Gambling Commission data.

### Other key non-monetised costs by 'main affected groups'

The social impacts of increased gambling have been considered qualitatively, but have not been quantified or monetised. Increased consumption could potentially lead to increased levels of problem gambling, but an independent opinion from the Responsible Gambling Strategy Board states there is no clear consensus on causal pathways or magnitude of potential impact. It is therefore currently not methodologically possible to quantify or monetise this impact in a robust or meaningful way. Further work is to be undertaken by the Gambling Commission, and the Responsible Gambling Strategy Board.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	27	3	50	454
High	33		85	755
Best Estimate	30		67	597

### Description and scale of key monetised benefits by 'main affected groups'

There are no direct costs associated with policy option; the proposed legislation is permissive rather than compulsory. It is, however, likely that the gambling industry will take advantage of more liberal market conditions. This will lead to three indirect benefits. Retail businesses will realise increased revenues from additional consumer demand, assessed to be worth present value £569m in the central estimate. The supply chain will also benefit from increased revenues as investment levels rise, assessed to be worth present value £29m in the central estimate. Estimates are based on industry and Gambling Commission data.

### Other key non-monetised benefits by 'main affected groups'

No other benefits have been identified.

Key assumptions/sensitivities/risks

Discount rate (%)

3.50%

There are a number of weaknesses in the data that is available to construct the analysis; the most important issues are highlighted here with more detail provided in the evidence base. The mechanism for realising benefits is not clear and there is weak assurance around industry information. Industry statistics used in the calculations have limitations. The risk of increased problem gambling presents serious analytical difficulties and has not been quantified or monetised. The consultation offers an opportunity to improve the evidence base.

## BUSINESS ASSESSMENT (Package 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: 0	Benefits: 0	Net: 0	No	Zero net cost

# Summary: Analysis & Evidence

Package 3

Description: Industry proposals

## FULL ECONOMIC ASSESSMENT

Price Base Year 2011	PV Base Year 2013	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 865	High: 1,574	Best Estimate: 1,196

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	132	3	0	127
High	161		0	156
Best Estimate	147		0	141

### Description and scale of key monetised costs by 'main affected groups'

There are no direct costs associated with policy option; the proposed legislation is permissive rather than compulsory. It is, however, likely that the gambling industry will take advantage of more liberal market conditions. Investment will be needed to realise potential demand. This is recognised as an indirect cost that accrues to retail businesses. Estimate is based on industry and Gambling Commission data.

### Other key non-monetised costs by 'main affected groups'

The social impacts of increased gambling have been considered qualitatively, but have not been quantified or monetised. Increased consumption could potentially lead to increased levels of problem gambling, but an independent opinion from the Responsible Gambling Strategy Board states there is no clear consensus on causal pathways or magnitude of potential impact. It is therefore currently not methodologically possible to quantify or monetise this impact in a robust or meaningful way. Further work is to be undertaken by the Gambling Commission, and the Responsible Gambling Strategy Board.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	132	3	102	992
High	161		186	1,729
Best Estimate	147		142	1,338

### Description and scale of key monetised benefits by 'main affected groups'

There are no direct costs associated with policy option; the proposed legislation is permissive rather than compulsory. It is, however, likely that the gambling industry will take advantage of more liberal market conditions. This will lead to three indirect benefits. Retail businesses will realise increased revenues from additional consumer demand, assessed to be worth present value £1,196m in the central estimate. The supply chain will also benefit from increased revenues as investment levels rise, assessed to be worth present value £141m in the central estimate. Estimates are based on industry and Gambling Commission data.

### Other key non-monetised benefits by 'main affected groups'

No other benefits have been identified.

Key assumptions/sensitivities/risks

Discount rate (%)

3.50%

There are a number of weaknesses in the data that is available to construct the analysis; the most important issues are highlighted here with more detail provided in the evidence base. The mechanism for realising benefits is not clear and there is weak assurance around industry information. Industry statistics used in the calculations have limitations. The risk of increased problem gambling presents serious analytical difficulties and has not been quantified or monetised. The consultation offers an opportunity to improve the evidence base.

## BUSINESS ASSESSMENT (Package 3)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: 0.0	Benefits: 0.0	Net: 0.0	No	Zero net cost

# Summary: Analysis & Evidence

Package 4a

Description: Preferred option (B1 prize limit of £7,000)

## FULL ECONOMIC ASSESSMENT

Price Base Year 2011	PV Base Year 2013	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 600	High: 1,094	Best Estimate: 831

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	47	3	0	45
High	57		0	55
Best Estimate	52		0	50

### Description and scale of key monetised costs by 'main affected groups'

There are no direct costs associated with policy option; the proposed legislation is permissive rather than compulsory. It is, however, likely that the gambling industry will take advantage of more liberal market conditions. Investment will be needed to realise potential demand. This is recognised as an indirect cost that accrues to retail businesses. Estimate is based on industry and Gambling Commission data.

### Other key non-monetised costs by 'main affected groups'

The social impacts of increased gambling have been considered qualitatively, but have not been quantified or monetised. Increased consumption could potentially lead to increased levels of problem gambling, but an independent opinion from the Responsible Gambling Strategy Board states there is no clear consensus on causal pathways or magnitude of potential impact. It is therefore currently not methodologically possible to quantify or monetise this impact in a robust or meaningful way. Further work is to be undertaken by the Gambling Commission, and the Responsible Gambling Strategy Board.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	47	3	71	645
High	57		129	1,149
Best Estimate	52		98	881

### Description and scale of key monetised benefits by 'main affected groups'

There are no direct costs associated with policy option; the proposed legislation is permissive rather than compulsory. It is, however, likely that the gambling industry will take advantage of more liberal market conditions. This will lead to three indirect benefits. Retail businesses will realise increased revenues from additional consumer demand, assessed to be worth present value £831m in the central estimate. The supply chain will also benefit from increased revenues as investment levels rise, assessed to be worth present value £50m in the central estimate. Estimates are based on industry and Gambling Commission data.

### Other key non-monetised benefits by 'main affected groups'

No other benefits have been identified.

Key assumptions/sensitivities/risks

Discount rate (%)

3.50%

There are a number of weaknesses in the data that is available to construct the analysis; the most important issues are highlighted here with more detail provided in the evidence base. The mechanism for realising benefits is not clear and there is weak assurance around industry information. Industry statistics used in the calculations have limitations. The risk of increased problem gambling presents serious analytical difficulties and has not been quantified or monetised. The consultation offers an opportunity to improve the evidence base.

## BUSINESS ASSESSMENT (Package 4a)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: 0.0	Benefits: 0.0	Net: 0.0	No	Zero net cost

# Summary: Analysis & Evidence

Package 4b

Description: Preferred option (B1 prize limit of £10,000)

## FULL ECONOMIC ASSESSMENT

Price Base Year 2011	PV Base Year 2013	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 618	High: 1,120	Best Estimate: 853

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	52	3	0	50
High	63		0	61
Best Estimate	58		0	56

### Description and scale of key monetised costs by 'main affected groups'

There are no direct costs associated with policy option; the proposed legislation is permissive rather than compulsory. It is, however, likely that the gambling industry will take advantage of more liberal market conditions. Investment will be needed to realise potential demand. This is recognised as an indirect cost that accrues to retail businesses. Estimate is based on industry and Gambling Commission data.

### Other key non-monetised costs by 'main affected groups'

The social impacts of increased gambling have been considered qualitatively, but have not been quantified or monetised. Increased consumption could potentially lead to increased levels of problem gambling, but an independent opinion from the Responsible Gambling Strategy Board states there is no clear consensus on causal pathways or magnitude of potential impact. It is therefore currently not methodologically possible to quantify or monetise this impact in a robust or meaningful way. Further work is to be undertaken by the Gambling Commission, and the Responsible Gambling Strategy Board.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	52	3	73	668
High	63		133	1,181
Best Estimate	58		101	908

### Description and scale of key monetised benefits by 'main affected groups'

There are no direct costs associated with policy option; the proposed legislation is permissive rather than compulsory. It is, however, likely that the gambling industry will take advantage of more liberal market conditions. This will lead to three indirect benefits. Retail businesses will realise increased revenues from additional consumer demand, assessed to be worth present value £853m in the central estimate. The supply chain will also benefit from increased revenues as investment levels rise, assessed to be worth present value £56m in the central estimate. Estimates are based on industry and Gambling Commission data.

### Other key non-monetised benefits by 'main affected groups'

No other benefits have been identified.

Key assumptions/sensitivities/risks

Discount rate (%)

3.50%

There are a number of weaknesses in the data that is available to construct the analysis; the most important issues are highlighted here with more detail provided in the evidence base. The mechanism for realising benefits is not clear and there is weak assurance around industry information. Industry statistics used in the calculations have limitations. The risk of increased problem gambling presents serious analytical difficulties and has not been quantified or monetised. The consultation offers an opportunity to improve the evidence base.

## BUSINESS ASSESSMENT (Package 4b)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: 0.0	Benefits: 0.0	Net: 0.0		

# Summary: Analysis & Evidence

Package 4c

Description: Preferred option (B1 prize limit of £15,000)

## FULL ECONOMIC ASSESSMENT

Price Base Year 2011	PV Base Year 2013	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 647	High: 1,165	Best Estimate: 890

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	60	3	0	71
High	73		0	58
Best Estimate	67		0	64

### Description and scale of key monetised costs by 'main affected groups'

There are no direct costs associated with policy option; the proposed legislation is permissive rather than compulsory. It is, however, likely that the gambling industry will take advantage of more liberal market conditions. Investment will be needed to realise potential demand. This is recognised as an indirect cost that accrues to retail businesses. Estimate is based on industry and Gambling Commission data.

### Other key non-monetised costs by 'main affected groups'

The social impacts of increased gambling have been considered qualitatively, but have not been quantified or monetised. Increased consumption could potentially lead to increased levels of problem gambling, but an independent opinion from the Responsible Gambling Strategy Board states there is no clear consensus on causal pathways or magnitude of potential impact. It is therefore currently not methodologically possible to quantify or monetise this impact in a robust or meaningful way. Further work is to be undertaken by the Gambling Commission, and the Responsible Gambling Strategy Board.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	60	3	77	705
High	73		138	1,236
Best Estimate	67		105	954

### Description and scale of key monetised benefits by 'main affected groups'

There are no direct costs associated with policy option; the proposed legislation is permissive rather than compulsory. It is, however, likely that the gambling industry will take advantage of more liberal market conditions. This will lead to three indirect benefits. Retail businesses will realise increased revenues from additional consumer demand, assessed to be worth present value £890m in the central estimate. The supply chain will also benefit from increased revenues as investment levels rise, assessed to be worth present value £64m in the central estimate. Estimates are based on industry and Gambling Commission data.

### Other key non-monetised benefits by 'main affected groups'

No other benefits have been identified.

Key assumptions/sensitivities/risks

Discount rate (%)

3.50%

There are a number of weaknesses in the data that is available to construct the analysis; the most important issues are highlighted here with more detail provided in the evidence base. The mechanism for realising benefits is not clear and there is weak assurance around industry information. Industry statistics used in the calculations have limitations. The risk of increased problem gambling presents serious analytical difficulties and has not been quantified or monetised. The consultation offers an opportunity to improve the evidence base.

## BUSINESS ASSESSMENT (Package 4c)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: 0.0	Benefits: 0.0	Net: 0.0	No	Zero net cost

# Evidence Base

## Introduction

1. According to the British Gambling Prevalence Survey 2010 published by the Gambling Commission (2010) 73% (35.5 million) of the adult population in Great Britain participate in some sort of gambling activity. The gambling industry is a significant contributor to the UK economy: the ONS estimates that in 2009 it was directly worth £4.9bn in GVA terms and directly employs over 111,000 people (Gambling Commission Industry Statistics 2008 to 2011).
2. The industry is broken down into different sectors, each offering a different mix of gambling products across a range of premises. These sectors can be broken down into the following categories:
  - Betting (including on-course e.g. racing tracks and off-course e.g. betting shops);
  - Bingo;
  - Casinos;
  - Arcades;
  - Gaming machine manufacture and supply;
  - Lotteries (but excluding the National Lottery);
  - Remote gambling.
3. Gambling is also permitted in premises holding an on-premises alcohol licence (most commonly pubs) and members clubs (e.g. working men's clubs, political clubs, and commercial clubs).
4. All commercial gambling in Great Britain (with the exception of spread betting and the National Lottery) is regulated through the Gambling Act 2005 (the Gambling Act), including gaming machines and all types of venues licensed to offer gaming machines. Under the Act these machines are defined by categories depending on the maximum stake and prize available:

*Table 1: Machine categories and existing stake and prize limits*

Machine category	Maximum stake	Maximum prize
A	Unlimited	Unlimited
B1	£2	£4,000
B2	£100	£500
B3	£2	£500
B3A	£1	£500
B4	£1	£250
C	£1	£70
D non-money prize (other than crane grab machine)	30p	£8
D non-money prize (crane grab machine)	£1	£50
D money prize	10p	£5
D combined money and non-money prize (other than coin pusher or penny falls machines)	10p	£8 (of which no more than £5 may be a money prize)
D combined money and non-money prize (coin pusher or penny falls machine)	10p	£15 (of which no more than £8 may be a money prize)

## Gaming Machine Market in Great Britain

5. The main source of data on the British gaming machine market comes from the Gambling Commission's Industry Statistics. As at 31 March 2011 there were 134,840 gaming machines available for use in premises licensed by the Gambling Commission, a drop of 8% from the previous year.



Table 2: Gaming machine numbers across all gambling sectors

Machine category	Average number of machines		
	Apr 2008 - Mar 2009	Apr 2009 - Mar 2010	Apr 2010 - Mar 2011
B1	2,477	2,441	2,477
B2	31,484	31,968	32,007
B3	12,702	12,706	11,556
B4	612	478	430
C	60,580	52,399	45,476
D	49,215	46,722	42,894
<b>Grand total</b>	<b>157,070</b>	<b>146,714</b>	<b>134,840</b>

Source: Gambling Commission Industry Statistics 2008 – 2011

6. The Gambling Commission does not license pubs, clubs, working men’s clubs or family entertainment centres operating under a local authority permit, so they do not collect data for those businesses. The table above does not, therefore, represent activity in those sectors. There’s no accurate data held by these sectors covering the number of machines available for use, but some estimates are available from the British Amusement Catering Trade Association (BACTA) and the British Beer and Pub Association (BBPA):

Table 3: Estimate of number of machines in venues not licenced by the Gambling Commission

Premises	Estimated number of machines
Pubs	55,000
Unlicensed FECs	41,000
Clubs	27,000
Travelling fairs	2,000
<b>Total</b>	<b>125,000</b>

7. The split is estimated at: 64,000 category C, 43,000 category D, 3,000 category B3A and 15,000 category B4.
8. Gaming machines are an important source of revenue for the betting, bingo, casino, arcade, pub and club sectors. Revenue across the industry is measured as gross gaming yield (GGY); that is the amount retained by operators after the payment of winnings but before the deduction of the costs of the operation. The Gambling Commission’s industry statistics give GGY for gambling industry sectors, but equivalent data is not available for pubs and clubs.

Table 4: Gross Gambling Yield (British Industry Total)

Sector	2008/09 £m		2009/10 £m		2010/11 £m	
	GGY (total)	GGY (gaming machines)	GGY (total)	GGY (gaming machines)	GGY (total)	GGY (gaming machines)
Arcades	480.35	480.35 (100%)	456.20	456.20 (100%)	387.01	387.01 (100%)
Betting	2,902.61	1,070.36 (37%)	2,807.84	1,181.94 (42%)	2,944.83	1,301.66 (44%)
Bingo	703.12	231.54 (33%)	634.16	209.43 (33%)	583.12	197.46 (34%)
Casinos	793.22	114.60 (14%)	758.02	117.35 (15%)	803.15	118.61 (15%)

## Analysis of the Gaming Machine Market

9. The gambling industry argues that since the implementation of the Gambling Act in 2007, gambling venues across its different sectors have suffered from economic decline which it believes is the result of a combination of factors: the ban on smoking in public places introduced in 2007; the general economic downturn and the increased regulatory costs of the Gambling Act. It also argues that this decline has contributed to the economic decline being experienced by the gaming machine manufacture and supply sectors.
10. Data from the Gambling Commission's industry statistics (compiled from regulatory returns submitted by operators to the Commission) suggests a more nuanced picture with some areas of the industry are performing better than others. At the same time it also suggests some areas are facing serious economic challenges (note: all figures below are source from the Gambling Commission's Industry Statistics 2008 – 2011 unless stated otherwise):

### Arcades

11. The available data suggests a market that has been in decline for a number of years:

*Table 5: Adult Gaming Centre market performance*

	<b>Apr 2008 - Mar 2009</b>	<b>Apr 2009 - Mar 2010</b>	<b>Apr 2010 - Mar 2011</b>
Average number of employees	12,693	13,032	11,198
Gross Gambling Yield Total	£397.87m	£377.63m	£313.28m
Average number of gaming machines and terminals (total)	72,293	65,112	55,649

*Table 6: Family Entertainment Centre market performance*

	<b>Apr 2008 - Mar 2009</b>	<b>Apr 2009 - Mar 2010</b>	<b>Apr 2010 - Mar 2011</b>
Average number of employees	3,806	3,222	2,638
Gross Gambling Yield Total	£82.48m	£78.57m	£73.72m
Average number of gaming machines and terminals (total)	31,012	28,777	26,300

12. Data provided by BACTA (the main trade body representing operators, manufacturers and suppliers in the arcade sector) supports this. According to their figures:
  - The arcade sector as a whole has seen an average 21% reduction in revenues since 2007;
  - More than 290 arcades have closed since 2009/10 with a loss of more than 900 jobs.

### Betting

13. Available data suggests this sector has recently experienced some small growth:

*Table 7: Betting market performance*

	<b>Apr 2008 - Mar 2009</b>	<b>Apr 2009 - Mar 2010</b>	<b>Apr 2010 - Mar 2011</b>
Average number of employees	60,247	55,496	54,311
Gross Gambling Yield Total (gaming machines only)	£2,902.61m (£1,070.36m)	£2,807.84m (£1,181.94m)	£2,944.83m (£1,201.66m)
Average number of gaming machines and terminals (total)	32,022	32,353	32,340

14. The main trade body in this sector, the Association of British Bookmakers (ABB) acknowledge the importance of gaming machines to the economic viability of betting shops, which across the sector employ over 11,000 people. According to them, the percentage contribution of machine income to average betting shop profits was 39.9% in 2008 and rose to 49.4% in 2011.
15. This increase appears to have compensated for a decline in revenues elsewhere. Gambling Commission figures show that the turnover from off-course betting fell by 4% from 2009/10 to 2010/11 and by 10% since 2008/09, while GGY increased by 1% from 2009/10 to 2010/11 but has fallen by 11% overall since 2008/09.

### Bingo

16. Available data suggests this sector has faced some difficult trading conditions in recent years which have sent it into decline:

*Table 8: Bingo market performance*

	<b>Apr 2008 - Mar 2009</b>	<b>Apr 2009 - Mar 2010</b>	<b>Apr 2010 - Mar 2011</b>
Average number of employees	15,917	15,443	14,952
Gross Gambling Yield total (gaming machines only)	£703.12m (£231.54m)	£634.16m (£209.43m)	£583.12m (£197.46m)
Average number of gaming machines and terminals (total)	19,212	17,996	18,043

17. This general pattern is confirmed by the Bingo Association. They point out that although the number of bingo premises licences has increased from 657 in 2006 to 695 in 2011, the number of actual functioning bingo club premises has declined to 464 in that period. Data from them shows that:

- Since 2005 137 bingo clubs closed;
- Between 2005 and 2010 net revenues declined by 27% and total industry profits dropped by 51% over the same period;
- Machine revenue dropped by 19% from 2005 to 2010;
- Between 2005 and 2010 there was a loss of over 4,000 jobs.

### Casinos

18. On the face of it the casino sector appears to have remained relatively stable since 2008/09:

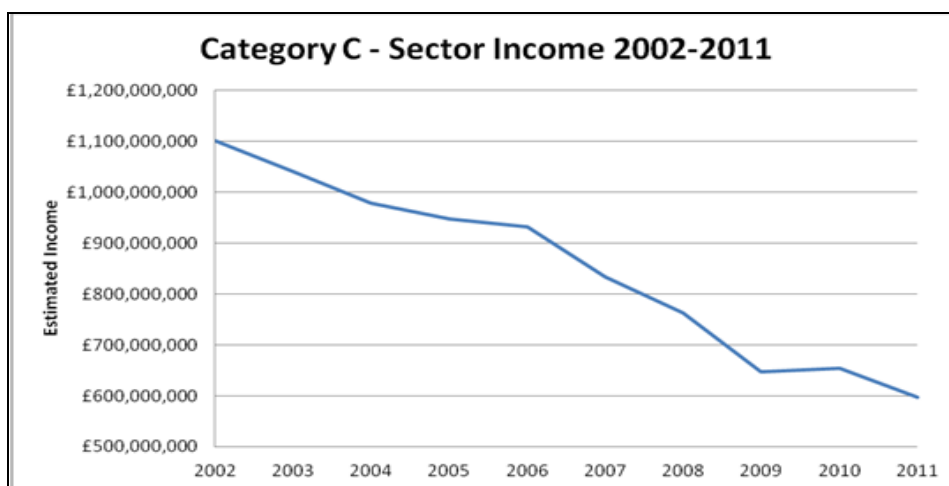
*Table 9: Casino market performance*

	<b>Apr 2008 - Mar 2009</b>	<b>Apr 2009 - Mar 2010</b>	<b>Apr 2010 - Mar 2011</b>
Average number of employees	13,321	13,619	13,598
Gross Gambling Yield total (gaming machines only)	£793.22m (£114.60m)	£758.02m (£117.35m)	£803.15m (£118.61m)
Average number of gaming machines and terminals (total)	2,527	2,478	2,510

19. This stability however has not translated into growth. The National Casino Industry Forum (NCIF), the largest trade body in the sector argue that the regulatory changes introduced through the Gambling Act have limited the capacity of casinos to innovate their product and absorb cost increases. They argue that the need to control costs in the face of the current economic climate and restrictions placed on their industry by the Gambling Act has seen capital investment decline sharply from 2007, with capital expenditure at the end of 2009 standing at less than half the level it was in 2004. In addition, the number of people employed by the industry has fallen by 10% over the same period.

### Pubs

20. According to data supplied by the BBPA, income from gaming machines across the sector has declined dramatically since 2002:



Source: BBPA

21. This decline to some extent reflects the steady decline in pub numbers over the same period:

*Table 10: change in number of public houses*

	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Total number of pubs in the UK</b>	60,100	59,400	59,000	58,600	58,200	56,791	54,818	53,466	52,000
<b>Number lost per week</b>	12	13	8	8	8	27	38	26	28

Source: BBPA

### **Members Clubs and Commercial Clubs**

22. No data is available on this sector at present. The Government will try and resolve this through the public consultation.

### **Manufacturing and supply**

23. The challenges faced by individual sectors have had a marked effect on gaming machine manufacturing and supply businesses. According to the Gambling Commission the total number of machines in the regulated industry has reduced by 10% between 2009/10 to 2010/11: the AGC sector counts for a significant proportion of this, with the number of machines falling by 17% in that period. Machine numbers in FECs and bingo premises have declined over same period while in the casino sector numbers have remained flat.

*Table 11: Gaming machine and software manufacturer employees*

	Apr 2008 - Mar 2009	Apr 2009 - Mar 2010	Apr 2010 - Mar 2011
Average number of employees	1,662	2,005	1,800

*Table 12: Gaming machine supplier employees*

	Apr 2008 - Mar 2009	Apr 2009 - Mar 2010	Apr 2010 - Mar 2011
Average number of employees	8,205	6,673	6,159

## **Rationale for Intervention**

### *Context*

24. Analysis suggests that the likely trend across the gambling industry is for capital expenditure on gaming machine to mirror overall sector performance which will in turn influence the annual sales value for any given category of machine. Based on current figures, it appears that if this trend continues the sales value for all categories of gaming machine, other than B2, is likely to continue on a negative path, which will in turn reduce investment by the manufacturers in product and the cycle will continue:

- Category B1: The injection of new machines into the market is low, but this is as expected due to the relatively small market size;
- Category B2: Despite the relative success in the betting sector, the injection of new B2 machines into the market is low. This is due to such machines being terminal based products, where content would be updated through software downloads but physical units would normally only be replaced every 4 to 5 years.
- Category B3: These are one of the main sources of volume sales for manufacturers; sales have declined, mirroring the decline being seen in the arcade and bingo sectors;

- Category B3A/B4: These markets are too small to make any impact on overall trends across the various gambling sectors;
  - Category C: Another main source of volume sales for manufacturers; it is thought that the sales of new machines is likely to have increased in 2009/10 as a result of increases to the stake and prize limits for category C machines implemented in June 2009. Sales are still below their 2008/09 levels however;
  - Category D: This market is too small to make any impact on overall trends across the various gambling sectors;
25. It should also be noted that the increasing use of downloadable server and/or terminal based technology appears to be gaining in popularity with operators and in particular the betting and bingo sectors. This is likely to have significant impact on new physical machine sales which are seeing a downward trend whereas the volume of game software content is increasing. If this trend continues then it is likely to result in further contraction of the traditional manufacturing sector but would see increase in content providers.

### *Objectives*

26. It is a priority for Government to create the conditions for growth in leisure institutions, including the gambling industry, by stripping away unnecessary red tape and stimulating private sector investment. The measures discussed here are therefore designed to allow the gambling and related industries to thrive, while at the same time ensuring that regulation is proportionate and delivers public protection.
27. Since 2007 interventions by Government to amend gaming machine stake and prize limits have been targeted towards certain categories of gaming machine with a view to helping individual sectors:
- In 2009 the stake and prize limits for category C gaming machines were increased from 50p/£35 to £1/£70 in order to provide some economic assistance to the arcade and pub sectors. At the same time the stake and prize limits for crane grab machines and coin pusher machines were increased to £1/£50 and 10p/£15 respectively in order to boost revenues in seaside arcades, which were struggling at the time.
  - In July 2011 the Government increased the maximum stake limit for category B3 gaming machines from £1 to £2 in order to provide economic assistance to the AGC and bingo sectors and provide a boost to gaming machine manufacturers and suppliers in response to significant numbers of premises closing and jobs lost.
28. This approach provided some limited relief to the sectors in question, but it was piecemeal across different gaming machine categories. As a result the industry argue there are now tensions across the regulatory framework e.g. the casino sector questions whether it is right that gaming machines in casinos should be limited to the same maximum stake level as those in arcades.
29. Since 2007 those sectors of the gambling industry reliant on revenue from gaming machines have argued that the Government should reintroduce the system of triennial reviews for stake and prize limits that was put in place by the Government and the then Gaming Board for Great Britain prior to the implementation of the Gambling Act.
30. This was a regular and systematic review of stake and prize limits for all types of regulated gaming machine based on a three year planning cycle. The industry argue this system allowed businesses to respond to economic changes more pro-actively and was more effective in delivering benefits as it allowed a full calibration between different machine types and allowed both operators and manufacturers to better plan capital investment and respond to consumer demand. They contend that a piecemeal approach to stake and prize changes results in businesses have been unable to make the types of investments that are required to provide long term growth.
31. The Government recognises that some sectors of the gambling industry are continuing to struggle in the current economic climate, in particular arcades and bingo clubs. It also recognises that there are some sectors where growth has either stalled or stagnated. These trends have in turn created difficult trading conditions elsewhere in the industry, most notably in the manufacturing and supply sector.
32. At the same time it understands that the gambling industry as a whole, and gaming machines in particular, is a regulated market. Through the regulatory framework put in place by the Gambling Act the Government has influence over the product mix, quantity of product available and product pricing offered by gambling businesses. With this in mind, the Government is conscious that

introduces changes into this regulated market, for example increasing or decreasing stake and prize limits for certain gaming machines, could affect the balance between individual sectors of the industry.

33. In response to the industry's arguments in relation to gaming machine regulation, on 13 October 2011 John Penrose, the Minister for Tourism, announced that the Government would establish a more coherent and systematic approach to reviewing stake and prize limits on gaming machines through the reintroduction of a triennial review system.

## Policy objectives

34. Through the reintroduction of a triennial review system the Government aims to implement an approach to stake and prize regulation that will:
- Consider the relativities between different categories of gaming machine and ensure competition across the gambling industry remains balanced within the context of a regulated market;
  - Encourage the growth and development of the gaming machine market in order to support economic recovery and create jobs;
  - To do so only to the extent consistent with player protection and gambling related harm minimisation.

## Options

35. Following submissions from the industry the Government has considered four packages of measures:
- Package 1: Do nothing i.e. retention of the status quo;
  - Package 2: An uplift to stake and prize limits to cover inflation from 2007
  - Package 3: Proposals by the gambling industry;
  - Package 4: Government's preferred options

### Package 1: Do nothing

#### *Category B1 (markets affected: casinos; manufacture and supply)*

36. Stake and prize limits for B1 machines were last increased in 2006 from 50p/£2,000 to the current level. Data from the Gambling Commission suggests the casino sector has seen a relative period of stability since 2008/09, with the numbers of premises, employees and machines offered to the public remaining largely settled. Revenue from B1 machines (measured as gross gaming yield) has increased over this period. The Government has not seen any evidence to suggest that this trend wouldn't continue if stake and prize levels remained at current levels for the next three years. In addition the risk to the Gambling Act's licensing objectives particularly in relation to problem gambling would not be increased.
37. This stability has not necessarily translated into growth across the sector. There are indications that capital investment from operators has declined in response to economic conditions. Without some sort of stimulus it is unlikely that significant growth will occur, although it is equally difficult to say if the situation might deteriorate.
38. Through the provisions of the Gambling Act the casino sector is a heavily regulated market. There are a number of issues that have caused uncertainty in the market, particularly around the establishment of new types of casino premises sanctioned by the Gambling Act. The Government accepts the industry's argument to some extent that any such stimulus for growth in the short term will have to be centrally driven in order to address issues around regulatory uncertainty. Without such stimulus, there is a risk that that casino market might stagnate, one consequence of which might be that customers' perception of the value of the gaming machine could decline without innovation in the products offered, thus affecting revenues.

#### *Category B2 (markets affected: betting shops, manufacture and supply)*

39. Stake and prize limits for B2 machines have not changed since the Gambling Act came into force in 2007. Revenues from these machines have increased by 22% from 2008/09 across the betting sector.

40. The Government has not seen any evidence to suggest the present trend won't continue. It does note from the Gambling Commission's industry statistics that the injection of new machines into the market is low, but is aware that most operate as terminal based products where content is updated through software downloads. The market does appear to be adapting to accommodate this business model.

*Category B3 (markets affected: arcades, betting, bingo, manufacture and supply)*

41. The Government increased the maximum stake limit for B3 machines in July 2011 from £1 to £2. In addition the maximum number of B3s permitted in AGCs and bingo premises were recalibrated to 20% of the total number of gaming machines made available for use within each venue. The changes were made based on the following rationale:
- The Government accepted the economic situation facing these sectors was sufficiently grave to justify such changes;
  - The changes would provide some level of economic assistance to the AGC and bingo sectors and provide a boost to gaming machine manufacturers and suppliers in response to significant numbers of premises closing and jobs lost;
  - On balance the risks posed to the licensing objectives of the Gambling Act were minimal as the regulatory framework in place was robust enough to mitigate them;
  - It was noted that the availability of comparable stake and prize gaming machines under previous regulatory regime, plus their widespread availability and popularity, did not appear to have any significant impact on the prevalence of problem gambling pre-2007.
42. The Government still accepts the rationale put forward by the AGC and bingo sectors. It estimated the changes would boost revenues for businesses in those sectors by some £8.6 million per annum.

*Category B3A/B4 (markets affected: clubs, manufacture and supply)*

43. The maximum stake and prize limits for these machines have remained unchanged since their introduction in 2007. However, it is difficult for the Government to assess the viability of these options packages or the impact they might have on the sector as no data has been supplied to support the proposals.

*Category C (markets affected: arcades, bingo, pubs, manufacture and supply)*

44. The stake and prize limits for category C machines were increased from 50p/£35 to £1/£70 in 2009. These changes were part of a package of measures designed to provide some level of economic assistance for seaside arcades and pubs, which were struggling under difficult trading conditions stemming from the economic downturn.
45. The fact that income across the arcade and pub sectors has continued to decline, coupled with a decline in the manufacture of category C machines, suggest these measures were not enough to halt this downward trend. While it is not certain from available data whether this trend is likely to continue, there does appear to be evidence enough to justify some concern about the performance of category C games across the arcade, pub and bingo sectors.

*Category D (markets affected: arcades; manufacture and supply)*

46. The stake and prize limits for category D gaming machines were last increased in 2009 as part of a package of measures brought forward to assist seaside arcades. The most significant change was the creation of a new sub-category for crane grab machines with a £1/£50 stake/prize ratio. Such machines previously operated at 30p/£8 ratio: the change was intended to enable seaside arcades to offer higher value and thus more attractive prizes in order to try and halt a decline in sales. The increase was felt to present only a minimal risk to the licensing objectives given the nature of the gaming involved, which is viewed more as amusement rather than as any sort of gambling context.
47. Despite these changes, according to the Gambling Commission's data revenue has continued to decline across the arcade sector, with associated drops in employees and machine numbers, presumably as premises close. The industry has not been able to present any further data to examine these trends in more detail which has unfortunately made it difficult to assess how likely it is that this trend might continue.

**Package 2: An uplift to stake and prize limits to cover inflation from 2007**

48. The Government considered what benefits might be passed onto the gambling industry by adjusting stake and prize levels to take into account increases in inflation. This approach was designed to test a general argument put forward by the industry that the stake and prize limits had declined in relative terms, thus forcing businesses to absorb increasing overhead costs that couldn't otherwise be passed onto customers.
49. The inflation has been calculated using deflators published by HM Treasury and is compounded. It was decided to track inflation back to 2007 when the Gambling Act came into force. This presented a suitable baseline as it reflected the categories of machine as decided upon by Parliament at the time of the Gambling Bill. In many cases these represented a fundamental shift away from the definition and categorisation of gaming machines under the old regulatory regime. To use a baseline prior to 2007 would have meant mapping increases over different categorisations which would not have produced a realistic result. More recent baselines have been used for categories B3, C and some D, reflecting changes to stake and prize limits and creation of new categories.
50. It was also decided to extend the modelling of an inflationary uplift to 2016 to take into account the triennial review cycle that has been introduced. It was felt to be important to ensure the value of the recalculated stake and prize limits took into account the period to the next scheduled review in 2016.

Table 13: Package 2 proposals across machine categories

Category	Current max stake	Current max prize	Max stake: Based on inflation uplift (2007 - 2016) (actual)	Max prize: Based on inflation uplift (2007 - 2016) (actual)
B1	£2	£4,000	£2.44	£4,872.17
B2	£100	£500	£121.80	£609.02
B3	£2	£500	£2.21	£551.91
B3A	£1	£500	£1.22	£609.02
B4	£1	£250	£1.22	£304.51
C	£1	£70	£1.22	£81.33
D non-money prize (other than crane grab)	30p	£8	37p	£9.74
D non-money prize (crane grab)	£1	£50	£1.16	£58.09
D money prize	10p	£5	12p	£6.09
D combined money & non-money prize (coin pusher/penny falls)	10p	£15 (of which no more than £8 may be a money prize)	12p	£17.43
D combined money & non-money prize (other than coin pusher or penny falls)	10p	£8 (of which no more than £5 may be a money prize)	11p	£9.74

#### Category B1

52. Adjusting stake and prize limits to take into account the effects of inflation since 2007 show that current limits still compare favourably. This would offer little benefit to operators or manufactures/suppliers. While a £2/£5,000 stake to prize ratio might offer some initial attraction to players it is unlikely to encourage the development of new gaming machine products.

#### Category B2

53. An increase to stake and prize limits based on inflation increases since 2007 would be unlikely to negatively affect current growth in B2 revenues. There is a shortage of data however that makes it difficult to assess what the impact of such a change on problem gambling might be and what effect it might have on the supply chain.

#### Category B3

54. While the current maximum stake limit remains roughly in line with inflation, the maximum prize limit does appear to have fallen slightly behind. It's unlikely that any increase along these lines would affect the viability of the B3 product in revenue terms.



55. It is unclear from discussions with the industry what the impact of such a change might be elsewhere in the supply chain e.g. would a £2/£600 stake/prize ratio be workable in terms of game design? There is also not enough data available to assess what affect this might have on risks to problem gambling.

#### Category B3A/B4

56. It is difficult for the Government to assess the viability of these options packages or the impact they might have on the sector as no data has been supplied to support the proposals.

#### Category C

57. Adjusting the maximum stake and prize limits to take into account inflation since 2007 suggests that the current maximum stake limit of £1 is still viable. However, increasing the maximum prize limit to take into account inflation would offer no significant change to the stake/prize ratio and would be unlikely to offer any real benefit to operators or manufacturers. Discussions with the industry and the Gambling Commission suggest this would not be enough to see investment in the design, development and testing of new games and products.

#### Category D

58. Current stake and prize limits appear to remain roughly in line with inflation but as the industry has not been able to present any further data in addition to what is available from the Gambling Commission the Government is unable to assess how likely it is that any current trends might continue.

### Package 3: Proposals by the gambling industry;

59. The Minister for Tourism, John Penrose, wrote to gambling industry and other stakeholders inviting them to submit proposals for changes to the stake and prize structure. Responses were received from the following trade associations:

- Association of British Bookmakers (representing the betting sector);
- British Amusement Catering Trade Association (representing the arcade and gaming machine manufacturer and supply sector; also submitting proposals on behalf of the club sector);
- Bingo Association (bingo);
- British Beer and Pub Association (pub sector);
- National Casino Industry Forum (casinos)

60. These bodies submitted a joint response that covered all categories of gaming machine.

Table 14: Package 3 proposals across machine category

Category	Current max stake	Current max prize	Industry proposed max stake	Industry proposed max prize
<b>B1</b>	£2	£4,000	£5	£10,000
<b>B2</b>	£100	£500	£100	£500
<b>B3</b>	£2	£500	£2	£1,000
<b>B3A</b>	£1	£500	£2	£500
<b>B4</b>	£1	£250	£2	£400
<b>C</b>	£1	£70	£1	£100
<b>D non-money prize (other than crane grab)</b>	30p	£8	30p	£8
<b>D non-money prize (crane grab)</b>	£1	£50	£2	£100
<b>D money prize</b>	10p	£5	20p	£10
<b>D combined money &amp; non-money prize (coin pusher/penny falls)</b>	10p	£15 (of which no more than £8 may be a money prize)	20p	£20 (of which no more than £10 may be a money prize)
<b>D combined money &amp; non-money prize (other than coin pusher or penny falls)</b>	10p	£8 (of which no more than £5 may be a money prize)	10p	£8 (of which no more than £5 may be a money prize)

### Category B1

61. NCIF argued that there was a need to recalibrate stake and prize limits for casino machines to properly reflect the position of casinos in the Gambling Act's regulatory framework. These are the most heavily regulated of gambling premises in line with the level of gambling that is expected to take place on them.
62. They argued that the current levels do not provide an incentive for manufacturers to invest in research and development of new products and consequently hamper innovation in product development. This could have longer term consequences in relation to customers' perception of value, for example that it might compare unfavourably to table gaming where there are no restrictions to how much a customer may stake or win.
63. NCIF also argued that the current stake and prize levels compared poorly with casino gaming machines in other international jurisdictions, which are often unrestricted or operate at much higher levels. The proposal put forward is therefore designed to the UK's overall casino machine offer more in line with international comparisons.
64. NCIF predicts the proposed increase would:
  - Increase machine revenue in casinos by 5%
  - Develop new products that will appeal to customers and be competitive against similar online products
  - Stimulate category B1 market by encouraging manufacturers to develop new products
  - Encourage casinos to reinvest in and refresh their gaming machine offer, thereby also increasing order books for manufacturers/suppliers
65. Given the nature of the games offered on B1 terminals, the Government agrees that the new stake and prize level being proposed would likely offer a suitable inducement to manufacturers to develop new products. A £5/£10,000 ratio would also be likely to allow products to be developed that would enable operators to make better use of the linked progressive jackpot provisions contained in the Gambling Act.
66. What was not clear from the industry's proposal was the mechanism through which the predicted uplifts in revenues were expected to be achieved e.g. whether the changes are intended to expand the player base for B1 machines through encouraging more casino customers to play them or whether they sought to maintain the current player base but increase the average amount that might be staked.
67. This has implications for how the Government might assess the social impact of the industry's proposal and in particular whether it might affect problem gambling levels in Britain in the long term.

### Category B2

68. The betting sector is not seeking an increase in stake or prize limits but has emphasised the need to maintain the *status quo*. The Association of British Bookmakers (ABB) argues that income from B2 machines has become increasingly important to maintaining the viability of many high street betting shops. In its evidence to the review it cited that turnover in such shops has declined from £10,063bn in 2008 to £8,787.3bn in 2010 – a drop 12.7%. Over the same period, the total net revenues (stakes less winnings paid out) also varied between £2.86bn in 2008, £2.71bn in 2009, £2.78bn in 2010 to an estimated £2.88bn in 2011. However, at the same time the percentage contribution of machine income to average shop profits was 39.9% in 2008; this increased to 43.6% in 2009; 46.6% in 2010; and 49.4% in 2011. The ABB feels it is important that the products on offer be allowed to evolve and develop to meet a growing customer demand.

### Category B3

69. The industry has proposed an increase in the prize limit to £1,000. They argue this would:
  - Increase machine revenues in AGCs and bingo premises by 10%;
  - Boost order books for manufacturers and suppliers by encouraging operators to upgrade existing machines to take advantage of new prize limit.

70. It is the industry's view that whilst the 2011 changes were beneficial, a significantly enhanced prize offering is now required to make this category of gaming machine good value for players and reinvigorate the machine offering in venues permitted to offer B3s.
71. The industry believes that the new ratio of stake to prize is now not regarded as good value by customers. They argue this is supported by the fact that many machines in this category do not currently use the maximum permitted stake and player expectation is that it will generate a larger prize than is permitted by law. No serious evidence has been forward to support this.
72. The Government has two main concerns with the industry's proposal:
  - No analysis of the impact of the changes implemented to this category of machine in 2010 has been presented to support the industry's case;
  - No explanation has been provided of the mechanism through which the predicted uplift in revenues would be achieved. It is not clear whether the changes are designed to expand the player base for B3 machines through encouraging more customers to play or whether they're seeking to maintain the current player base but increase the average amount that might be staked.
73. This has implications for how the Government might assess the social impact of the industry's proposal and in particular whether it might affect problem gambling levels in Britain in the long term.

#### *Category B3A/B4*

74. **Category B3A:** The industry argues that the current stake/prize ratio is no longer attractive to players: where previously such machines had operated under the Lotteries and Amusements Act 1976 (that is prior to the Gambling Act 2005) they offered prizes of up to £2,000 with stakes of up to £2. The Gambling Act brought them within the definition of "gaming machine" and designated them within a separate machine category with a prize limit of £500. This has made lottery machine less attractive to players, resulting in a reduction in revenue to non-profit-making clubs.
75. The industry argues the club sector should be permitted to reinvigorate this offering to players through an enhanced stake level, restoring the previous stake limit of £2, which they propose would translate into an increase in income by approximately 10%.
76. **Category B4:** The vast majority of B4 are found in the club sector. The industry argues that there has not been an increase in the maximum prize limit for such types of machines since 1995, and no increase in stake since 1998. As a result their offering has been eroded as other machines have been granted increases in their prize levels, whilst B4s have remained the same, resulting in a prize level which is the lowest of all machines except Categories C and D.
77. The industry's view is that this has had the effect of stifling investment in the Category B4 genre. It is claimed there are now only three manufacturers left that produce Category B4 machines and increasingly they are specially commissioned and built to order.
78. It is argued that a change in the maximum stake combined with an increase in the prize limit would provide software writers with the ability to create a variety of new products which, through encouraging operators to refresh their machine offer would translate into a proposed increase in revenue of approximately 10%.
79. Unfortunately, proposals for both categories have not been underpinned by any contextual data. It is not clear what current revenue levels (from gaming machines and overall) are across the club sector and how these have performed over the last few years.
80. There has also been no explanation provided of the mechanism through which the predicted uplift in revenues would be achieved. It is not clear whether the changes are designed to expand the player base for B3A and B4 machines through encouraging more customers to play or whether they're seeking to maintain the current player base but increase the average amount that might be staked. This has implications for how the Government might assess the social impact of the industry's proposal and in particular whether it might affect problem gambling levels in Britain in the long term.

#### *Category C*

81. The industry argue that the 2009 increase to £1/£70 was enough to increase revenues across the arcade, pub and manufacturing sectors in the short term, but it was not enough to offer more long term sustainable growth. It sees an increase in the maximum prize limit to £100 as necessary to

reinvigorate this machine category and make category C products more competitive in the machine and wider gambling marketplace.

82. The industry has based its proposal partly on market research commissioned by BACTA in 2008 which was used at the time to lobby for an increase to a £1/£100 stake/prize ratio based on the market as it was then. BACTA argued the research demonstrated that consumer approval for £1/£100 was nearly twice that for £1/£70 (34% versus 20% approval rating). It was also argued that this research showed that £1/£100 stake/prize ratio would offer a significant 'trade down' option to Category B (65% as opposed to 48% for £1 / £70).
83. The principal argument therefore relates to product development and the relationship between stake and prize. BACTA express support from manufacturers who indicate that a £100 prize would allow them to develop games offering a greater variety of gaming/entertainment experiences for a customer in an increasingly competitive leisure market. They believe that £100 would encourage innovation and introduce flexibility of game design, thus increasing consumer choice.
84. BACTA, the Bingo Association and the BBPA predict that an increase to a £100 maximum prize limit would see an uplift of 10% on category C revenues across the arcade, bingo, pub and manufacturing/supply sectors.
85. However, no explanation has been provided by the industry of the mechanism through which the predicted uplifts in revenues would be achieved. It is not clear whether the changes are designed to expand the player base for category C machines through encouraging more customers to play or whether they're seeking to maintain the current player base but increase the average amount that might be staked. This has implications for how the Government might assess the social impact of the industry's proposal and in particular whether it might affect problem gambling levels in Britain in the long term.

#### *Category D*

86. The industry is seeking changes across three of the sub-categories: crane grabs, coin pushers/penny falls and reel-based (complex).
87. **Complex (reel-based):** The industry argues that the maximum limits for reel based machines have remained static since the 1980s and therefore the perception of a value to the customer has been eroded dramatically. They point to the 2008 customer research by BrandDriver which they argue shows that parents were content for children to play upon these low stake and prize entertainments. This was on the basis that they were considered to be a harmless leisure activity which formed part of the childhood experience of arcades, particularly at the seaside. The industry is seeking an increase in stake and prize in order to retain the commercial viability of these machines, which form a significant part of the machine offer for many amusement businesses.
88. **Crane grabs and coin pushers:** The industry argues these types of machines are generally views as harmless amusement for families, frequently described in the gambling market as "fun retailing". They are suffering from the erosion of prize values, and argue that there needs to be more accurate benchmarking against the type of prizes now regarded by the consumer as representing good value, for example iPod nano or X-box games, which have an average value of £50 to £100. In the case of coin pushers the industry is seeking to be able to offer slightly higher value prizes in order to refresh the offer.
89. The industry cites the "no limit" policies operated in other jurisdictions for both stakes and prizes, such as in the Netherlands, France, USA and the Middle East. It gives Germany as an example which operates with no limit on stake and £65 equivalent prize for equivalent types of machines and Switzerland which offers a £2 equivalent stake and no limit on prize.
90. The industry predicts that changes to these three sub-categories would see revenues in arcades increase by 10% annually.
91. However, no explanation has been provided as to the mechanism through which the predicted uplifts in revenues would be achieved. It is not clear whether the changes are designed to expand the player base for these types of machines through encouraging more customers to play or whether they're seeking to maintain the current player base but increase the average amount that might be staked. This has implications for how the Government might assess the social impact of the industry's proposal and in particular how it might affect problem gambling levels in Britain in the long term (or not).

## Package 4: Government's preferred options

92. Based on its consideration of the first three packages the government has decided on a range of preferred options:

Table 15: Package 4 proposals across machine categories

Category	Current max stake	Current max prize	Max. stake: Preferred option	Max. prize: Preferred option
<b>B1</b>	£2	£4,000	£5	£7,000 / £10,000 / £15,000
<b>B2</b>	£100	£500	£100	£500
<b>B3</b>	£2	£500	£2	£500
<b>B3A</b>	£1	£500	£2	£500
<b>B4</b>	£1	£250	£2	£400
<b>C</b>	£1	£70	£1	£100
<b>D non-money prize (other than crane grab)</b>	30p	£8	30p	£8
<b>D non-money prize (crane grab)</b>	£1	£50	£2	£60
<b>D money prize</b>	10p	£5	20p	£6
<b>D combined money &amp; non-money prize (coin pusher/penny falls)</b>	10p	£15 (of which no more than £8 may be a money prize)	20p	£20 (of which no more than £10 may be a money prize)
<b>D combined money &amp; non-money prize (other than coin pusher or penny falls)</b>	10p	£8 (of which no more than £5 may be a money prize)	10p	£8 (of which no more than £5 may be a money prize)

### Category B1

93. The Government agrees that current stake and prize levels are over-cautious when compared to the level of gambling that is generally expected to take place in a casino e.g. it is incongruous that gaming machines offering games based on roulette or blackjack are limited to a £2/£4,000 stake/prize ratio when sited next to automated table games where the same product is offered with no restriction to how much might be staked or won.
94. The Government also agrees that the current limits do not compare favourably to limits for gaming machines offered by casinos in other jurisdictions overseas, where it is common internationally to offer machine gaming without statutory restrictions to stake and prize. But that in itself does not fully justify an increase in the maximum prize limit from £4,000 to £10,000, particularly given the lack of clarity at present as to how the industry expects to achieve an increase in revenues.
95. However, the Government notes that NCIF has signalled its willingness to consider trialling further consumer protection measures such as the better use of tracking technology to monitor patterns of problem play e.g. the length of time a player might spend on a device, whether they appear to be chasing jackpots, the speed of play and so on (consumer protection responses could then be triggered including a directed reminder to consider length of play and wagering limits). Such measures could go a long way to giving reassurance about potential risks to public protection.
96. The Government is therefore willing to support an increase in the maximum stake level from £2 to £5.
97. It is also willing to take views on a range of maximum prize limits: £7,000, £10,000 and £15,000 to test what level might offer the most practical and beneficial outcome to the casino sector and the manufacturing and supply sector in terms of reinvigorating the B1 machine offer, but not at the expense of public protection.
98. The Government would like to see the casino industry look to use the public consultation period to investigate whether better data can be provided about how any increase in revenues would be achieved and offer a commitment to undertake a trial of the sorts of additional protection measures outlined above.

### Category B2

99. The Government acknowledges the ABB's argument about the importance of B2 machines to the economic viability of betting shops. It also acknowledges that the increase in B2 revenues appear to have compensated for a decline in betting revenues elsewhere across the sector.
100. At the same time it is aware of concerns from stakeholders outside of the betting industry about the perceived proliferation of betting shops in certain areas, which some feel might be driven by the success of B2s and the demand for such products. This concern more often than not is focussed on the potential impact of B2 machines on problem gambling levels.
101. There is no evidence currently available to support such assertions and consequently there is no clear case for Government intervention to bring forward regulatory reform. Without evidence, it would risk introducing disproportionate and untargeted regulation that may damage the betting sector, hamper growth and cost jobs.
102. The Government therefore proposes to retain the current stake and prize limits for B2 machines.

### *Category B3*

103. On balance there are doubts about the credibility of the rationale put forward by the industry to justify the increase being sought:
- In the Government's view that the maximum prize limit for B3s should not be higher than the maximum limit for B2s. To be otherwise would not be consistent with the regulatory framework. Such a change would risk changing the nature of the B3 product and there is no data to properly assess what the wider effect of such a move might have across industry as a whole;
  - The stake increase implemented in 2011 was done in response to proposals from the AGC and bingo sectors. At no stage was there any suggestion that a 100% increase in the prize level would follow. This undermines the industry's arguments with regards players' perception of value;
  - It was estimated that the recalibration of AGC and bingo premises' B3 entitlements introduced in 2011 would see an additional 3,000 B3 machines injected into the market. The Government would want to monitor the impact of this change first in relation to the licensing objectives before considering further changes.
104. The Government therefore proposes to retain the £500 maximum prize limit.

### *Category B3A/B4*

105. The Government is mindful that no supporting data has been submitted in support of the industry's proposals. At the same time it is also noted that these machines are largely limited to one sector where they are offered as an ancillary activity.
106. **Category B3A:** An increase in the maximum stake limit could benefit clubs and is unlikely to be detrimental to other sectors. The Government is therefore minded to consider bringing forward an increase in the maximum stake level subject to further work being undertaken by BACTA and the clubs sector to assess whether such a change would genuinely benefit the sector without impacting on public protection objectives.
107. **Category B4:** In the Government's view it is right that the maximum prize limit for B4s should remain lower than that B3s; the issue is the relative size of jackpots between the two categories. It accepts the industry's argument that an increase in the maximum stake and prize levels would benefit clubs, and would unlikely to be detrimental to other sectors of the industry. It is therefore minded to consider bringing forward an increase in the maximum stake and prize levels subject to further work being undertaken by BACTA and the clubs sector to assess whether such a change would genuinely benefit the sector without impacting on public protection objectives.

### *Category C*

108. The Government recognises the concerns that exist across the industry about the performance of this machine category and its importance to the gaming machine market overall. Category C machines form the bulk of the machine estate in AGCs, bingo clubs and pubs, where they are offered with a range of stake and prize levels up to the maximum permitted in order to appeal to the widest range of players.
109. The previous increase in 2009 did give some short term benefit to the arcade and pub sectors, but it is mindful that the industry put forward a strong case then for a £1/£100 stake/prize ratio. This has remained the preferred option. An increase in the maximum prize limit to £100 would deliver

significant benefits to the arcade, bingo and pub sectors. In terms of volume sales category C machines also remain an important element to the manufacture/supply sector, which would also benefit greatly from such a change.

110. The Government is therefore persuaded about the benefits an increase in the maximum prize limit to £100 would bring to the industry.
111. However, it's important that reassurances can be given that such an increase will not prejudice the licensing objectives, especially with regards to underage gambling and problem gambling. The Government will ask the arcade, pub and bingo sectors to outline further how they'd expect to see the projected increases in revenues to be achieved in order to allow better consideration of the potential social impacts.

#### *Category D*

112. Overall, the Government's primary concern around category D is the potential social impact of any changes. It is mindful that many of these types of machines are popular with children, and while they may be regarded primarily as amusements they are gambling nonetheless, especially in the case of complex (reel-based) machines. On this basis the Government will consider only the changes requested by the industry and not seek views on potential changes to other sub-categories.
113. **Crane grabs:** The Government accepts the argument that consumer tastes change with regards to the perception of value of the types of prizes offered by these machines. It is keen to ensure that they remain commercially viable to operators, but it does not think it is right that the maximum prize level of a machine which is designed to be played by children should match that of a category C gaming machine which is restricted to adults only. There must be a distinction between the two categories.
114. The Government is therefore willing to consider an increase in the maximum stake limit to £2, but will support only an increase to the maximum prize level in line with inflation to ensure the prizes offered retain their value.
115. **Category D coin pushers:** The Government accepts these machines form an important part of the offer for many seaside arcades. In terms of public protection objectives they are low risk as they are played primarily for amusement. The Government is therefore willing to support the industry's proposal for a small increase to the maximum prize limit in order to permit slightly higher value prizes, primarily to enhance player enjoyment.
116. **Category D complex (reel based):** This is perhaps the most sensitive area as these machines remain essentially gaming machines that can be played by children, as opposed to primarily amusement machines for prizes such as crane grabs or coin pushers. In the case of the Gambling Act it was Parliament's intention that the value of cash prizes for these types of machines should be lower than for other types of category D machines. There is a clear distinction between machines played for amusement and more straightforward gambling.
117. This distinction should be retained. The Government accepts the industry's argument that an increase in the maximum stake level might be of benefit to game design and product innovation, but it is not willing to accept an increase to the maximum prize level as proposed by the industry. At the same time it wants to ensure that the prize limits for these types of machine retain their value so is willing to consider an increase that is broadly in line with inflation.
118. The Government will ask the industry to undertake some further assessment of the impact on problem gambling and the measures which would be adopted to mitigate such risks.

## **Benefit / Cost Analysis**

### **Methodology**

119. Having presented a series of possible policy options, this section of the impact assessment attempts to make an assessment of the likely benefits and costs that will accrue to different groups in society as a result of the interventions.
120. Before proceeding to present an analysis of the benefits and costs, it is important to be clear about the methodological basis for appraisal. This needs to take account of structure of analysis, proportionality, and technical parameters.

## Key areas of impact and the structure of analysis

121. Increasing stake and prize limits allows businesses to refresh their product offer with new innovative games that are more appealing to consumers. There will therefore potentially be an impact on revenues as consumption rises, and an impact on the industry supply chain as new products are traded. This potential change in demand and innovation in product must also be considered from a social perspective as well as a business perspective, particularly the risk of changes in levels of gambling related harm and its associated individual and social impacts.

## Proportionality

122. These impacts should be assessed to a level of analytical detail that is proportional to the intervention that is being made. There are several different dimensions to take into account when considering proportionality. The policy is not novel. The legislative framework for gaming machines already exists, and this secondary legislation seeks to review the level of stakes and prizes that are allowable within this legislative context. The policy is not irreversible. Under a triennial review system, stakes and prizes could be increased or decreased as necessary to achieve desirable policy outcomes. These considerations suggest a moderate evidence base.

123. Notwithstanding these points, the process of pre-consultation suggests that there is likely to be some interest in, and sensitivity around, policy changes in this area. This is primarily the case because the distribution of impacts from an intervention needs to strike a balance between allowing the industry room to grow without causing harm to social objectives. This consideration suggests a more detailed evidence base.

124. Given the scope of the intervention and the possibility for evidence development through consultation, this impact assessment will only make use of existing evidence rather than commissioning primary research. Attention will be drawn to evidence gaps where they exist, and the consultation process will be used to address these unknowns.

## Presentation of “do nothing” and other technical issues

125. There are a number of presentational and technical points that apply across all of the policy options. The do nothing option represents the status quo, and therefore does not have any benefits or costs associated with it from an appraisal perspective. This does not preclude significant impacts on the industry under Package 1; only that these impacts are automatically built into the appraisal of the other options Packages that reference Package 1 as a theoretical baseline. The appraisal period for assessment of benefits and costs is taken to be ten years. While it is anticipated that gaming machine stakes and prizes will be reconsidered on a triennial basis, it is impossible to accurately forecast outcome recommendations from these reviews. On this basis therefore, the impacts measured are projected over the entirety of the standard appraisal period. All monetised impacts are presented in present value terms unless otherwise stated, discounted at the Green Book determined rate of 3.50% per annum. All prices and monetised impacts are presented at 2011 prices unless otherwise stated. All options are labelled according to the convention used so far in the impact assessment: Package 1 is “do nothing”; Package 2 is “inflation uplift”; Package 3 is “industry proposals”; and Package 4 is “preferred option” containing three sub-options a., b., and c., relating to different prize limits of £7,000, £10,000, and £15,000 respectively.

## Framework for analysis

126. To be able to appraise the policy proposals accurately there needs to be a mechanism for relating changes in stake and prize limits to changes in industry revenue. The relationship between stake and prize levels and consumer demand is complicated, and three potential mechanisms are discussed below, drawing on analysis from ACIL Tasman (2006).

127. **“Price” changes and the perception of value.** The price of a gambling product is the expected return to player from one play, and is an average function of the stake wagered, the distribution of prizes offered, and the associated probability of winning these prizes. Stake and prize limits therefore control two elements of the price relationship, and by increasing these variables more choice in the price level is afforded to the game designer. Average return to player rates are not set in legislation, but are fairly well established across machine categories at levels that are appealing for players. These rates are not likely to change dramatically as a result of increases to stake and prize limits, but consumer perceptions of price might change as a result of the ratio of stake to prize, which could have an effect on demand.



128. **Appeal of large prizes and perception of value.** The definition of price as set by stake, prize, and chance is complicated by other consumer behaviour that is common to gaming machines. Consumers are known to have an appetite not just for the average return to player, but also the “skewness” that is exhibited in the prize distribution. In other words consumers have a heightened appetite for large prizes, such that an increase in the maximum prize can lead to increased demand, even if the average return to player remains constant. The absolute size of the prize can therefore affect the consumer perception of value, and influence demand.
129. **Innovation in gameplay.** Consumers are also interested in the “non-price” aspects of the gaming machine product. Some consumers, for instance, prefer games that offer more complex gambling opportunities, which apparently engage the consumer in enjoyable heuristic behaviour patterns where they believe that particular strategies can “beat the system” to realise above average returns to player. One example of this is the recent popularity of “multi-line, multi-stake” B2 machines that allow consumers to make multiple wagers within the confines of one game. Increased maximum stake and prize limits offer greater opportunity for game designers to build in this sort of functionality and increase demand by improving consumer perceptions of the quality of the game.

### **Assessing proposals against the framework**

130. The framework for analysis gives a basis for assessing proposals, and attaching quantitative meaning to the impact of changes in stake and prize limits. There is, however, a lack of quality evidence to make this step within the context of this review. Academic, industry, and government held sources of evidence are considered below:
131. Academic evidence across these three mechanisms is scant. Some economic studies such as Swan (1992), BERL (1997), and Thalheimer and Ali (2001) have attempted to estimate the price elasticity of demand for gaming machines. These studies throw up a number of analytical issues: they are dated, relate to foreign markets, and give very different estimates of the sensitivity of markets to price changes. They are therefore not especially helpful to this case and in any case cannot be applied because there is no indication of how expected return to player might change in response to the proposals. There is no known academic evidence that provides quantitative information on large prize or gameplay effects.
132. Government evidence is also weak. The original “triennial review” system was undertaken without proper evaluation, and considerable time has passed since this process was last completed. There have been some recent piecemeal changes to stake and prize in several machine categories, but these changes have been completed too recently to be assessed against Gambling Commission statistics. It will be a feature of the new reinstated triennial review system that the impact of changes to stake and prize limits will be assessed properly to support future policy development. This means that government currently holds insufficient information for the quantification of these mechanisms.
133. Discussions with the gambling industry have been completed as part of the process of “pre-consultation”. During these discussions the industry has not provided any information on the mechanisms by which benefits are likely to be realised, aside from a limited study by consultancy Brand Driver (2008) that asked a sample of gaming machine players how they would respond to changes in stake and prize limit for three specific category changes. This is discussed in more detail below. The industry has provided information on the size of the benefits that they expect and this is used as the basis for appraisal in the impact assessment.

### **Impact on industry revenues**

134. The industry has made an assessment of the impact of their proposals, as set out in Package 3, which is presented in *Table 16* below.

Table 16: Industry assessment of their proposals

Category	Industry Estimate
B1	5%
B2	0%
B3	15%
B3A	10%
B4	10%
C	10%
D <sup>1</sup>	10%

135. The industry estimates make logical sense in light of the drivers set out above, but it is difficult to provide assurance around the magnitude of their estimates due to the lack of empirical evidence available on the responsiveness of demand to changes in stake and prize limits. The industry estimates are broadly supported by the Brand Driver (2008) study. This piece of research conducts a survey that asks a sample of 1,054 the following question relating to the stake and prize levels that are set out in the table below: “Thinking of fruit machines at each of the following prices to play jackpots, which would you play?” The level of demand is indicated in each case by the percentage of the individuals surveyed who responded that they would play a game is set out in *Table 17* below. This study has significant weaknesses: it only refers to Category C and Category D machines; and consumers might potentially have a response bias that overestimates demand when there is no tangible cost associated with their response. Despite this, it is somewhat helpful in illustrating the potential range of effect under a prize change, especially in the absence of other evidence.

Table 17: Results of Brand Driver study

Stake	Old		New		Change	
	Prize	Demand	Prize	Demand	Prize	Demand
0.10	5.00	38%	10.00	43%	100%	5%
0.20	10.00	34%	20.00	46%	100%	12%
1.00	70.00	20%	100.00	34%	43%	14%

136. The industry estimate changes in revenue seems reasonable in light of the mechanisms identified and the only available piece of relevant empirical evidence. The industry assessment is therefore used as the basis for assessment of increased industry revenues under the policy options. This presents two problems however: establishing an indication of changes in revenue in the option packages where the industry have not had an opportunity to make an assessment; and identifying current industry revenues in the absence of complete statistical coverage.

### Assessing all option packages

137. Given the lack of empirical evidence described above, converting the industry assessment to make it appropriate for other options is done in a very simplistic way. The industry proposal is multiplied by a scaling factor consisting of the percentage difference in increase of maximum prize between the industry proposal Package 3 and the alternative option Package 2 and Package 4, relative to the do nothing Package 1. An average change across the separate Category D machines is taken. The results of this scaling are presented below in *Table 18*. Given the uncertainties inherent in this process, wherever these assessments are used 20% sensitivity is applied in each direction to generate a range of possible impact.

Table 18: scaling industry estimate of impact across alternative option packages

Category	Package 1	Package 2	Package 3	Package 4
B1	0%	1%	5%	a. 3% b. 5% c. 9%
B2	0%	2% <sup>2</sup>	0%	0%

<sup>1</sup> The multiple Category D categories are collapsed into one, to correspond with the overall rather than individual assessment that the industry have provided. If some, but not all, of the Category D categories indicate a change in one direction this has been taken as an indicator for the category as a whole in the absence of any change in the opposite direction.

B3	0%	2%	15%	0%
B3A	0%	2% <sup>3</sup>	10%	10% <sup>4</sup>
B4	0%	4%	10%	10%
C	0%	4%	10%	10%
D	0%	3%	10%	5%

### Establishing industry revenue from statistics

138. The Gambling Commission (2011b) provides statistics on number of machines and industry revenues for venues where it has licensing responsibility. These statistics are used as the basis for calculation, but several adjustments have to be made to take account of data limitations. The deficiencies and adjustments are outlined below:
139. There is no granularity around the different classes of Category D machine in these statistics, which has the implication that individual proposals across this Category will need to be taken together.
140. Some operators are currently unable to provide data returns split by category of machine. This results in a “Totals Only” in the data. The response is to distribute this Totals Only category across the “real” categories based on a number of assumptions. The first step is to establish the number of machines and total GGY from machines from industry statistics provided by the Gambling Commission. This is used to calculate average return per machine by dividing Total GGY by Number of Machines in each Category. The average GGY per machine calculation combined with total machine numbers can be used to create an earning index for each machine Category, which can then be used to distribute Totals only GGY information across the different machine Category classification. The B1 and B2 categories are exempt from this process because the casino and betting shop businesses that provide the returns almost always avoid use of the Totals Only category.
141. The industry statistics collected by the Gambling Commission only relate to businesses where they have the regulatory competence to licence. Businesses that provide gaming machines, but are licenced by other bodies such as Local Authorities, are therefore not included in these statistics. This includes: public houses, clubs, unlicensed family entertainment centres or travelling fairs. These are substantial markets. BACTA and the BBPA are able to provide some intelligence on the number of machines that exist in venues that are outside of their regulatory duty to licence. B3A (3,000) are provided in members’ clubs and miners’ welfare institutes. B4 machines are provided in clubs (15,000). Category C machines are primarily provided in public houses (55,000), but are also provided in clubs (9,000). Category D machines are overwhelmingly provided in unlicensed family entertainment centres (43,000), but are also provided at travelling fairs (2,000). Applying average machine earnings these numbers of machines gives an indication of the size of these markets. This is presented in the table below. This analysis needs to be treated cautiously. There could be significant differences in the profitability of machines when located in venues that are not licenced by the Gambling Commission. This is likely to be particularly true for machines provided in public houses which represent a very different market. There is reasonable data available here from the BBPA who indicate that public house Category C revenue is currently around £600m. This figure is presented in the analysis.
142. The results of these manipulations give a set of industry statistics that can be used as a basis for appraisal. These are set out in *Table 19* below. The uncertainty in these calculations is clear, but the results are expected to be reasonably accurate on the basis of good input data. Therefore 10% sensitivity is applied in each direction, with the exception of the B1 and B2 categories where the data is considered to be fully robust.

*Table 19: Adjusted industry revenues in 2010/11 used as the basis for appraisal*

Category	Central / £m	Low / £m	High / £m
B1	117	117	117
B2	1,297	1,297	1,297

<sup>2</sup> Does not apply standard methodology, because the industry does not ask for or make an assessment of any changes in the stake and prize limits for Category B2 machines. An assumption of 2% is therefore made on the impact of the inflation uplift proposal under Package 2 on Category B2 machines revenues.

<sup>3</sup> Category B3A machines cannot be adjusted with reference to prize limits because the industry submission is based on stake limit changes only. Adjustments have therefore been made on the basis of stake limit changes in Package 2 and Package 4.

<sup>4</sup> See footnote directly above.

B3	228	205	250
B3A	36	32	39
B4	86	78	95
C	855	770	941
D	214	193	235
Total	2,832	2,549	3,115

### Calculating the impact on revenue

143. Combining the assumptions on current industry revenues and anticipated changes in revenues allows for the monetisation of the policy benefits. Within this calculation an adjustment is made to phase in benefits as machines are adapted or replaced to take advantage of more liberal stake and prize limits. This phasing is done on the basis of industry assessments of machine uptake that is presented in discussions on supply chain impacts below. These results are set out in constant prices and present values in *Table 20* and *Table 21* respectively.

*Table 20: Average annual constant prices change in industry revenues over ten year appraisal period*

Category	Package 2 / £m			Package 3 / £m			Package 4 / £m		
	Central	Low	High	Central	Low	High	Central	Low	High
B1	8	6	9	53	42	63	a. 26 b. 53 c. 97	a. 21 b. 42 c. 77	a. 32 b. 63 c. 116
B2	259	207	311	0	0	0	0	0	0
B3	32	23	42	305	219	402	0	0	0
B3A	0	0	0	32	23	42	32	23	42
B4	27	20	36	75	54	99	75	54	99
C	287	207	379	761	548	1,005	761	548	1,005
D	55	40	73	191	138	252	89	64	118
Total	668	503	850	1,416	1,024	1,863	a. 983 b. 1,010 c. 1,054	a. 710 b. 731 c. 766	a. 1,259 b. 1,326 c. 1,379

*Table 21: Present value change in industry revenues over ten year appraisal period*

Category	Package 2 / £m			Package 3 / £m			Package 4 / £m		
	Central	Low	High	Central	Low	High	Central	Low	High
B1	6	5	8	45	36	53	a. 22 b. 45 c. 82	a. 18 b. 36 c. 65	a. 27 b. 53 c. 98
B2	223	179	268	0	0	0	0	0	0
B3	27	19	35	257	185	340	0	0	0
B3A	0	0	0	27	19	36	27	19	36
B4	23	16	30	63	45	83	63	45	83
C	243	175	321	643	463	849	643	463	849
D	47	34	61	161	116	213	75	54	99
Total	569	428	723	1,196	865	1,574	a. 831 b. 853 c. 890	a. 600 b. 618 c. 647	a. 1,094 b. 1,120 c. 1,165

144. The analysis shows that there are significant revenues to be made under each of the packages. Package 2 is the least ambitious, while Package 3 is the most ambitious. The preferred Package 4 sits in between, although it has an impact that is much closer to the industry proposals than the inflation uplift. This is because changes in stake and prize limits in Package 4 are much closer to the ambitions of the industry proposal than the inflation uplift.

145. Business benefits in terms of increased revenues can of course also be considered from another perspective: consumer costs. These consumer costs are, however, taken to be equal the level of consumer benefit that is enjoyed by the player as they express their preference for gaming machine consumption above other possible alternative forms of consumption. These costs and benefits are not monetised in the impact assessment: they simply cancel each other out. Additional consumer surplus that is generated under the proposal is not quantified.

## Impacts on the machine games supply chain

146. Benefits from increased revenue earnings potential under stake and prize limit proposals are passed through into the supply chain of machine games producers. Given the increased earnings potential, there is an incentive for additional investment in machine gaming technology. This is an additional cost that the machine gaming industry will face in realising potential benefits, but it is simultaneously a benefit for the machine games supply chain that produces machine gaming products.
147. There are two distinct aspects to the manufactures of gaming machines: the production of cabinets which physically house the game content; and the gameplay software or physical content design and production. Changes in stake and prize limit have the potential to encourage reconfiguration or replacement of gaming machines, so that businesses can take advantage of more liberal market regulation to make games that are more appealing for consumers and realise the retail revenue potential that is described above.
148. The industry has relatively high rates of machine game turnover as providers regularly update or refresh their offer in order to maintain player interest, although this can vary substantially between sector and individual operator. This high turnover rate is particularly common amongst machines that are electronic, and therefore software operated. Physical machines are also upgraded and replaced. There is no robust statistical information on the turnover rate experienced by different categories, and how this rate might interact with changes to stake and prize limits, so it is difficult to be precise about the relevance of this effect to the policy proposal. It is clear, however, that there will be an element of technological response to stake and prize limits that will occur naturally in line with planned investment.
149. Changes to stake and prize limits are, however, nevertheless likely to have an impact at the margin by encouraging additional investment over and above natural market churn rates. This will occur as the increased potential profitability of machines under the changes provides an incentive for accelerated investment. The industry has provided an indication of the anticipated overall scale, phasing, and unit cost of this investment under their proposal. This is set out in *Table 22* below.

*Table 22: Industry estimate of additional investment created by new machines*

Category	Number of machines				Unit Cost
	2013	2014	2015	Total	
B1	606	606	606	1,818	6,000
B2	0	0	0	0	0
B3	3,000	6,000	4,000	13,000	5,500
B3A	1,000	1,000	1,000	3,000	600
B4	500	1,000	1,500	3,000	1,500
C	2,000	5,000	3,000	10,000	2,500
D (complex)	1,000	2,500	1,500	5,000	2,000
D (non-complex)	500	1,000	500	2,000	11,500

150. There is no existing evidence to substantiate the industry projections of increased demand for gaming machine products, but they do seem reasonable in light of their projections for changes in revenue generated by increased consumer demand.
151. These estimates are used as the basis for assessment of the impact on the supply chain, taking the number of machines and the unit cost to monetise the size of the impact. This is straightforward for Package 3 that was proposed by the industry, but to do this for the other option packages the industry estimates need to be scaled appropriately. This is done by applying adjustments that are proportionate to the revenue adjustments made previously, and discussed in paragraph 136. The results of these calculations are presented in constant prices and present value terms below in *Table 23* and *Table 24* respectively.

*Table 23: Industry costs and supply chain revenues in constant prices*

Category	Package 2 / £m			Package 3 / £m			Package 4 / £m		
	Central	Low	High	Central	Low	High	Central	Low	High
B1							a. 5 b. 11 c. 20	a. 5 b. 10 c. 18	a. 6 b. 12 c. 22
B2	2	1	2	11	10	12	0	0	0
	0	0	0	0	0	0	0	0	0

B3	7	7	8	72	64	79	0	0	0
B3A	0	0	0	2	2	2	2	2	2
B4	2	1	2	5	4	5	5	4	5
C	9	8	10	25	23	28	25	23	28
D	10	9	10	33	30	36	15	14	17
Total							a. 52 b. 58 c. 67	a. 47 b. 52 c. 60	a. 57 b. 63 c. 73
	30	27	33	147	132	161			

Table 24: Present value industry costs and supply chain revenues

Category	Package 2 / £			Package 3 / £m			Package 4 / £m		
	Central	Low	High	Central	Low	High	Central	Low	High
B1							a. 5 b. 11 c. 19	a. 5 b. 9 c. 17	a. 6 b. 12 c. 21
	2	1	2	11	9	12			
B2	0	0	0	0	0	0	0	0	0
B3	7	6	8	69	62	76	0	0	0
B3A	0	0	0	2	2	2	2	2	2
B4	2	1	2	4	4	5	4	4	5
C	9	8	10	24	22	26	24	22	26
D	9	8	10	32	29	35	15	13	16
Total							a. 50 b. 56 c. 64	a. 45 b. 50 c. 58	a. 55 b. 61 c. 71
	29	26	31	141	127	156			

152. Similarly to the revenue estimates, the analysis shows that there are significant benefits for the supply chain to be made under each of the packages. Package 2 is the least ambitious, while Package 3 is the most ambitious. The preferred Package 4 sits in between, although it has an impact that is much closer to the Inflation Uplift than the Industry Proposals. This is overwhelmingly driven by the absence of an increase in stake and prize on Category B3 machines under Package 4.

### Impact on the Exchequer

153. Changes in industry revenues will have an impact on Exchequer revenues. However, estimates of Exchequer revenues are a matter for HM Treasury and HM Revenue and Customs and are not estimated as part of this Impact Assessment.
154. Government can help to encourage business growth by providing an environment that is free from the burden of disproportionate regulation. The method of assessing whether new legislative proposals add to, or subtract from, the current stock of business regulation is known as “one-in-one-out” (OIOO). Proposals that impose direct costs are described as “IN”, while proposals that lead directly to benefits are described as “OUT”. Proposals that lead to indirect costs and benefits only are classified as “Zero net cost”.
155. The “One-In-One-Out” (OIOO) position of the policy is defined as “Zero net cost”. Increasing stake and prize limits, as set out in all the policy proposals, liberalises the environment in which machine gaming businesses are allowed to operate. The proposals are therefore clearly deregulatory. These increases are permissive rather than compulsory, however, enabling businesses to take advantage of a higher stake and prize limits if they choose to do so. It is likely that businesses will take advantage of this opportunity because it offers potential for increased profitability, but because businesses are not obliged to make changes these benefits are indirect rather than direct. Similarly, any costs that businesses accrue from, for instance, replacing machines will also be indirect rather than direct. The equivalent annual net cost of all of the policy packages is therefore zero.
156. Microbusinesses are included within the regulations. There is a lack of accurate information on how many microbusinesses are included within the sector, although the number of microbusinesses affected by the policy proposals is thought to be low. In any case, because the legislation is permissive rather than compulsory, microbusinesses can effectively choose to “opt out” of the legislation and maintain their current portfolio of gaming machines. It is unlikely that these businesses would want to take this step, however, given the clear business benefits that can potentially be realised under increased stake and prize limits.

157. Whilst there are no direct benefits or costs to businesses the discussion of impacts above indicates that there are likely to be indirect benefits and costs to businesses. Businesses gain from increased consumer demand, but have to make some investments to realise this benefits. These investment costs are passed down the supply chain, however, where they are recognised as benefits for other businesses. The business impact in constant prices and net present value, adjusting for exchequer payments, is presented in *Table 25* below.

*Table 25: Business impact in constant prices and net present value*

Business impact	Package 2			Package 3			Package 4		
	Central	Low	High	Central	Low	High	Central	Low	High
Constant	668	503	850	1,416	1,024	1,863	a. 983 b. 1,010 c. 1,054	a. 710 b. 731 c. 766	a. 1,295 b. 1,326 c. 1,379
NPV	569	428	723	1,196	865	1,574	a. 831 b. 853 c. 890	a. 600 b. 618 c. 647	a. 1,094 b. 1,120 c. 1,165

### Assessment of impact on competition

158. These changes in industry revenue need to be assessed in terms of their impact upon competition in both the machine gaming markets, and the supply chain. The different machine categories tend to relate to markets that are reasonably well segmented:

- **Category B1:** These machines can only be offered by casinos, which tend to compete with operators within the same sector. Players may play gaming machines in other venues e.g. betting shops also offer roulette and blackjack games on B2 terminals but there is no evidence as to the extent this might occur.
- **Category B2:** While these machines can be located in casinos, they are almost exclusively situated in betting shops. B2 terminals are also designed to offer category B3 games as well. The arcade sector has argued that the Gambling Act has placed them at a competitive disadvantage to betting shops through the restrictions on the types of machine they're able to offer and, as a result, AGCs (and bingo premises to a lesser extent) have lost customers to them. However, there is no evidence available to substantiate this.
- **Category B3:** These machines are available in AGCs and bingo premises. These are quite different types of gambling environments, with players often attending them for different reasons e.g. bingo premises often fulfil a social role in communities and are popular with older, female players. B3s in bingo premises are also more of an ancillary activity to the main activity of bingo and are often only played during intervals between mainstage bingo games.
- **Category B3A:** These types of machines are only available in members clubs.
- **Category B4:** The vast majority of these machines are located in clubs. There is a small number offered in AGCs, but most operators offer B3 machines instead as they are considered to offer better value to players.
- **Category C:** These machines are available in AGCs, FECs, bingo premises and pubs. With regards to the latter they are offered only as an ancillary activity. There is no evidence to suggest there is any serious competition between these types of premises, with players likely to play such machines in different venues.
- **Category D:** These are available in both licensed and unlicensed FECs and form an integral part of the machine offer for seaside arcades. The market is too limited to raise any significant competition issues.

159. Given this market context, each proposal is discussed in terms of the effect on competition.

#### Package 2

160. Package 2 is simply an inflationary uplift across all the machine categories. Whilst this is slightly lower for Category C and some Category D machines due to their point of uplift having a more recent baseline than the other categories, the effect on revenue is likely to be very similar across all the categories in proportionate terms. Package 2 is therefore not believed to have any significant

effect on competition relative to the status quo, but any current competitive imbalances are likely to remain.

### Package 3

161. Package 3 is the industry proposals. Increases in revenue are likely to be broadly similar across all the categories in proportionate terms, with the exception of B2 seeing no increase at all, B1 being slightly lower than average, and B3 being higher than average. The net effect of these changes, however, is difficult to assess given the current information available:

- **Category B1:** There is no evidence to suggest there would be any significant movement from other sectors;
- **Category B2:** The industry proposes to maintain the current stake/prize ratio. On this basis there is no evidence to suggest there would be any significant movement from other sectors;
- **Category B3:** The changes would affect the AGC and bingo sectors, but also the betting sector which offers B3 games on B2 terminals. The bookmaker market has an advantage over other sectors, and in particular AGCs, as they are able to deploy game upgrades in a matter of days or weeks across their entire estate at no cost to the retailer, including any subsequent upgrades. AGCs on the other hand often own their own machines and would normally deploy a small number of upgrades in the new stake/prize configuration to ascertain how first well they perform commercially. This results in longer lead times to achieve the same as the bookmakers.
- **Category B3A:** There is no evidence to suggest there would be any significant movement from other sectors;
- **Category B4:** There is no evidence to suggest there would be any significant movement from other sectors;
- **Category C:** Any increase to category C maximum prize is unlikely to affect other sectors since, other than FECs (which have a different market profile in terms of customer) all other venues that can offer gaming machine can offer category C machines.
- **Category D:** There is no evidence to suggest there would be any significant movement from other sectors;

### Package 4

162. Package 4 is the Government's preferred options. Increases in revenue are likely to be broadly similar across all the categories in proportionate terms, with the exception of B2 and B3 showing no increase at all as stake and prize levels would remain the same, and B1 being slightly lower than average (the extent to which depending on the sub-options). There is likely to be little effect in terms of competition across the sectors, as outlined under Package 3. The only exception is going to be with regards to category B3 and the AGC, bingo and betting sectors. The decision to retain the £500 prize limit for this category should maintain the current competitive position between these sectors, although it is acknowledged that it would not address what the arcade sector would view as an imbalance between B2 machines provided in betting shops and B3 machines provided in arcades.

### Competition effects in the supply chain

163. Competition effects also need to be considered on the supply chain. It is not anticipated that there will be any effect on competition here. Firms tend to specialise their production and therefore tend to compete within categories rather than across categories. Where firms do compete across categories, any stake and prize limit effect on demand through the supply chain will be absorbed through open market competition between firms. There is no question, therefore, of government intervention prejudicing against certain firms in this market.

### Impact on employment

164. Given that there are likely to be growth in industry revenues and the supply chain, there is the possibility for employment creation. The machine gaming business is clearly highly automated, and therefore not very labour intensive. Increases in machine gaming revenues are therefore unlikely to drive substantial increases in employment and any small effect is left not quantified, although it would certainly be true to say that changes to stake and prize limits would help to stabilise employment levels within the sector. The machine supply chain is, however, more labour intensive



as employees are used to design machine content, and construct machine terminals. The proposals can therefore have a positive impact on employment. Gaming machine manufacturers and suppliers together employ 7,959 staff, according to 2010/11 Gambling Commission information. The increase in machine numbers discussed above is assumed conservatively to lead to a 5% increase in employment in these industries, indicatively equivalent to approximately 170 jobs under the preferred Package 4. Job creation would be likely to be lower in Package 2 and higher in Package 3. Since it is difficult to quantify this impact precisely, and the estimate is indicative only, corresponding estimates for Package 2 and Package 3 are not presented.

### **Macroeconomic impacts**

165. The framework for analysis only looks at gambling markets; impacts on machine gaming markets (including industry revenues and consumers) and the machine manufacturing market that supports it. This analysis is therefore partial equilibrium in nature; it does not take into account wider economic effects in other gambling markets or the rest of the economy. It therefore does not take account of the general equilibrium. These potential effects are not dealt with extensively, but are discussed briefly below.
166. Changes in revenue in machine gaming markets might displace consumption of other gambling activities if there is a substitution effect between the two. Substitution between machine gaming has already been discussed in the assessment of competition set out above. It is also possible, however, for there to be substitution between different types of gambling product. Changes to the stake and prize limit might increase the desirability of machine gaming relative to, for example, online gaming. Indeed it is possible for increases in machine gambling to lead to additional consumption in other gambling markets. In casinos, for example, increased demand for gaming machines might be complementary to table gambling as consumers who go to play gaming machines become interested in other games. These effects are impossible to assess in a quantitatively meaningful way, with no information immediately available on the cross price elasticity of demand between different gambling markets. Obtaining this level of understanding would involve detailed primary research, which is considered to be disproportional to the policy intervention that is proposed.
167. Under the assumption that there are finite resources in the economy, and that households have a fixed level of income, an increase in consumption in one market must inevitably lead to displacement of some other economic activity be that consumption in other product markets or the savings markets. Whether this displacement is of net benefit to the UK depends on location of production of products that are being displaced. If increases in domestic consumption displace imports, there is a positive effect on national output. Where increases in one form of domestic consumption displace other forms of domestic consumption or exports, the effect on national output is neutral or even negative if the efficiency of market signals is distorted by government intervention. Having made these points, it is worth noting that where the economic resources are unemployed in an economy, the level of displacement is likely to be diminished. Increases in demand can take up slack resources and increase aggregate national output levels. This point is particularly important in the current economic climate, and suggests that the proposed policy intervention will make a contribution to economic growth and recovery. Treating the issue of displacement as it relates to economy wide growth in a quantitatively meaningful way is not currently possible. To attempt this would require an advanced computable general equilibrium model that incorporates gambling markets. This is not available, and would require time consuming and expensive primary research. It is even not clear that even this technique would yield useful results in the current policy context, which with a direct average demand impact of approximately £101m per annum under the preferred Package 4 represents a change of less than 2% relative to the whole of the gambling industry, and a miniscule fraction of the total economy.

### **Impacts on individuals and society**

168. The Gambling Act 2005 is underpinned by three licensing objectives. These are:
  - To prevent gambling from being a source of crime and disorder, being associated with crime or disorder or being used to support crime;
  - To ensure that gambling is conducted in a fair and open way;
  - To protect children and other vulnerable persons from being harmed or exploited by gambling.

169. Advice from the Gambling Commission suggests that the proposed changes to stake and prize limits are unlikely to have any significant detrimental effect on the first two licensing objectives. Any changes to stake and prize will not affect the licencing and compliance approach that is currently taken by the Commission. The situation however is currently much less clear in terms of the third licensing objective. Problem gambling is defined and measured nationally within the British Gambling Prevalence Survey (BGPS) published by the Gambling Commission (2011a). Problem gambling is specified as “gambling to a degree that compromises, disrupts, or damages family, personal or recreational supports”. The BGPS measures gambling according to the Diagnostic and Statistical manual of the American Psychiatric Association (DSM-IV), and the Problem Gambling Severity Index (PGSI) techniques, both of which are internationally recognised screens, which have been widely used in population prevalence surveys. The DSM-IV detects problem and non- problem gamblers, whereas the PGSI measures non-problem, at risk, and problem gamblers.

170. Both screens were used in the 2007 and 2010 prevalence surveys. The DSM-IV estimate of problem gambling rose from 0.6% to 0.9% between 2007 and 2010, an increase that is on the boundary of statistical significance, whereas the PGSI estimate of problem gamblers remained unchanged at 0.7%.

171. These measures are applied to a representative sample of the population in order to extrapolate a measure of the prevalence of problem gambling within Great Britain. The results of these measures are set out in *Table 26* below which presents the most recent BGPS data point only from 2010, and converts the proportions that this report supplies into number estimates with 2010 midyear population data from ONS. This table shows the central estimate, alongside the high and low range that represents a confidence level in the accuracy of the results of 95%.

*Table 26: Prevalence rate and number of problem gamblers*

<b>Estimate</b>	<b>DSM-IV</b>	<b>PGSI</b>
Central	0.9%	0.7%
Low	0.7%	0.5%
High	1.2%	1.0%

172. If the industry’s projection of growth is realised, this would suggest an increase in the numbers of people gambling either through more new people gambling, or the same people gambling more. On a very basic level as consumption grows there is a risk that rates of problem gambling among vulnerable persons increases. In theory this risk should be able to be assessed through a general analysis of potential changes to the prevalence of problem gambling within society is made, with an attempt to monetise this impact.

173. However, there are significant problems with this approach. Although there is a considerable body of research available on the structural characteristics of gaming machines (for example the size of stake and prize) there is actually only a very limited consensus as to what extent these characteristics might drive problem gambling behaviour. The Gambling Commission advise that this lack of consensus makes it impossible to make any sort of definitive assessment of what changes in stake and prize limits might do to problem gambling rates.

174. This is further complicated by the fact that the British Gambling Prevalence Survey only measures the prevalence of gambling within Great Britain. It does not demonstrate causality. All that can be said is that problem gamblers appear to participate in a range of gambling activities but it is not possible to establish any link between a particular activity and problem gambling. As a result the BGPS cannot be used to extrapolate or predict what any change in stake and prize levels might mean in terms of numbers of problem gamblers.

175. The Government also sought advice from the Gambling Commission and the Responsible Gambling Strategy Board (RGSB) as to whether it might be possible to monetise the cost to society of increased problem gambling. Existing research suggests that such impacts might include: bankruptcy, loss of productivity and employment, crime and the use of the legal system, personal and family impacts and the need for counselling services for problem gamblers.

176. Fully assessing these impacts however is a difficult matter because there is no academic consensus on: the nature of the economic impacts of problem gambling, the valuation that can be accorded to those impacts, and the extent to which these impacts have already been internalised or taken into account by the individuals affected by them.

177. Some research is available: for example the Scottish Executive (2006) has previously published a literature review of the research on the social impacts of problem gambling which included a section reviewing the available evidence on the societal costs of problem gambling. The report concluded that a robust assessment of the societal costs associated with problem gambling was beyond currently available understanding and technical ability. Advice from the Gambling Commission confirms this; the literature on societal costs of problem gambling either contains serious methodological flaws or is based on research conducted in other international jurisdictions and therefore not applicable or transferable to a British context.

178. The lack of quality empirical evidence on the unit costs of problem gambling for the UK economy therefore precludes a monetised assessment of the potential problem gambling risk that is associated with a change in stake and prize. Without any reliable data it is impossible to monetise the impact of changes to stake and prize limit on potential increases in problem gambling. Given the uncertainty associated with this analysis the Government has undertaken a supplementary qualitative assessment of the relative risk across machine gaming categories, with reference to the threat of problem gambling both in the vulnerable adult population and amongst children:

*Table 27: Assessment of relative risks of each option package*

<b>Machine Category</b>	<b>Package 2</b>	<b>Package 3</b>	<b>Package 4</b>
B1	Low	Medium	Medium to High <sup>5</sup>
B2	Low	Low	Low
B3	Low	Medium	Low
B3A	Low	Low	Low
B4	Low	Medium	Medium
C	Low	Medium	Medium
D	Low	Medium	Low to Medium

179. This risk assessment is indicative at present and will be reassessed and refined on the basis of further data supplied as part of the consultation process and by the RGSB. Based on the currently available information the Government has assessed the risks as follows:

- **Package 2: Inflationary uplift:** These measures are intended to maintain the value of stake and prize limits against inflationary increases since the implementation of the Gambling Act. The uplift does not affect the stake to prize ratio or the relativities between the different categories. As a result the package reflects maintenance of the status quo and therefore does not represent any increased risk to public protection objectives.
- **Package 3: Industry proposals:** At present there is very little data from the industry as to how the mechanism through which any uplifts in revenue are expected to be achieved (e.g. are the proposals designed to encourage new players or are they intended to increase average spend across existing player bases?) As a result it is difficult to undertake a thorough assessment in terms of risks to problem gambling. At the same time there is no evidence to suggest that increasing stake and prize levels will definitely prejudice public protection. Any changes would be taking place within a robust regulatory framework designed to mitigate risk to the Gambling Act's licensing objectives. The risk is therefore assessed as medium, with two exceptions: category B2 where the industry is not seeking any change to stake and prize levels and category B3A, where they are only seeking an increase in the maximum stake limit.
- **Package 4: Government's preferred options:** Where the Government supports the industry's proposals for category B4 and C gaming machines the risk is still considered as medium in line with the assessment outlined for package 3. With regards to the remaining categories:

<sup>5</sup> Relating to a range of options: £7,000, £10,000, and £15,000.

- B1: The Government will ask for views on the suitability of a £15,000 prize for B1 machines in casinos and accepts that at this stage the size of the increase could represent a higher risk to player protection, although such an increase would only be in the context of a heavily regulated casino environment and nowhere else;
- The Government proposes to maintain B2 and B3 stake and prize limits at their current levels, which would represent no risk to player protection;
- B3A: In line with the industry's request the Government proposes to increase the maximum stake only and retain the current prize limit which would represent no increase in risk to player protection;
- D: The Government supports the industry's proposals regarding increases to maximum stake limits but will only consider increases to maximum prize limits in line with inflation. This might represent a small increase in the potential risk to player protection

180. It should also be noted that any decisions regarding changes to stake and prize limits will not be taken in isolation but rather within the context of a wider framework of regulation introduced by the Gambling Act. Many of these measures are in place to mitigate potential harm that could arise from gambling.

181. For example, most gambling premises will continue to be non-accessible to people under the age of 18. Where under-18s are allowed (for example FECs or some bingo premises) stringent controls remain in operation via conditions attached to premises licences. Protections for consumers are secured through operating licences, which are issued by the Gambling Commission and are required by all those who manufacture, supply, install, maintain, adapt or repair gaming machines. This system is underpinned by the Commission's Licence Conditions and Code of Practice, which all operators in receipt of an operating licence from the Commission must adhere to (see [http://www.gamblingcommission.gov.uk/publications\\_guidance\\_advic/lccp.aspx](http://www.gamblingcommission.gov.uk/publications_guidance_advic/lccp.aspx)).

182. Alongside this licensing authorities are responsible for licensing all gambling premises in their area as well as issuing a range of permits to authorise other gambling facilities. This system ensures that specific provisions in relation to, for example, underage gambling and problem gambling through rigorous requirements in respect of supervision, access, staff training and self-exclusion are in place. In addition all gaming machines made available for public use in Britain must conform to a comprehensive set of technical standards which govern fundamental elements of gaming machine play such as speed of play and the linking of games i.e. those features that could lead to repetitive and excessive play.

### *Next steps*

183. The Government is conscious that further work is required to properly assess the risk posed by the options discussed in this paper. It has therefore engaged the Gambling Commission to work with the Responsible Gambling Strategy Board to put in place a process to consider further the risks. This is expected to be taken forward during the public consultation and will supplement the additional data the Government is seeking the industry to provide. The Gambling Commission and the RGSB advises that it will broadly consist of two types of input:

- 1) Providing a view based on analysis of available evidence and where possible economic modelling to support the impact assessment in relation to the third licensing objective; RGSB will be asked in the short-term to advise whether the broad assessment framework in place is comprehensive and how it could be further developed. In the medium term the Board will be asked to review the framework and consider what further questions should be addressed and identify the current knowledge gaps
- 2) Developing a set of proposals for a longer term programme to gather and assess information, research and data which will help stakeholders to:
  - Benchmark the impact of current and new machine structural features on gaming machine play.
  - Explore the potential of machine player data to identify markers of problematic machine gambling behaviour.
  - Understand the feasibility and effectiveness of new dynamic player-led harm minimisation tools.

- Understand the wider needs in terms of wider prevention and treatment activities to support any changes in the impact from gaming machines upon problem gambling levels and the corresponding need for treatment services.

184. In considering the potential impact of stake and prize changes the RGSB will take into account a broad set of considerations:

- Existing players spending more money and the risks and issues around greater unplanned spend either in one instance or over a longer period of time, the risks around players spending same money more quickly and therefore having a shorter play session and less enjoyment.
- Migration of existing machine gamblers from one machine product to another.
- Migration of non-machine gamblers to machine products and the potential intake of previously non-gamblers to gaming machine activity.

### Conclusions: benefits, costs, and the desirability of the policy proposal

185. The impact assessment has taken account of a number of impacts including business revenues, supply chains, exchequer, employment, and society. These are summarised for the central estimate only in *Table 28* below.

*Table 28: Summary of impacts under different policy proposals*

Impact Area	Package 2	Package 3	Package 4
PV Industry revenues	569	1,196	a. 831 b. 853 c. 890
PV Industry costs	29	141	a. 50 b. 56 c. 64
PV Supply chain revenues	29	141	a. 50 b. 56 c. 64
Business NPV	569	1,196	a. 831 b. 853 c. 890
NPV	569	1,196	a. 831 b. 853 c. 890
Employment	Likely positive impact	Likely positive impact	Likely positive impact
Society	Possible negative impact	Possible negative impact	Possible negative impact

186. In the Government's view the measures contained in Package 4 best meet the objectives for the triennial review set out in paragraph 35 of this IA. They are designed to provide stability through the protection of jobs and revenue to those sectors of the gambling industry facing serious economic challenges at present, most notably the arcade and bingo sectors. This will act as a platform for growth in future years and will be monitored through future triennial reviews. These measures should also stimulate growth across the gaming machine manufacture and supply sectors through encouraging the development of new products, in turn encouraging operators to invest in new machines and software.

187. It is also the Government's view that Package 4 will also maintain the existing relativities between the gaming machine categories. This should help to ensure competition within what is a regulated industry remains balanced across the different sectors; the Government is keen to ensure that no one sector should be advantaged at the expense of another.

188. The Government accepts that, based on current available data, there is some potential risk to the Gambling Act's licensing objective to protect young and vulnerable people from the harm that gambling might cause. However, in its view the overall level of player protection in place through the provisions of the Gambling Act is more than adequate to mitigate such risks. The Government is not proposing to take forward the industry's potentially contentious request for a £1,000 prize limit for B3 machines; and where a large increase is being considered in relation the B1 prize limit this will be solely in the context of the heavily regulated casino sector and with the knowledge that the casino sector is willing to consider

introducing additional player protections. The other proposals outlined in Package 4 relate only to lower risk categories of gaming machine and, in the Government's opinion, do not prejudice player protection.

### **Quality of the evidence base, consultation, and the triennial review process**

189. The quality of the evidence presented in the impact could be strengthened in many areas. There are several areas of focus for improvement. The mechanisms by which the industry expects to realise direct revenue benefits and stimulus for the supply chain could be elucidated more clearly. Following on from this, the quantification of the exact level of benefit that is anticipated from these effects could be far better supported with evidence. The potential societal costs of the proposal in terms of problem gambling could be refined, to give a more accurate representation of the true risk of harm associated with the proposals, and possible financial costs associated with any increase in levels of problem gambling. There are two areas of the policy making process that are particularly relevant in steps to improve the evidence base.

190. Firstly, engagement from stakeholders with the consultation process, supported by this impact assessment, is an opportunity to strengthen the evidence base around these impacts above and beyond responses already provided in the pre-consultation process. To this end, the consultation document that this impact assessment accompanies poses a number of questions for stakeholders against evidence gaps that are apparent in this document with a view to strengthening the evidence base before final stage proposals are presented. In addition, DCMS will seek the advice of the Gambling Commission and the Responsible Gaming Strategy Board to provide an opinion on the risk of increased prevalence of problem gambling before final stage proposals are presented. This in no way precludes a stakeholder response on evidence that has been presented on potential problem gambling impacts.

191. Secondly, the process of establishing a triennial review system for changes to stake and prize limits offers significant opportunities to develop a stronger evidence base. Should any changes to stake and prize limits be made as a result of the current legislative process, there would be good opportunities for recording quantitative data that assess the impact of any changes to stake and prize limit on the three key areas of direct industry revenues, supply chain, and social impact of problem gambling. The consultation document that this impact assessment accompanies poses questions to stakeholders on the appropriate form of this evaluation. Responses to these consultation questions will be used to form a thorough post-implementation review plan before final stage policy proposals are presented.

192. With these two substantial opportunities to improve the evidence base in mind, this impact assessment very much forms a "baseline" for quality of evidence around changes to stake and prize limits. Through the process of consultation in the short term and evaluation on a triennial review basis, the quality of evidence around impacts should be expected to grow.

### **Specific impact tests**

#### **Economic / financial**

193. Economic and financial impacts on direct industry revenues, and the associated supply chain have been estimated. There is also an assessment of the direct impact on business under the One-in-one-out methodology; competition effects; and impacts at a macroeconomic level.

#### **Social**

194. Possible social impacts around changes in problem gambling have been discussed i.

#### **Environmental**

195. Impact of the environment is expected to be negligible.

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## ANNEX A – Post Implementation Review (PIR) Plan

### **Basis of the review:**

The PIR plan will form part of the triennial review process. The Minister for Tourism has made a commitment to implement a regular, systematic review of gaming machine stake and prize limits; the impact of any measures implemented as part of the 2012/13 review will therefore inform the next review scheduled for 2016.

### **Review objective:**

The objectives of the review cycle will be to:

- Ascertain how far the measures have encouraged growth across the industry (for example have they generated the predicted increases in revenues; have jobs been protected or further jobs created);
- Assess the relativities between gaming machine categories and whether they have impacted on competition across the different sectors of the industry;
- Assess the impact of any measures against the licensing objectives of the Gambling Act 2005, with emphasis on the protection of young and vulnerable people from the harm that gambling might cause, and consider whether levels of player protection remain adequate;

### **Review approach and rationale:**

The impact of any measures brought into force will be monitored and assessed by the Gambling Commission and DCMS. There will be three broad approaches to collecting data:

- Short term bespoke analysis commissioned by the Gambling Commission or DCMS, with input from industry bodies including trade associations;
- Over the longer term additional data will be collected more systematically through the regulatory return process administered by the Gambling Commission;
- The Responsible Gambling Strategy Board will advise the Gambling Commission on a framework to evaluate the impact of any measures on player protection objectives and assess gambling harm minimisation strategies where necessary.

This approach has been chosen to inform the triennial review process and support the review objectives outlined above.

### **Baseline:**

The 2012/13 review will be assessed against the theoretical baseline represented by options Package 1 (do nothing). Monitoring and assessment of any measures implemented in 2013 will then form the baseline for future reviews from 2016 onwards.

### **Success criteria:**

Success of the review process will be considered against the following criteria:

- Whether the measures have led to any demonstrable growth across the gambling industry;
- Whether the measures have maintained the balance of competition across the industry;
- The extent to which any measures brought into force remain consistent with player protection and gambling related harm minimisation.

### **Monitoring information arrangements:**

The Gambling Commission already collected a range of data from the industry through its regulatory return process. Businesses are required by the Gambling Act to provide the data requested, which is published in the Gambling Commission's Industry Statistics. There is lag between the period covered by the regulatory return and when the actual data is collected. To mitigate this additional data will be collected by DCMS and the Gambling Commission from industry bodies including trade associations.

The review will also take into account work currently underway as part of a research programme recommended by the Responsible Gambling Strategy Board which is looking into gaming machines. The Strategy Board will also advise on whether any further research might be necessary as a result of any outcomes of the review process.