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| Title: Consultation on proposals for changes to Gaming Machines and Social Responsibility Measures IA No: RPC Reference No: RPC-4137(1)-DCMS Lead department or agency: Department for Digital, Culture, Media and Sport (DCMS) Other departments or agencies: N/A | Impact Assessment (IA) |
| | Date: 31/10/17 |
| | Stage: Consultation |
| | Source of intervention: |
| | Type of measure: Regulatory |
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| | |
|------------------------------------------|--------------|
| Summary: Intervention and Options | RPC Opinion: |
|------------------------------------------|--------------|

| Cost of Preferred (or more likely) Option | | | | |
|-------------------------------------------|----------------------------|-------------------------------------------------------|-------------------|-------------------------------|
| Total Net Present Value | Business Net Present Value | Net cost to business per year (EANDCB in 2014 prices) | One-In, Three-Out | Business Impact Target Status |
| No preferred option | No preferred option | No preferred option | In | No preferred option |

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

Gambling-related harm produces several negative externalities including but not limited to: increased healthcare costs, welfare costs, and other costs to individuals associated with problem gamblers (e.g. family, friends and employers). Therefore, the marginal social cost is higher than the marginal private cost to the gambler. Government intervention is necessary to ensure we strike the right balance between an industry that can grow whilst protecting consumers and wider communities. Unfortunately due to the nature of gambling-related harm (extremely inelastic demand), it is difficult to dis-incentivise consumption of this good therefore the burden of reducing harm must be placed on the suppliers of the good

What are the policy objectives and the intended effects?

The government's objective is to look across the industry and determine what, if any, changes are needed to strike the right balance between socially responsible growth and the protection of consumers and wider communities. In this review the specific objectives are to:

- 1) Assess if the maximum stakes and prizes for all categories of gaming machines permitted under the Gambling Act 2005 are appropriate;
- 2) Assess if current gaming machine entitlements permitted in all licensed premises under the Gambling Act 2005 are appropriate; and
- 3) Assess if social responsibility measures to minimise the risk of gambling related harm, including gambling advertising, are sufficient to protect those most vulnerable.

Options set out in the consultation document under (3) above are not covered in this assessment because we are not consulting on government regulations.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option.

The government is consulting on a range of measures covering stakes and prizes, allocations, and other levers that might affect the risk of harm. Due to the number of possible permutations of options we have summarised six possible options for illustrative purposes, to cover the range of potential net costs/benefits to industry.¹

1. Option 1 – Retain status quo
2. Option 2 – A package of industry proposals (obtained via a call for evidence)
3. Options 3 - 6 - Options 3-6 take into account the main options around B2 gaming machines.

The main alternative to regulation that government has considered and assessed is the voluntary arrangements through industry and others to pilot and evaluate social responsibility measures aimed at reducing harm (more details provided in consultation document and below).

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 2 years after implementation

| | | | | |
|---------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|-----------------------|----------------------|
| Does implementation go beyond minimum EU requirements? | | | | |
| Are any of these organisations in scope? | Micro yes | Small yes | Medium yes | Large yes |
| What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent) | | Traded: | | Non-traded: |

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:

¹ The resulting packages of measures may ultimately differ from those presented here in the impact assessment. However, the potential changes to stakes and prizes and allocations are costed individually on p.30 and in annexes A and B (with the exception of changes to allocations for large 2005 Act casinos and changes to prize bingo, as we have no basis for costing these potential changes). These are costed using GGY figures, but each of the illustrative options are expressed as Equivalent Annual Net Direct Cost to Business (EANDCB), for the purposes of calculating the Government’s Business Impact Target (BIT).

Summary: Analysis & Evidence

Option 1

Description: Retain status Quo

FULL ECONOMIC ASSESSMENT

| | | | | | |
|-------------------------|----------------------|----------------------------|---------------------------------------|---------|------------------|
| Price Base Year 2017 | PV Base Year 2017 | 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 | N/A | N/A | N/A |
| High | N/A | N/A | N/A |
| Best Estimate | 0 | 0 | 0 |

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

The status quo option represents no change. It therefore has no costs associated with it, and serves as the baseline from which the costs of the other options 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 | N/A | N/A | N/A |
| High | N/A | N/A | N/A |
| Best Estimate | 0 | 0 | 0 |

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

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

| | | |
|-----------------------------------------|---------------|------|
| Key assumptions/sensitivities/risks (%) | Discount rate | 3.5% |
|-----------------------------------------|---------------|------|

BUSINESS ASSESSMENT (Option 1)

| | | | |
|---------------------------------------------------|-------------|--------|-------------------------------------------------------------------|
| Direct impact on business (Equivalent Annual) £m: | | | Score for Business Impact Target (qualifying provisions only) £m: |
| Costs: 0 | Benefits: 0 | Net: 0 | |

Summary: Analysis & Evidence Option 2

Description: Industry Proposals

FULL ECONOMIC ASSESSMENT

| Price Base Year | PV Base Year | Time Period Years | Net Benefit (Present Value (PV)) (£m) | | |
|-----------------|--------------|-------------------|---------------------------------------|------|----|
| | | | 2017 | 2017 | 10 |

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

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

Industry put forward a number of proposals related to gaming machine stakes and prizes and allocations. These are summarised later in this document. The betting and bingo sectors did not put forward proposals for change, but would be affected by other proposals received from other sectors, due to similar gaming machine allowances. There are no monetised costs associated with this option.

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

The cost of increased gambling on consumers and wider communities has been considered qualitatively. Increased consumption may lead to increased levels of gambling-related harm. However, it is currently not possible to quantify this impact.

| BENEFITS (£m) | Total Transition (Constant Price) Years | Average Annual (excl. Transition) (Constant Price) | Total Benefit (Present Value) |
|---------------|-----------------------------------------|----------------------------------------------------|-------------------------------|
| Low | N/A | N/A | N/A |
| High | N/A | N/A | N/A |
| Best Estimate | 0 | 476.9 | 4105 |

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

The gambling industry will take advantage of more liberal market conditions resulting from the package of proposals presented by industry. The most significant monetised benefits result from the relaxing of regulations for the casino sector. There are also estimated benefits from the introduction of new gaming machines for the arcade sector and for casinos with 'high end' business models.

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

There are potential supply chain benefits from increased investment in new machines and software and there are also potential consumer demand benefits due to higher prizes. Due to the lack of data surrounding consumer preferences and industry investment plans these are non-quantifiable.

Key assumptions/sensitivities/risks

We are reliant on industry data and/or third party analysis of the economic benefits of these proposals. The mechanism for realising benefits is not always clear and there is weak assurance around industry information. Industry statistics used in the calculations have limitations. The risk of increased problem gambling/gambling related harm presents serious analytical difficulties and has not been quantified or

Discount rate (%)

3.5%

monetised.

BUSINESS ASSESSMENT (Option 2)

| | | | |
|----------------------------------------------------------|------------------------|-------------------|----------------------------------------------------------------------------------|
| Direct impact on business (Equivalent Annual) £m: | | | Score for Business Impact Target (qualifying provisions only) £m: -2157.5 |
| Costs: 0 | Benefits: 431.5 | Net: 431.5 | |

Summary: Analysis & Evidence Option 3

Description: Option 3

FULL ECONOMIC ASSESSMENT

| Price Base Year | PV Base Year | Time Period Years | Net Benefit (Present Value (PV)) (£m) | | |
|-----------------|--------------|-------------------|---------------------------------------|--------------|------------------------|
| 2017 | 2017 | 10 | Low: -444.2 | High: -223.8 | Best Estimate: :-298.7 |

| COSTS (£m) | Total Transition (Constant Price) Years | Average Annual (excl. Transition) (Constant Price) | Total Cost (Present Value) |
|---------------|-----------------------------------------|----------------------------------------------------|----------------------------|
| Low | N/A | 26 | 223.8 |
| High | N/A | 51.6 | 444.2 |
| Best Estimate | 0 | 34.7 | 298.7 |

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

- Reducing maximum stake on B2 gaming machines from £100 to £50
- Increase in prize bingo stake from £1 to £2 and prize increase from £70 to £100 (£500 to £1,000 aggregate)

The most significant monetised costs will be to gambling businesses and supply chains affected by the lowering of maximum stakes on B2 gaming machines from £100 to £50.

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

Increase in session duration resulting from a stake reduction on B2 machines may reduce the availability of machines at peak times. May impact B2 revenues if players cannot exercise their preference for machine play due to inadequate supply.

There is also a cost associated with the dis-benefit reducing stake size has on non-problematic gamblers. This dis-benefit is due to a reduction in the utility these gamblers get from gambling at the new stake if their preference for staking behaviour is higher than the new cap.

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

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

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

The most significant non-monetised benefits are the benefits to society of reduced gambling related harm. Also, as a result of any decrease in harm, there could be some benefit to government from reduced expenditure on government programmes linked to gambling-related harm such as healthcare (specifically psychological therapy), welfare costs, housing costs and criminal justice costs.

Key assumptions/sensitivities/risks (%)**Discount rate**

3.5%

- Take up (proportion of players who remain playing under the new staking regime), session duration increase (how long each person plays for on average), channel shift (players move to other forms of gambling) and attrition (players stop gambling).
- The central assumptions are a cause of potential under or over estimation of costs. If take up, attrition or channel shift are higher or lower this can drastically change the outcome of the model.
- There is also an important implicit assumption that reduced spend on gambling will result in a reduction in gambling-related harm.

BUSINESS ASSESSMENT (Option 3)

| | | | |
|----------------------------------------------------------|--------------------|-------------------|------------------------------------------------------------------------------|
| Direct impact on business (Equivalent Annual) £m: | | | Score for Business Impact Target (qualifying provisions only) £m: 157 |
| Costs: 31.4 | Benefits: 0 | Net: -31.4 | |

Summary: Analysis & Evidence Option 4

Description: Option 4

FULL ECONOMIC ASSESSMENT

| Price Base Year | PV Base Year | Time Period Years | Net Benefit (Present Value (PV)) (£m) | | |
|-----------------|--------------|-------------------|---------------------------------------|---------------|------------------------|
| 2017 | 2017 | 10 | Low: -2343 | High: -1382.4 | Best Estimate: -1684.5 |

| COSTS (£m) | Total Transition (Constant Price) Years | Average Annual (excl. Transition) (Constant Price) | Total Cost (Present Value) |
|---------------|-----------------------------------------|----------------------------------------------------|----------------------------|
| Low | N/A | 160.6 | 1382.4 |
| High | N/A | 272.2 | 2343 |
| Best Estimate | 0 | 195.7 | 1684.5 |

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

Illustrative option including:

- Reducing maximum stake on B2 gaming machines to £30

There are direct costs associated with this option. The most significant monetised costs will be to gambling businesses and supply chains affected by the lowering of maximum stakes on B2 gaming machines from £100 to £30.

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

Increase in session duration resulting from a stake reduction on B2 machines may reduce the availability of machines at peak times. May impact B2 revenues if players cannot exercise their preference for machine play due to inadequate supply.

There is also a cost associated with the dis-benefit reducing stake size has on non-problematic gamblers. This dis-benefit is due to a reduction in the utility these gamblers get from gambling at the new stake if their preference for staking behaviour is higher than the new cap.

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

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

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

The most significant non-monetised benefits are the benefits to society of reduced gambling-related harm. Also, as a result of any decrease in harm, there could be some benefit to government from reduced expenditure on government programmes linked to gambling-related harm such as healthcare (specifically psychological therapy), welfare costs, housing costs and criminal justice costs.

Key assumptions/sensitivities/risks (%)**Discount rate**

3.5%

- Take up (proportion of players who remain playing under the new staking regime), session duration increase (how long each person plays for on average), channel shift (players move to other forms of gambling) and attrition (players stop gambling).
- The central assumptions are a cause of potential under or over estimation of costs. If take up, attrition or channel shift are higher or lower this can drastically change the outcome of the model.
- There is also an important implicit assumption that reduced spend on gambling will result in a reduction in gambling-related harm.

BUSINESS ASSESSMENT (Option 4)**Direct impact on business (Equivalent Annual) £m:****Costs: 177****Benefits: 0****Net: -177****Score for Business Impact Target (qualifying provisions only) £m: 885.5**

Summary: Analysis & Evidence Option 5

Description: Option 5

FULL ECONOMIC ASSESSMENT

| Price Base Year | PV Base Year | Time Period Years | Net Benefit (Present Value (PV)) (£m) | | |
|-----------------|--------------|-------------------|---------------------------------------|---------------|------------------------|
| 2017 | 2017 | 10 | Low: -4573.3 | High: -2103.7 | Best Estimate: -2852.6 |

| COSTS (£m) | Total Transition (Constant Price) Years | Average Annual (excl. Transition) (Constant Price) | Total Cost (Present Value) |
|---------------|-----------------------------------------|----------------------------------------------------|----------------------------|
| Low | N/A | 244.4 | 2103.7 |
| High | N/A | 531.3 | 4573.3 |
| Best Estimate | 0 | 331.4 | 2852.6 |

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

Illustrative Option including:

- Reducing maximum stake on B2 gaming machines to £20 (non slots) and £2 (slots)².

There are direct costs associated with this option. The most significant monetised costs will be to gambling businesses and supply chains affected by the lowering of maximum stakes on B2 gaming machines from £100 to £20 (non slots) and £2 (slots)

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

Increase in session duration resulting from a stake reduction on B2 machines may reduce the availability of machines at peak times. May impact B2 revenues if players cannot exercise their preference for machine play due to inadequate supply.

There is also a cost associated with the dis-benefit reducing stake size has on non-problematic gamblers. This dis-benefit is due to a reduction in the utility these gamblers get from gambling at the new stake if their preference for staking behaviour is higher than the new cap.

| BENEFITS (£m) | Total Transition (Constant Price) Years | Average Annual (excl. Transition) (Constant Price) | Total Benefit (Present Value) |
|---------------|-----------------------------------------|----------------------------------------------------|-------------------------------|
| | | | |

² B2 gaming machines offer different gaming content, the most popular of which is roulette. By non-slots we are referring to virtual casino or sports games, such as roulette. By slot game we are referring to: a game which is mechanical or virtual in nature; uses spinning reels, discs or other representation of moving or changing symbols (fruits, numbers or other graphics) where the object to align those symbols across one or more lines to win a prize and/or advantage within the game; and where this can feature as a primary or secondary game component e.g. feature games which use spinning reels as a secondary part of the game.

| | | | | |
|----------------------|-----|--|---|---|
| Low | N/A | | 0 | 0 |
| High | N/A | | 0 | 0 |
| Best Estimate | 0 | | 0 | 0 |

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

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

The most significant non-monetised benefits are the benefits to society of reduced gambling-related harm. Also, as a result of any decrease in harm, there could be some benefit to government from reduced expenditure on government programmes linked to gambling related harm such as healthcare (specifically psychological therapy), welfare costs, housing costs and criminal justice costs.

Key assumptions/sensitivities/risks (%)

Discount rate

3.5%

- Take up (proportion of players who remain playing under the new staking regime), session duration increase (how long each person plays for on average), channel shift (players move to other forms of gambling) and attrition (players stop gambling).
- The central assumptions are a cause of potential under or over estimation of costs. If take up, attrition or channel shift are higher or lower this can drastically change the outcome of the model.
- There is also an important implicit assumption that reduced spend on gambling will result in a reduction in gambling-related harm.

BUSINESS ASSESSMENT (Option 5)

| | | | |
|----------------------------------------------------------|------------------|------------------|-------------------------------------------------------------------------------|
| Direct impact on business (Equivalent Annual) £m: | | | Score for Business Impact Target (qualifying provisions only) £m: 1499 |
| Costs: 299 | Benefits: | Net: -299 | |

Summary: Analysis & Evidence Option 6

Description: Option 6

FULL ECONOMIC ASSESSMENT

| Price Base Year | PV Base Year | Time Period Years | Net Benefit (Present Value (PV)) (£m) | | |
|-----------------|--------------|-------------------|---------------------------------------|---------------|------------------------|
| 2017 | 2017 | 10 | Low: -8581.9 | High: -3942.3 | Best Estimate: -5491.7 |

| COSTS (£m) | Total Transition (Constant Price) Years | Average Annual (excl. Transition) (Constant Price) | Total Cost (Present Value) |
|---------------|-----------------------------------------|----------------------------------------------------|----------------------------|
| Low | N/A | 458 | 3942.3 |
| High | N/A | 997 | 8581.9 |
| Best Estimate | 0 | 638 | 5491.7 |

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

Illustrative option including:

- Reducing maximum stake on B2 gaming machines to £2

There are direct costs associated with this option. The most significant monetised costs will be to gambling businesses and supply chains affected by the lowering of maximum stakes on B2 gaming machines from £100 to £2.

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

Increase in session duration resulting from a stake reduction on B2 machines may reduce the availability of machines at peak times. May impact B2 revenues if players cannot exercise their preference for machine play due to inadequate supply.

There is also a cost associated with the dis-benefit reducing stake size has on non-problematic gamblers. This dis-benefit is due to a reduction in the utility these gamblers get from gambling at the new stake if their preference for staking behaviour is higher than the new cap.

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

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

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

The most significant non-monetised benefits are the benefits to society of reduced gambling related harm. Also, as a result of any decrease in harm, there could be some benefit to government from reduced expenditure on government programmes linked to related harm such as healthcare (specifically psychological therapy), welfare costs, housing costs and criminal justice costs.

Key assumptions/sensitivities/risks (%)**Discount rate**

3.5%

- Take up (proportion of players who remain playing under the new staking regime), session duration increase (how long each person plays for on average), channel shift (players move to other forms of gambling) and attrition (players stop gambling).
- The central assumptions are a cause of potential under or over estimation of costs. If take up, attrition or channel shift are higher or lower this can drastically change the outcome of the model.
- There is also an important implicit assumption that reduced spend on gambling will result in a reduction in gambling-related harm.

BUSINESS ASSESSMENT (Option 6)

| | | | |
|----------------------------------------------------------|------------------|-----------------|-------------------------------------------------------------------------------|
| Direct impact on business (Equivalent Annual) £m: | | | Score for Business Impact Target (qualifying provisions only) £m: 2886 |
| Costs: 577 | Benefits: | Net:-577 | |

Evidence Base (for summary sheets)
Introduction

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 category | Maximum stake | Maximum prize | Allowed premises |
|---------------------------------------------------------------------------------------|----------------------|------------------------------------------------------------------|----------------------------------------------------------------------------------------|
| B1 | £5 | £10,000 (£20,000 linked progressive jackpot on a premises basis) | Casinos |
| B2 | £100 | £500 | Betting premises and tracks occupied by pool betting and all of the above |
| B3 | £2 | £500 | Bingo premises, Adult Gaming Centre and all of the above |
| B3A | £2 | £500 | Members' club, commercial club or Miners' welfare institute only |
| B4 | £2 | £400 | Members' club or Miners' welfare club, commercial club and all of the above. |
| C | £1 | £100 | FEC, Qualifying alcohol licensed premises and all of the above. |
| D (money prize) | 10p | £5 | Travelling fairs, unlicensed (permit) Family Entertainment Centre and all of the above |
| D non-money prize (other than crane grab machine) | 30p | £8 | All of the above |
| D non-money prize (crane grab machine) | £1 | £50 | All of the above |
| 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) | All of the above |
| D combined money and non-money prize (coin pusher or penny falls machine) | 20p | £20 (of which no more than £10 may be a money prize) | All of the above |

The Gambling Commission's Industry Statistics 2011 – 2016 (published in May 2017, but only going up to September 2016) in regards to gaming machines are summarised below. This data does not include gaming machines in pubs as these premises are licensed by local authorities rather than the Gambling Commission.

Table 2: Gaming Machines: Average Gaming Machine Numbers³

| Machine category | Apr 2011-Mar 2012 | Apr 2012-Mar 2013 | Apr 2013-Mar 2014 | Apr 2014-Mar 2015 | Oct 2015-Sep 2016 |
|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| B1 | 2788 | 2675 | 2667 | 2624 | 2924 |
| B2 | 33350 | 33467 | 34549 | 34960 | 34388 |
| B3 | 13496 | 15653 | 17303 | 18517 | 22623 |
| B4 | 256 | 232 | 219 | 272 | 158 |
| C | 46377 | 49835 | 61930 | 72768 | 77063 |
| D | 65021 | 65751 | 53982 | 42607 | 39255 |
| Total | 161288 | 167615 | 170650 | 171748 | 176411 |

Gross Gambling Yield (GGY) represents the amount retained by an operator after prizes are paid. GGY from gaming machines has increased since 2008-09. Category B2 gaming machines contributed over £1.8bn in revenue to the betting industry in 2015/16. (However, there is approx 30% B3 play included in the industry statistics as B2.) Table 2 shows gaming machine GGY in the gambling sector over a five-year period.

Table 3: Gaming Machines across whole gambling sector (minus pubs): Gaming Machine GGY (Gross Gambling Yield)(£m)⁴

| Machine category | Apr 2011-Mar 2012 | Apr 2012-Mar 2013 | Apr 2013-Mar 2014 | Apr 2014-Mar 2015 | Oct 2015-Sep 2016 £m |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------------|
| B1 | 126.27 | 130.11 | 145.88 | 156.53 | 187.86 |
| B2 ⁵ | 1458.45 | 1547.83 | 1577.27 | 1694.06 | 1818.67 |
| B3 | 192.10 | 262.56 | 303.23 | 326.34 | 363.59 |
| B4 | 1.68 | 1.43 | 0.94 | 0.85 | 0.72 |
| C | 173.08 | 229.93 | 220.90 | 224.22 | 233.54 |
| D | 95.17 | 105.42 | 101.93 | 102.22 | 95.69 |
| Aggregated categories ⁶ | 187.01 | 57.53 | 48.84 | 39.29 | 32.03 |
| Total | 2233.77 | 2334.81 | 2398.99 | 2543.50 | 2732.10 |

Rationale for Intervention

Context

Prior to the Gambling Act 2005, a "Triennial Review" of the maximum stake and prize limits across different types of gaming machines became established, with the Gaming Board of Great Britain advising Government on proposals from the gambling industry. The review mainly considered whether increases were required to keep stake and prize levels in line with inflation. Since the Act there have been periodic reviews of stakes and prizes across all gaming machines defined under the Act. This review also includes a review of gaming machine allocations permitted under the Act.

³ <http://www.gamblingcommission.gov.uk/news-action-and-statistics/Statistics-and-research/Statistics/Industry-statistics.aspx>

⁴ Ibid

⁵ Due to the way in which Gambling Commission data is collected, approx 30% of the GGY attributed to B2 gaming machines comes from B3 content.

⁶ Where GGY figures have been provided but not broken down by machine category.

In 2013, as part of its drive to create the conditions for growth in the gambling industry, the then government implemented an approach to stake and prize regulation, based on the previous triennial review system. As part of this new approach, it asked industry and other stakeholders to put forward proposals for changes to stake and prize limits for consideration. The 2013 review concluded that whilst it was clear that reducing stakes on B2 machines would have an adverse economic impact on the betting industry, it was not clear how great an impact a reduction would have on problem gambling. The Gambling Commission and the RGSB, in their advice to the then government, made clear that the industry must lead in making data available on player behaviour in order to support robust, independent research into B2 gaming machines. It also set the industry the challenge of making progress on developing harm mitigation measures. In response, the then government made clear that they would keep this machine category firmly under review.

In October 2016 the government published a call for evidence which invited evidence-based proposals from all interested parties on changes to maximum stakes and prizes and allocations across all gaming machines under the objective of balancing socially responsible growth with the protection of consumers and wider communities. The call for evidence also invited proposals in regards to social responsibility measures and advertising which will not be covered in this assessment.

The call for evidence received responses from the main trade bodies, which helped shape the industry proposals option in this assessment:

- Association of British Bookmakers (representing the betting sector);
- British Amusement Catering Trade Association (representing Adult Gaming Centres (AGCs), Family Entertainment Centres (FECs), the gaming machine manufacturer and supply sector; also submitting proposals on behalf of the club sector);
- British Association of Leisure Parks, Piers and Attractions;
- British Beer and Pub Association (pub sector);
- Bingo Association (bingo);
- National Casino Forum (casinos)

We also received a large number of responses from other organisations as well as the general public. A full list of respondents is set out in the consultation document.

A number of respondents to the call for evidence highlighted the perceived inadequacies of industry codes on social responsibility, specifically on B2 gaming machines, primarily citing the lack of evidence of impact and effect of the measures. Where evaluation has taken place, primarily of the measures introduced by the bookmakers on B2 gaming machines, it is not clear that the measures have been as effective as they could have been.

The evaluation of the ABB's code on social responsibility,⁷ of which the headline measure related to the introduction of measures that allowed players to set the time and total expenditure they wished to spend on B2 gaming machines, was published in May 2015 and concluded that only 0.5% of machine sessions in the first month after implementation included the use of time and spend limits. But they could not establish if this was because players did not want to use the function, or did not know about it. Due to the small proportion of sessions that included a voluntarily set threshold they were unable to draw any conclusions on the impact of this tool on player's behaviour. In addition, the evaluation of the Player Awareness System (PAS) rolled out by ABB members on B2 gaming machines was published in October 2016.⁸ It found that although this measure had potential, there was a considerable way to go before they could be considered successful. In addition, this measure is limited to account holders which only accounts for around 10% of players.

We recognise the effort and resource now being put into responsible gambling activities across the industry as a whole, but believe there is a need for considerable improvement in the methods of identifying harmful play on gaming machines, and the development of interventions to help players who might be suffering harm, including across other categories of gaming machine. The recent RGSB publication analysing industry progress echoes this, concluding that *"there is still much to do if the Strategy is to make visible progress towards its objectives"*, with a need to increase the pace of delivery over the next 12 months.⁹

⁷ <https://about.gambleaware.org/media/1167/abb-early-impact-report-final-report.pdf>

⁸ https://about.gambleaware.org/media/1335/pas-evaluation_final-report_13102016.pdf

⁹ <http://www.rgsb.org.uk/PDF/Strategy-progress-report-2016-2017.pdf>

This government has made consistently clear that it recognises public concerns around B2 gaming machines, and that they would remain firmly under review. In 2015 the then government introduced a new requirement that those accessing higher stakes (over £50) on B2 gaming machines must load cash via staff interaction or use account-based play (i.e. set up an account with the operator which required the use of an account card to play the machine). The evaluation of these measures, published in January 2016, found that there was a drop in stakes above £50, but a corresponding increase in stakes between £40-50.

Objectives

The government’s objective is to look across the industry and determine what, if any, changes are needed to strike the right balance between socially responsible growth and the protection of consumers and wider communities. In this review the specific objectives are to:

1. Assess if the maximum stakes and prizes for all categories of gaming machines permitted under the Gambling Act 2005 are appropriate under this objective;
2. Assess if gaming machine entitlements permitted in all licensed premises under the Gambling Act 2005 are appropriate under this objective; and
3. Assess if social responsibility measures to minimise the risk of gambling related harm are sufficient to protect those most vulnerable.

Options

Following analysis of responses to the call for evidence the government has considered a number of options which it is consulting on. Given the number of options we have presented in the consultation document, it is not practical for the impact assessment to cover all permutations. Options 3-6 are illustrative and take into account the main options around B2 gaming machines i.e. the resulting options of measures may ultimately differ from those presented here in the impact assessment.

However, the potential changes to stakes and prizes and allocations are costed individually on p.30 and in annexes A and B (with the exception of changes to allocations for large 2005 Act casinos and changes to prize bingo, as we have no basis for costing these potential changes). These are costed using GGY figures, but each of the illustrative options are expressed as Equivalent Annual Net Direct Cost to Business (EANDCB), for the purposes of calculating the Government’s Business Impact Target (BIT).

The illustrative options presented in this impact assessment can be summarised as follows:

Table 4 - Illustrative options

| | |
|----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Option 1 | Status quo across all gaming machine stakes and prizes and allocations |
| Option 2 | Industry proposals |
| Option 3 | Illustrative option including: <ul style="list-style-type: none"> • Reducing maximum stake on B2 gaming machines to £50 |
| Option 4 | Illustrative option including: <ul style="list-style-type: none"> • Reducing maximum stake on B2 gaming machines to £30 |
| Option 5 | Illustrative option including: <ul style="list-style-type: none"> • Reducing maximum stake on B2 gaming machines to £20 (non slots) and £2 (slots) |
| Option 6 | Illustrative option including: <ul style="list-style-type: none"> • Reducing maximum stake on B2 gaming machines to £2 |

Option One: Retain status quo

Option one proposes that no changes are made to stake and prize limits for any gaming machine category or to any allocations of gaming machines currently permitted under the Act. In the absence of any changes to stakes and prizes, it is reasonable to assume growth of the machine gambling sector to continue along the current trajectory (machine GGY has increased by 4.3% a year on average since 2013 (last review)). The government believes that package one is unlikely to meet the primary objective of the review - to strike the right balance between socially responsible growth and the protection of consumers and wider communities.

Option Two: Industry Proposals

Prior to the consultation, government published a call for evidence inviting respondents to submit proposals for changes to gaming machine stakes and prizes and allocations (it also covered gambling advertising and social responsibility measures but these will not be covered here). We received proposals from a variety of stakeholders as part of the call for evidence, but this package covers industry proposals only, with proposals received from other respondents taken into consideration for illustrative options 3-6. Responses were received from the trade associations listed above (we also received separate submissions from a number of operators from each of these sectors. These submissions largely reflected those received from the trade bodies):

Industry proposed a number of changes to the current regulatory regime. These proposals represent maintaining the status quo for some parts of the industry and relaxing the limits for other sectors of the industry.

Stakes and prizes

Industry proposals for **stakes and prizes** in each machine category are set out in the table below.

Table 5 - Industry proposals on stakes and prizes

| Machine Category | Current Max Stake | Current Max Prize | Ind proposed Stake | Ind proposed Prize |
|---------------------------------------------------------------------------------------|-------------------|----------------------------------------------------|--------------------|---------------------------------------------------|
| B1 | £5 | £10,000 (£20,000 via linked jackpot) | No change | £10,000 (£100,000 via linked jackpot) |
| New gaming machine for high end casinos | N/A | N/A | £50 | £100,000 |
| B2 | £100 | £500 | No change | No change |
| B3 | £2 | £500 | £2.50 | No change |
| B3A | £2 | £500 | No change | No change |
| B4 | £2 | £400 | No change | No change |
| B5 (proposed new category) | N/A | N/A | £10 | £125 |
| C | £1 | £100 | £2 | £150 |
| D non-money prize (other than crane grab machine) | 30p | £8 | 50p | £10 |
| D non-money prize (crane grab machine) | £1 | £50 | £2 | £75 |
| D money prize | 10p | £5 | 20p | £8 |
| 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) | 10p | £10 (of which no more than £8 may be money prize) |

| | | | | |
|---------------------------------------------------------------------------|-----|------------------------------------------------------|-----|------------------------------------------------------|
| D combined money and non-money prize (coin pusher or penny falls machine) | 20p | £20 (of which no more than £10 may be a money prize) | 25p | £22 (of which no more than £12 may be a money prize) |
| Prize bingo | £1 | £70 (£500 aggregate) | £2 | £100 (£1000 aggregate) |

Category B1

The casino sector has not requested an increase in the stake or prize for the stand alone B1 machine. It has asked that the maximum for a progressive (linked) jackpot should be raised from the current £20,000 (equivalent to the maximum prize on two machines) to £100,000 (equivalent to the maximum across ten machines). They also ask to be able to link machines between casino premises rather than just within a single casino as at present. The sector argues that progressive jackpots of this nature are well established in casino jurisdictions internationally (although usually with much higher prize levels) and that in 2016 the average stake per game on progressive linked machines and non-progressive linked machines in UK casinos was the same, 90p. The sector argues that casinos are the appropriate location for high-prize gambling as they are the most heavily regulated of gambling premises.

Introduction of a new machine for high end casinos

The sector also asks for a new category of machine with higher stakes and prizes exclusively for high end Mayfair casinos, which they say cater for a 'high roller' international clientele. They currently have few or no machines, as B1 limits are said to be of no interest to this group. They suggest that the limits for this new machine could be a £50 stake and £100,000 prize. The industry estimates that (if ten high end casinos were to install ten machines each) this could result in +£21m tax revenue, a capital investment in Mayfair casinos of +£10m resulting in non-recoverable VAT of £2m, and a GGY return to the industry of around £52m per year.

Category B2

The betting sector is not seeking an increase in stake or prize limits across the gaming machine categories permitted in licensed betting offices (LBOs) but has argued for the need to maintain the status quo, specifically on B2 gaming machines. Gaming machine suppliers, Inspired gaming and Scientific Games, also submitted evidence in support of the status quo on B2 gaming machines. 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 and has provided economic analysis by KPMG which highlights the potential impact on shop closures of a stake reduction. The ABB's main contention is that there is no correlation between the increased number of B2 machines over time and levels of at-risk and problem gambling during the same period, and that B2 machines do not cause increased harm to problem gamblers, even if the actual number of problem gamblers is not influenced by B2 machines. In addition, they argue that session losses and potential harm is not just about stake, but about the interplay between stake, spin speed and the return to player ratio.

Category B3

Category B3 machines continue to be the fastest growing gaming machine in the market in terms of numbers and GGY. Due to the availability of B3 content on gaming machines in LBOs, this type of gaming machine is actually available on almost 56,000 machines across the casino, betting, arcade and bingo sectors. Across all sectors, they now account for approx £878m¹⁰ in gaming machine GGY (+ 23% increase since 2013/14). B3s received an uplift in maximum stake from £1 to £2 in 2011.

¹⁰ Includes a statistically negligible amount (0.1%) from category B4 and C play.

As outlined above, category B3 gaming machine content is available in a number of different gambling premises. Only the arcade sector (Adult Gaming Centres and Family Entertainment Centres), represented by the British Amusement Catering Trade Association (BACTA), has proposed an increase in the maximum stake limit from £2 to £2.50 on the basis that this would provide an economic stimulus to the sector. No other sectors that can offer B3 content proposed changes to stakes and prizes. In support of its proposals, BACTA commissioned PWC to provide estimates of the economic benefits they would bring. PWC estimate that this uplift would generate £33m (primarily a 6-7% increase in GGY which would equate to £20-23m as well as resulting machine sales) and an increase in taxes of £5m (primarily gaming machine duty). BACTA did not include anything substantial in its response to address the issue of potential harm caused on these machines.

Category B3A/B4

There has been no submission for changes of stake or prizes on these club only gaming machines which occupy a niche in the gaming machine market.

Category C

Category C content (traditional fruit machines) are permitted in bookmakers, arcades, bingo and pubs. Overall there are nearly 72,000 machines across arcades and bingo¹¹ which generated £227.4m in 15/16 (+3% since 2013/14). In addition, there are an estimated 40,000 in pubs which accounts for £594m.¹² The stake and prize limits for category C machines were increased from 50p/£35 to £1/£70 in 2009 and the maximum prize further increased to £100 in 2014.

On category C machines, BACTA, the British Beer and Pub Association (BBPA) and the Greene King pub chain have proposed an increase in the maximum stake to £2 and the maximum prize to £150. They argue that category C machines in the pub and arcade sectors are not economically viable and that previous uplifts have slowed the decline in revenue. Each of these organisations provided estimates of the expected economic impact of this change with varying degrees of supporting analysis.

On behalf of BACTA, PWC estimate that the proposed uplift would generate £72m (primarily increased GGY and machine sales) and £10m tax revenue, with a potential corresponding benefit to the 14-15 manufacturers who produce category C machines. The BBPA argue that the income from gaming machines can be vital in maintaining the economic viability of many pubs. In support of this they have provided evidence suggesting previous increases in 2009 (stake and prize) and 2014 (prize only) led to uplifts in machine revenue and that this proposed increase may see a 10% increase in gaming machine revenue.

The BBPA also argue that there is no evidence to show category C machines in pubs are responsible for any increase in problem gambling and do not propose any corresponding social responsibility measures to accompany this increase.

Category D

Category D content is available in high street arcades (Adult Gaming Centres - AGCs) and seaside arcades (Family Entertainment Centres - FECs). Typical examples of these kinds of machines would be crane grabs and penny pushers, featuring both monetary and non-monetary prizes. The stake and prize limits for most category D gaming machines were last increased in 2009 (coin pushers received a stake and prize increase in 2014) as part of a package of measures brought forward to assist seaside arcades. The most significant change was a new sub-category for crane grab machines with a £1/£50 stake/prize ratio; such machines previously operated at 30p/£8 ratio. Despite these uplifts, overall machine numbers have declined significantly since 2013/14. The arcade sector, represented by BACTA and BALPPA (British Association of Leisure Parks, Piers and Attractions), is seeking changes across five of the sub-categories in category D (see table 5). BACTA argue that these changes would provide an essential stimulus to the

¹¹ 26,715 in arcades (AGCs), 1788 in seaside arcades (FECs) and 43,410 in bingo premises (though this number for bingo is skewed by the use of handheld terminals which are used in large numbers but not technically category C machines).

¹² BACTA commissioned PWC report figures

sector given that whilst costs to the sector are increasing (e.g. introduction of the new £1 coin in April 2017), they cannot increase the price of play or offer more attractive prizes to increase revenue. While cranes and penny pushers have seen increases in recent years, other category D machines, notably reel band gaming machines, have not seen an increase since 1997. PWC estimates that, taken together, these proposed changes would generate £25.9m (primarily increased GGY and machine sales) and an additional £0.6m in tax. Although the available evidence on harm to young people from playing category D machines is inconclusive, neither BACTA nor BALPPA included anything substantial to address the issue of potential harm caused by category D machines.

Prize gaming

The industry is calling for a stake increase from £1 to £2 and prize increase from £70 to £100 (£500 to £1,000 aggregate) on prize gaming. The popularity of prize gaming has waned in recent years and a number of venues have removed their prize bingo units in favour of amusement machines. However, there is still a market for the game, particularly at the seaside. It provides for a more elderly clientele a longer, sociable opportunity akin to bingo but at very much reduced stake and prize levels in a more convenient location.

Gaming machine allocations

Casinos

The National Casino Forum (NCF) asked for several increases to casino machine allocations, arguing that current allocations are extremely restrictive by international standards and given the position of casinos in the regulatory hierarchy of gambling. Their core proposal is that the permitted ratio of machines to tables for Small 2005 Act casinos should increase from 2:1 to 3:1, and larger 1968 Act casinos should be allowed up to 80 machines, subject to the same increased 3:1 ratio as for Small. They suggest that the existing 1968 Act maximum of 20 machines, with no machine to table ratio, should remain available to casinos which are too small to reach their current machine allowance if a ratio applied. They also ask that the cap on machines for Large Casinos should be raised to 500, with the machine to table ratio remaining unchanged at 5:1.

Table 6 - Casino descriptions

| Casino type | Current machine maximum | Current machine: table ratio | Industry request |
|-----------------------------|-------------------------------------------------------|-------------------------------------|---------------------------------------------|
| Small (defined in 2005 Act) | 80 | 2:1 | 3:1 ratio, no change to maximum |
| Large (defined in 2005 Act) | 150 | 5:1 | No change to ratio, increase maximum to 500 |
| Converted 1968 Act licences | 20 if any are category B, otherwise unlimited C and D | No ratio | 3:1 ratio, maximum 80 machines |

The industry estimates that the benefits of allowing a 3:1 ratio across Small and 1968 Act casinos would be: £100m Gross Value Added (GVA) to UK economy; an extra 1,000 jobs, 75% outside London; increased casino revenue of £175m (from all activities, not just machines) and increased tax of £65m. No estimate of benefits was provided for the rise in the Large casino cap.

Adult Gaming Centres (AGCs)

The arcade sector (represented by BACTA) have proposed the introduction of a new category of gaming machine (sub-category B5). The proposal is for the B5 gaming machine to have a maximum stake of £10 and maximum prize of £125, with a proposed spin cycle of 30 seconds. BACTA argue that this new category of machine would allow operators to offer a more varied selection of products including low stake soft roulette or horse racing style products which, due to their popularity, would ensure the machine's commercial viability. BACTA has estimated that each new machine would generate GGY of approximately £300 per week. In support of this proposal, PWC has submitted that the manufacture of 10,000 of these gaming machines would generate an economic benefit of £165m and increased taxes of £25m. There would be a one off benefit from additional machines sales of £39m with £9m in VAT being generated. Accompanying the proposal to introduce a new sub-category of gaming machine (B5) (as set out above), BACTA propose introducing a 10% cap on the number of new B5 machines permitted in an AGC. A cap of 20% for category B3 machines currently exists, this proposal would therefore create a new 30% cap for category B gaming machines in AGCs.

Qualified alcohol licensed premises (public house)

Greene King pub chain (though not the BBPA) submitted a proposal to raise the automatic entitlement of category C or D gaming machines from two to four in pubs. This proposal was not supported with industry estimates for potential revenue change or accompanied by any corresponding social responsibility measures.

Option 3

| | |
|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Option 3 | <p>Illustrative option including:</p> <ul style="list-style-type: none"> ● Reducing maximum stake on B2 gaming machines to £50 ● Status quo across all other stakes and prizes and allocations ● Increase in prize bingo stake from £1 to £2 and prize increase from £70 to £100 (£500 to £1,000 aggregate) |
|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Reducing stake on B2 gaming machines to £50:

On B2 stakes, this option would see maximum stakes reduced to £50. In April 2015 the previous government introduced measures on B2 gaming machines to limit stakes to £50 for players that did not play through an account card or seek approval for stakes above £50 with staff in betting shops. As a result of this measure, there is now a small proportion of play above £50 with approximately 1.5% of sessions now containing stakes between £50 and £100.

Prize bingo

This option would see an increase stake from £1 to £2 and prize increase to £100 (£1,000 aggregate) on prize bingo gaming.

No changes to stake and prizes and allocation for other categories of gaming machines

Stakes and prizes

Category B3:

The government acknowledges that an increase is likely to provide an economic stimulus to the arcade sector, but this should be balanced with the fact that B3 gaming machines are now the fastest growing machine category in terms of GGY and responsible for much of the growth in gaming machine revenue for those sectors that are permitted to offer this content. Government has concerns about an increase to the maximum stake on player protection grounds. Research suggests that there are not insignificant levels of problem gambling amongst players of these machines (4.2% on B3 gaming machines in bingo halls compared to 11.5% on gaming machines in LBOs, both significantly higher than the headline problem

gambling rate)¹³. In addition, industry data obtained by the Gambling Commission during the call for evidence demonstrates that session losses and session duration on B3s have a comparability with B2s. High session losses and durations are good proxies for harm. Government is not therefore convinced that there is a rationale for an increase, but rather, a case for greater player protection measures on this category of machine.

Category B3A/B4

As noted above, in the absence of relevant submissions on these categories, or data available to allow DCMS to properly assess performance within this sector, the government will not be taking forward changes on these machines.

Category C:

The government recognises the concerns that exist across the industry about the performance of this machine category. However, limited data was provided to give clarity as to the effects of previous uplifts to stakes and prizes on this category. From the data provided there remain question marks over whether further uplifts would provide sustained support for this category of machine which appears to be declining in popularity with players, especially in pubs. Government is also concerned about the potential impact on players of another uplift which would give it a comparable maximum stake to a B3 gaming machine, which is not permitted in pubs.

Category D

Whilst there is an economic case to support the affected sectors, Great Britain is the only jurisdiction internationally to permit gambling for under 18s (primarily in seaside arcades and on category D machines) and as such government recognises the heightened concern regarding the prospect of stake and/or prize increases on these categories of machine.

Allocations

Casinos

The government's preferred option is to maintain the status quo on gaming machines permitted in all casinos.

Arcades

The government's preferred option is to maintain the status quo on gaming machines permitted in Adult Gaming Centres (AGCs). We would want to explore in more detail first how the proposed B5 gaming machine would function and any corresponding player protection measures.

Pubs

The government's preferred option is to maintain the status quo with local authorities determining the appropriate number of machines in pubs.

Option 4

| | |
|----------|------------------------------------------------------------------------------------------------------------------------------------|
| Option 4 | Illustrative option including: <ul style="list-style-type: none">Reducing maximum stake on B2 gaming machines to £30 |
|----------|------------------------------------------------------------------------------------------------------------------------------------|

- B2 stakes would be reduced to £30 under this option.

¹³ <http://about.gambleaware.org/media/1311/bingo-research-final-140716.pdf>

Option 5

| | |
|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Option 5 | Illustrative option including: <ul style="list-style-type: none">• Reducing maximum stake on B2 gaming machines to £20 (non slots) and £2 (slots) |
|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|

This option would also reduce the maximum stake on B2 gaming machines to £20 (non slots) and £2 (slots).

Option 6

| | |
|----------|-------------------------------------------------------------------------------------------------------------------------------------|
| Option 6 | Illustrative option including: <ul style="list-style-type: none">• Reducing maximum stake on B2 gaming machines to £2 |
|----------|-------------------------------------------------------------------------------------------------------------------------------------|

A majority of respondents to the call for evidence who raised the issue of stake on B2 gaming machines highlight the discrepancy between the current maximum stake of £100 and the maximum stake on all other accessible gaming machines on the high street of £2, suggesting that £2 would therefore reduce harm to the player.

Benefit / Cost Analysis

Methodology

1. This section of the impact assessment assesses the likely benefits and costs that will accrue to different groups as a result of implementing the government's policy proposals. 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 structure of analysis, proportionality, and technical parameters.

Key areas of impact and the structure of analysis

2. The government's objective is to look across the industry and determine what, if any, changes are needed to strike the right balance between socially responsible growth and the protection of consumers and wider communities. It is anticipated that, if the stake is reduced on B2 gaming machines, as players are unable to stake as much within the same duration of their gambling play, there is likely to be a reduction in overall GGY on B2 machines and a corresponding impact on industry revenue, however, concessions to other sectors help to mitigate some of this reduction for industry wide GGY. For the purpose of the impact assessment, these changes must be considered from both economic and social perspectives.

Proportionality

3. These impacts should be assessed to a level of analytical detail that is proportionate to the intervention being made. There are different factors to take into account when considering proportionality. Firstly, the policy is not irreversible because stake and prize limits for all categories of gaming machine are subject to regular review. Secondly, the regulatory intervention and associated distribution of impacts seeks to strike a balance between allowing normal leisure gamblers use of a product while protecting those who may be at risk. The impact assessment uses existing evidence in combination with contributions from industry and sector specialists.

Presentation of the status quo and other technical issues

4. There are a number of presentational and technical points that apply across different policy options.

The status quo option represents no change and therefore for the purposes of appraisal does not introduce any new benefits or costs that might affect the existing baseline. 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 2017 prices unless otherwise stated.

Framework for analysis

5. To be able to appraise the policy proposal regarding maximum stake size on B2 gaming machines there needs to be a mechanism for relating the proposed regulatory intervention to changes in industry revenue. The mechanism through which it operates is broadly as follows:
 - a. **Percentage of High Staking Players Reducing Stakes to the New Cap:** This is the primary mechanism through which the impacts on industry revenues will be realised. The model assumes that there will be some players who will stake down to the new maximum stake and a proportion of players who will either stop gambling or gamble through other channels. This assumption follows from a report by KPMG on behalf of the Association of British Bookmakers (ABB), who have estimated that, dependent on current stake level, a proportion of customers have a general preference for maintaining machine play at the new stake limit. On this basis, it follows that reduced spend per session is likely to lead to a corresponding decrease in machine GGY. The extent to which people adapt their gambling behaviour as they play at different staking levels is uncertain.
 - b. **Level of Session Adjustment:** Revenue losses might be dampened if some players choose to gamble at a lower stake limit for a longer period. In line with data provided by the Gambling Commission, we estimate how long the average session length changes for the players who opt to stake down. However, those who do not adjust their sessions in this way will on average spend less per session than they were before leading to a negative impact on industry revenues.
 - c. **Attrition from Gambling:** Revenue loss can occur from players playing at the new stake cap and therefore reducing their spend per spin. However, revenue can also be lost from those players who choose not to gamble at the new cap and who choose not to migrate their spend elsewhere. For these players reducing the stake cap on B2 machines takes this spend out of the gambling industry as they choose to not gamble this money.
 - d. **Gambling through other Channels:** Revenue losses might be mitigated if some of the players who choose not to play at the new stake limit migrate their spend to other forms of gambling. According to data provided by the Gambling Commission, a majority of machine gamblers (>75%) also participate in one other form of gambling. It is assumed that for those who gamble through multiple channels currently, migrating spend from one to another will be far more likely than for those players who solely engage in B2 gambling.
6. The framework for analysis gives the basis for quantitatively assessing the impact of the policy options on B2 gaming machines. The way in which this is achieved is described in the following sections.

Establishing the baseline

7. Industry statistics, collected by the Gambling Commission, show that B2 gaming machines in LBOs generated £1.8bn in GGY (15/16). However, players can access other types of gaming machine content on these terminals (primarily B3) so we know that of this £1.8bn, a proportion (around 30%) is attributable to other gaming machine content. This is because industry data is categorised under the highest category of game available on that particular terminal. For example, if a terminal offers category B2 and B3 games, operators attribute all revenue to the B2 machine category. Using Gambling Commission data will therefore overestimate machine revenues on B2 gaming machines.
8. We therefore requested more granular data from the gaming machine suppliers (SG and Inspired Gaming) which provides a breakdown of GGY by content as well as more detail on staking patterns which we have used to develop a more robust baseline.

Impact on Industry Revenues

9. The industry have commissioned a variety of different reports to support their proposals. The impact of these proposals is set out below.

Table 7 - Impact of industry proposals

| Impact of Industry Proposals | | | |
|---------------------------------------------------------------------------------------|-----------------|-------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
| Machine Category | Proposed Stakes | Proposed Prize | Impact on Revenue |
| B1 | £5 | £10,000 (£100,000 linked jackpot) Proposed Table Ratio 3:1 | N/A (NCF argue that it brings it into line with international standards) £100m GVA (approximately £129m GGY) |
| New machine for casinos with high end business models | £50 | £100,000 | £52m GGY |
| B2 | £100 | £500 | N/A (status quo) |
| B3 | £2.50 | £500 | £33m [PWC] |
| B3A | £2 | £500 | N/A (status quo) |
| B4 | £2 | £400 | N/A (status quo) |
| B5 (proposed new category) | £10 | £125 | £165m [PWC] |
| C | £2 | £150 | £72m [BACTA] |
| D non-money prize (other than crane grab machine) | 50p | £10 | £25.9m [PWC] (for all cat D changes) |
| D non-money prize (crane grab machine) | £2 | £75 | £25.9m [PWC] (for all cat D changes) |
| D money prize | 20p | £8 | £25.9m [PWC] (for all cat D changes) |
| D combined money and non-money prize (other than coin pusher or penny falls machines) | 10p | £10 (of which no more than £8 may be money prize) | £25.9m [PWC] (for all cat D changes) |
| D combined money and non-money prize (coin pusher or penny falls machine) | 25p | £22 (of which no more than £12 may be a money prize) | £25.9m [PWC] (for all cat D changes) |

Calculating the impact on revenues

10. Before the technical details of the model to calculate the impact on B2 gaming machine revenue are set out, it is worth explaining the mechanism and assumptions through which the proposed regulatory intervention translates into lower industry revenues.

11. We assume player behaviour varies depending on the extent to which a stake cap would force the player to change their staking behaviour. For the B2 model we separate this into three groups; those staking 3 bands or higher than the stake cap, those staking 2 bands above the proposed cap and those staking in the band above the proposed cap. Below is a series of tables detailing the differing assumptions for each group.

Table 8 - Summary of assumptions underpinning B2 model

| Assumptions of Model - 3 Bands+ above | | | |
|----------------------------------------------|---------|------|-----|
| | Central | High | Low |
| Take up of lower stake | 50% | 90% | 30% |
| Level of session adjustment | 28% | 50% | 0% |
| Attrition | 10% | 40% | 0% |

| Assumptions of Model - 2 Bands above | | | |
|---------------------------------------------|---------|------|-----|
| | Central | High | Low |
| Take up of lower stake | 61% | 90% | 50% |
| Level of session adjustment | 28% | 50% | 0% |
| Attrition | 10% | 30% | 0% |

| Assumptions of Model - 1 Band above | | | |
|--------------------------------------------|---------|------|-----|
| | Central | High | Low |
| Take up of lower stake | 78% | 100% | 60% |
| Level of session adjustment | 28% | 50% | 0% |
| Attrition | 10% | 20% | 0% |

Explanation of what we think will happen based on previous evidence:

Table 9 - Summary of revenue change projections submitted by industry

| Firm | % revenue change |
|-----------------------------|-------------------------|
| KPMG (LBO Only) [£2 stake] | -64.9% |
| KPMG (LBO Only) [£20 stake] | -27.6% |
| KPMG (LBO Only) [£50 stake] | -4.7% |

12. Revenue losses will be dampened by players who choose to stake at the new limit and play for longer than they did previously. There will also be some revenue loss mitigation from players who decide to migrate their spend elsewhere within the gambling industry by gambling through different channels.
13. The model used to produce the revenue change estimate is built upon a method for adjusting plays in each staking band based on variable assumptions similar to those used by KPMG.
14. The method is underpinned by data on spins and total stake – from SG and Inspired for B2 plays. It includes the number of spins and the gross stake expected for each staking category. The return to player ratio at which B2 gaming machines operate is 97.3%, hence a gross win margin of 2.7% for the operator.

Estimated Impact of different measures

15. All estimates below are from our central estimates. For the B2 model, the central estimates are of a similar magnitude to that from the industry report by KPMG. The casino options are used in option 2: Industry proposals.

Stakes and Prize

- B1:*
16. The benefits of introducing a higher progressive linked Jackpot for B1 machines is non-monetised. However, the casino sector argue that by offering higher jackpots there may be a marginal increase in demand for B1 play. This may have a beneficial impact on GGY but the magnitude of this benefit is unquantifiable.

Introduction of a new machine for high end casinos

17. The benefits of a new high stakes machine for casinos with high end business models have been estimated by the NCF. The NCF estimate that each machine will generate £10,000 GGY per week. With an estimated 10 machines in 10 casinos this is equivalent to £1,000,000 GGY per week or £52,000,000 GGY per year.

B2:

18. Given the data available our model adjusts GGY based on changes in player behaviour calculated from the assumptions detailed above. The level of loss is dependent on the stake cap. A lower stake cap is estimated to have a larger cost to industry. Due to the significant departure from previous stake changes, predicting player behaviour becomes less accurate than at higher stake caps. We believe that any reduction in GGY due to a new lower maximum stake is directly linked to a reduction in losses amongst players. Given players that exhibit problematic play contribute disproportionately to B2 GGY¹⁴, this reduction in losses to these players could result in a reduction in harm.

19. No changes for other categories: B3, B3A, B4, C and D. No change in benefit or cost to industry.

Gaming Machine Allocations

Increasing Machine Table allocation ratio in Casinos:

20. The benefit of bringing 1968 Act casinos in line with 2005 Act casinos and increasing the machine table allocation ratio of 3:1 in both types of casino is estimated to provide direct benefits to the industry of £100 million in GVA. This was estimated by Ernst & Young (EY) for the NCF. HMT and DCMS analysts consider the estimates in the report to be reasonably robust and therefore these benefits have been included in this impact assessment. Based on economic statistics of GVA and GGY from the gambling industry, GVA can be converted to GGY with a ratio of 1:1.29¹⁵. Therefore £100m in GVA is equivalent to £129m GGY. A 2:1 Table ratio is estimated by EY to provide a benefit of £71m GGY.

Social Costs/Benefits

21. We expect there to be significant non-monetised benefits to society as a result of a reduction in stake on B2 gaming machines. These benefits accrue via reduced gambling-related harm. It is impossible to accurately quantify these benefits given the data available but given the social costs of gambling-related harm we expect any action taken to limit the prevalence or harm from addiction to have significant positive social benefits.

22. There may a disbenefit associated with restricting gamblers ability to gamble in their preferred way. This is because non-problem gamblers gain utility from staking at the level they wish to, and any restriction of their ability to stake at the level they wish may lead to a loss of utility derived from gambling. This has not been quantified however, steps will be taken during the consultation to address this.

¹⁴ <http://about.gambleaware.org/media/1259/natcen-secondary-analysis-of-loyalty-card-survey-final.pdf> and [What proportion of gambling is problem gambling?](#) Estimates from the 2010 British Gambling Prevalence Survey, Orford, Wardle, Griffiths, 2012.

¹⁵ This is calculated using GC statistics for sector value in GGY and DCMS statistics for sector value in GVA and finding a ratio between them.

Illustrative Options:

Option 3

. B2 stake limited to £50. £35m GGY loss from B2 stake.

| |
|--------------------------------|
| B2 proposed Stake (£50) |
| - £35m |

Option 4:

B2 stake limited to £30. £196m GGY loss from the B2 stake cap.

| |
|--------------------------------|
| B2 proposed Stake (£30) |
| - £196m |

Option 5:

B2 stake limited to £20 (non slots) and £2 (slots). £331m GGY loss from B2 stake cap.

| |
|-------------------------------------------------------|
| B2 proposed Stake (£20 (non slots) £2 (slots)) |
| - £331m |

Option 6:

B2 stake limited to £2. £639m GGY loss from B2 stake cap.

| |
|-------------------------------|
| B2 proposed Stake (£2) |
| - £639m |

Summary of Options:

Table 10 - Summary of options

| Illustrative option | B2 Stake cost | Other Categories |
|----------------------------|----------------------|-------------------------|
| Option 3 | -£35m (£50) | Status Quo |
| Option 4 | -£196m (£30) | Status Quo |
| Option 5 | -£331m (£20/£2) | Status Quo |
| Option 6 | -£639m (£2) | Status Quo |

Potential additions to options

23. There may be some expected additional costs to industry if they are required to increase player protection measures on gaming machines (e.g. tracked play or 'nudge' type measures such as time and spend limits as referenced in the consultation document) however, we do not have the data necessary to estimate this cost and are requesting further data in the consultation document.

24. We are also consulting on whether there is evidence to change spin speed on B2 gaming machines

alongside a stake reduction. Subject to consultation responses, we will adjust our model to take into account changes to spin speed as this works in a similar manner to a stake change.

Industry adjustment costs, on-going costs and supply chain impacts

25. It is expected that adjustment costs required to ensure compliance with the new regulations around B2 play should be low. As B2 gaming machine content is server based it is possible for software updates to be made on a large scale at once. Given the small size of these costs in all likelihood, it is reasonable to assume they are negligible.
26. As B2 machines are largely server based transition costs of additional customer protection measures should be low.

Assessment of impact on competition

27. The changes to industry revenues need to be assessed in terms of their impact upon competition. This can be considered through the lens of substitution.
28. The maximum stake for B2 gaming machines makes this category of machine relatively unique in comparison to other forms of gaming machines available on the high street or other accessible locations. Casinos offer roulette for high stakes, via both live tables and electronic touch bet terminals. The spin speed is significantly slower than for B2 machines. The cost of travelling to a casino and the difference in the environment may be weighed against the additional utility that could be derived from staking above the cap.
29. There are also potential gains for online providers of casino games if high staking B2 roulette players wish to continue staking at similar levels. Players who gamble online as well as on B2 machines at present, or those who move their gambling online, may provide some benefit to online competitors. However, as with casinos, the environment is different and some machine players may not wish or may not be able to switch to account-based online play.
30. Of the possible substitutions which exist for B2 gaming in betting shops, it is important to note that the fundamental nature of B2 gaming may be altered by the proposed regulatory intervention. Whilst we have assumed that all customers previously staking below the cap will continue to play, exact behavioural changes are sensitive to the assumptions in the model. As a result, the proposed regulatory intervention has the potential to result in significant substitution to other gambling products inside or outside betting shops. With the scope for significant amounts of substitution, it is possible that this regulatory change could alter the competitive landscape.

Impact on the Exchequer

31. 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 as per the rules within the Green Book.

Impact on reducing regulation - One-in, Three-Out

32. The method of assessing whether new legislative proposals add to, or subtract from, the current stock of business regulation is known as “One-in-Three-out” (OITO). 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”.
33. The “One-In-Three-Out” (OITO) status of this policy proposal is defined as “IN” because the proposals are regulatory. Given that the proposed regulatory intervention is likely to directly affect player behaviour and therefore industry revenues, the impacts will be classified as direct, included within the OITO framework and scored accordingly as a net cost to businesses. Adjustment and on-going costs can also be classified as direct impacts however, given the current lack of data surrounding them they have not been included in the analysis at consultation stage.

Table 11: Business impact of government preferred option in 2015 prices

| Business Impact | 2015 Prices | | |
|-----------------|-------------|-----|------|
| | Central | Low | High |
| IA Metrics | | | |
| NPV | N/A | N/A | N/A |
| EANCB | N/A | N/A | N/A |

Macroeconomic impacts

34. The framework for analysis only looks at gambling markets through the impact on machine revenues. It does take into account some isolated economic effects in other gambling markets however, it does not attempt to look at the effects on the rest of the economy (general equilibrium) because doing so would be disproportionate relative to the size of the policy impacts expected.

Impacts on individuals and society

35. The Health Survey for England (HSE) 2015 and the Scottish Health Survey (SHeS) 2015 provide information about gambling behaviour in England and Scotland. Further analysis of this data, accompanied by data for Wales, undertaken by NatCen provides in-depth analysis of gambling and problem gambling levels and examines the associations with problem and at-risk gambling. Latest data was published in August.¹⁶

SaMBA

An exemption is not considered appropriate. Allowing some operators (across betting and casino sectors) to continue to offer a maximum stake on B2 gaming machines that government believes may be harmful will compromise the integrity of the policy. This may also perpetuate the harms associated with problem gambling for the individual as well as for the communities where these operators are based.

There is likely to be some small and micro businesses affected by this policy. The illustrative policy options have a variety of components and the bulk of the costs mostly affect betting shops (with a very small proportion of B2 gaming machines offered in some casinos – 204 machines out of a total of 34,388, the remainder offered in betting shops). Therefore, this SaMBA analyses costs and benefits to provide a final figure for each illustrative policy option.

At this stage we do not know how many of the smaller betting operators are independent or just smaller regional chains. We assume all of the smaller/independent operators are “small” operators for the purposes of this IA, and therefore in scope of this SaMBA.

There are approximately 8,788 betting shops in the UK, of which 7,625 are operated by the “big four” gambling operators. At this stage the share of operator costs is assumed to be proportionate for all bookmakers, therefore the cost to SaM businesses is expected to be proportionate. We will look to improve upon this for the final stage IA. The smaller operators have approximately 1,163 shops. Therefore, we estimate that the costs levied on SaM businesses are approximately 13% of the total cost of each option.

Our assumption that all independent or smaller operators can be classified as “small” for the purposes of this SaMBA, means we are probably overestimating the impact on SaM businesses in this assessment. We plan to gather more information during the consultation period with an aim to improving the SaMBA assessment for the final stage IA.

¹⁶ <http://www.gamblingcommission.gov.uk/PDF/survey-data/Gambling-behaviour-in-Great-Britain-2015.pdf>

Impact of illustrative options on SaMBA businesses:

| Costs and Benefits in £m | Option 1 | Option 2 | Option 3 | Option 4 | Option 5 | Option 6 |
|--------------------------|----------|----------|----------|----------|----------|----------|
| Cost to Betting Shops | 0 | 0 | £4.5m | £25.44m | £43.08m | £82.94m |

Conclusions: benefits, and costs of the policy proposal

36. The impact assessment has considered a number of impacts including business revenues, adjustment and on-going costs, and societal impacts. The impact of the proposed regulatory intervention is summarised for the central estimate only in Table 12 below.

Table 12: Summary of impacts of final government proposal with central assumption in present value and constant price terms

| Impact Area | Government Proposal |
|-------------------|---------------------|
| PV Industry costs | N/A |
| EANCB | N/A |
| NPV | N/A |
| Society | non-quantifiable |

ANNEX A - B2 Cost model output

| Stake Cap | Cost to industry | Cost with Slots capped at £2 |
|------------------|-------------------------|-------------------------------------|
| £50 | -£34,716,390.05 | -£91,437,629.81 |
| £40 | -£102,757,888.14 | -£150,356,671.44 |
| £30 | -£195,720,995.54 | -£235,066,865.97 |
| £20 | -£301,486,507.67 | -£331,442,916.18 |
| £10 | -£514,803,486.29 | -£525,822,420.67 |
| £2 | -£638,923,829.66 | -£638,923,829.66 |

ANNEX B - Casino Options

| Option | GGY Increase |
|---------------------------|---------------------|
| 3:1 Table allocation | £129m |
| New casino gaming machine | £52m |