



department for
**culture, media
and sport**

Gambling Act 2005: Category B3 Gaming Machines

Proposals for changes to maximum stake limits and premises' entitlements

2 November 2010

Our aim is to improve the quality of life for all through cultural and sporting activities, support the pursuit of excellence, and champion the tourism, creative and leisure industries.

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Chapter 1: Introduction

Proposals and intended benefits

1.1 The amusement and bingo industries in Britain have come under increasing economic pressure since 2007, with 255 adult gaming centres (AGCs) and 91 bingo clubs being reported by them as closing in this period¹. This is also affecting British gaming machine manufacturers. These sectors argue that difficult trading conditions arising from the economic downturn are being exacerbated by burdens placed upon AGCs and bingo clubs through the Gambling Act 2005 (the Gambling Act). The government is persuaded that the situation facing these industries is sufficiently grave to justify considering whether a small increase in the maximum stake for category B3 gaming machines, that is machines with a maximum stake limit of £1 and a maximum prize limit of £500, and a recalibration of B3 entitlements for AGCs and bingo clubs might be appropriate.

1.2 Category B3 gaming machines are a significant source of income for AGCs and bingo clubs. Therefore, the government wants to explore ways in which it might allow them a greater degree of freedom in making commercial decisions affecting the operation of their businesses within the regulatory framework currently in place. It is hoped this should i) allow operators to generate more revenue with the aim of preventing further closures and job losses; ii) provide a boost to gaming machine manufacturers and suppliers through an increase in orders, again with a view to assisting businesses and protecting jobs. However, any freedoms will not be at the expense of undermining the public protection objectives central to the Gambling Act.

1.3 The amusement industry has recently brought forward two proposals that the government is minded to address now:

- Increase the maximum stake for category B3 gaming machines from £1 to £2; and
- Increase the number of category B3 gaming machines permitted in each AGC to 20% of the premises' total number of machines.

1.4 The first proposal would apply to all premises permitted to offer category B3 gaming machines. Following representations from the bingo industry it has been decided to include bingo clubs in the scope of the second proposal. This consultation explores the viability of these proposals as well as what other options to allocate machine numbers may exist.

1.5 The combined aim of these proposals is to provide a benefit to premises operators, their customers and manufacturers, whilst ensuring that there is no significant increase in the risk posed to the licensing objectives of the Gambling Act.

¹ Figures reported to the Department by the British Amusement Catering Trade Association (BACTA) and the Bingo Association (BA).

Legislative framework

1.6 Section 236(4) of the Gambling Act provides that regulations made by the Secretary of State to define the different categories of gaming machine can include monetary limits on stakes and prizes applying to the different types of machine. The Categories of Gaming Machine Regulations 2007 (SI 2007/2158) were the first use of these powers, and set stake and prize limits on gaming machines which are currently in force. The second use was to amend the stake and prize limits for category C and D gaming machines (SI 2009/1502).

1.7 Section 172(7) of the Gambling Act authorised a holder of a bingo premises licence or an AGC premises licence to offer up to four Category B gaming machines for use on the premises. The Categories of Gaming Machine Regulations 2007, noted above, determined that B3 or B4 machines were the category B machines that could be offered under this provision. Under Section 172(11)(a) of the Act, the Secretary of State is able to make an Order amending any provision of Section 172 so as to vary the number of machines authorised by a specified kind of premises licence. The Gaming Machines in Bingo Premises Order 2009 (SI 2009/324) altered the Act to permit bingo premises to offer up to eight category B gaming machines in February 2009.

Consultation

1.8 This is a public consultation. We particularly seek views from those operating AGCs and bingo clubs, those manufacturing category B3 machines, charities and other organisations with an interest in problem gambling as well as faith and community groups. We would also welcome views from others and all responses will be carefully considered.

1.9 The consultation period will run from 2 November 2010 to 25 January 2011.

1.10 Please respond before the closing date. There is a summary of the questions in Chapter 4. Please send responses to gambling.consultations@culture.qsi.gov.uk. If you do not have access to e mail, please respond to:

Alistair Boon
Gambling Sector Team
Sport and Leisure Directorate
Department for Culture, Media and Sport
2-4 Cockspur Street
London SW1Y 5DH

1.11 This consultation is intended to be an entirely written exercise. Please contact Alistair Boon in the Gambling Sector Team on 020 7211 6000 if you require any other format e.g. Braille, Large Font or Audio.

1.12 For enquiries about the handling of this consultation please contact the DCMS Public Engagement and Recognition Unit (PERU) at the above address or email using the form at www.culture.gov.uk/contact_us, heading your communication "Gambling Act 2005: Category B3 Gaming Machines - Proposals for changes to maximum stake limits and premises' entitlements".

1.13 Copies of responses will be published after the consultation closing date on the Department's website: www.culture.gov.uk

1.14 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 ("FOIA"), the Data Protection Act 1998 ("DPA") and the Environmental Information Regulations 2004.

1.15 If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which

deals, amongst other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

1.16 The Department will process your personal data in accordance with the DPA, and in the majority of circumstances, this will mean that your personal data will not be disclosed to third parties.

1.17 The consultation is guided by the Government's Code of Practice on Consultation which is available at: <http://www.berr.gov.uk/whatwedo/bre/code/page46954.html>

Chapter 2: Background and rationale for intervention

Gaming machines

2.1 According to the British Gambling Prevalence Survey 2007 68% (32 million) of the adult population in Great Britain participate in some sort of gambling activity, with 14% playing gaming machines².

2.2 All commercial gambling in Great Britain (with the exception of spread betting and the National Lottery) is regulated through 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:

Machine category	Maximum stake	Maximum prize
A	Unlimited	Unlimited
B1	£2	£4,000
B2	£100 (in multiples of £10)	£500
B3	£1	£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)

² Gambling Commission, 2007
http://www.gamblingcommission.gov.uk/research_consultations/research/bgps/bgps_2007.aspx

2.3 Most gaming machines played in Great Britain are of the reel-based type, also known as fruit, slot, or jackpot machines. As at 31 March 2009 there were an estimated 248,000 gaming machines in operation, a drop of 13,000 machines from the previous year (see table below).

Number of gaming machines in Great Britain

2005/06	2006/07	2007/08	2008/09	2009/10
235,000	234,000	261,000	248,000	Not yet published

Source: BACTA estimates quoted in Gambling Commission annual reports and industry statistics

2.4 Of these some 11,800 were estimated to be category B3 gaming machines.

Gaming machines publicly available as at 31 March 2009 (by category)

	A	B1	B2	B3	B4	C	D
'000s	0	2.5	27.5	11.8	15.0	121.0	71.0
Annual change %	-	+24	+1.9	-1.7	-11.8	-7.6	-1.6

Source: BACTA estimates quoted in Gambling Commission industry statistics 2008/09

2.5 It is estimated that around 22% of all gaming machines are placed in Adult Gaming Centres (AGCs) while nearly 7% are offered in bingo clubs

Gaming machines by location (estimate of distribution by location):

Location	Percentage	Categories of gaming machine permitted
Adult Gaming Centre	22.4	B3, B4, C, D
Licensed Betting Office	11.6	B2, B3, B4, C, D
Bingo club	6.6	B3, B4, C, D
Casinos	0.8	B1, B2, B3, B4 or C, D
Members and Commercial Clubs	6.5	B3A, B4, C, D
Family Entertainment Centre	26	C, D
Pubs	26	C, D
Others	0.1	D
Total	100	

Source: Gambling Commission Industry Statistics 2007/08

2.6 The majority of category B3 gaming machines are found in AGCs and bingo clubs where they provide a significant source of income for operators. Under the current regulatory framework AGCs are permitted to offer a maximum of four category B3 machines, while bingo clubs are permitted to offer a maximum of eight.

Adult Gaming Centres (AGCs)

2.7 The amusement industry in Great Britain has seen income and profits decline since 2007. The British Amusement Catering Trade Association (BACTA) argue that the industry is caught in a circle of decline, with AGCs seeing a downturn in profit which in turn is causing a reduction in capital spend. As a

result there has been a significant reduction in the order book for suppliers and British manufacturers. BACTA estimate that:

- Revenues across the amusement industry were down 36% overall;
- 255 arcades had closed since 2007 with a loss of 1,360 jobs;
- Revenue across AGCs was down 23%;
- Gaming machine manufacturing output was down 75% overall;
- The total number of gaming machines manufactured in 2009 was 21,939, which represented a 43% decline since 2006 and 71% decline since 2003;
- Employment in the gaming machine manufacturing sector was down by 33% during 2009.

2.8 The industry attributes this decline partly to difficult trading conditions arising from the economic downturn but also to a number of other factors, such as the ban on smoking in enclosed public spaces in July 2007 and, in particular, the implementation of the Gambling Act in September 2007. This is widely perceived in the industry as having placed increased administrative and cost burdens on many businesses. A key problem for AGC operators appears to have been the removal of a popular type of machine (often referred to as 'section 16' machines) that offered a £2 maximum stake and £500 maximum prize. These machines were replaced by category B3 machines (£1 stake/£500 prize) with numbers capped in each AGC at a maximum of four machines.

2.9 The industry also argues that the Gambling Act has taken away the flexibility of businesses to respond to market challenges, the key one in recent years being the growth in the popularity of category B2 gaming machines, previously known as Fixed Odds Betting Terminals (FOBTs) that offer a maximum stake of £100 and maximum prize of £500. These are available to betting shops (four per premises) and have become a major source of income for high street bookmakers, helping to compensate for a decline in traditional betting activity. Operators of AGCs argue that the popularity of these B2 machines has meant their best customers migrating to betting offices.

Bingo Clubs

2.10 The bingo industry has also seen income and profits decline since 2007. According to the Bingo Association:

- 91 bingo clubs closed between 2007 and 2010;
- In 2008, total net revenue for the bingo industry was £704.7m, a drop of 14.2% on the previous year;
- Admissions declined by 12.4m between 2007 and 2008;
- Total bingo industry profits in 2008 were estimated at £121.5m, a drop of 37.5% on the previous year.

2.11 They attribute this decline to the same range of factors experienced by the AGC sector. Like AGCs, bingo clubs also became subject to new controls covering gaming machines implemented by the Gambling Act in September 2007. The Bingo Association estimates that nearly 2,700 'section 21' machines (similar to section 16 machines and also offering a £2 stake/£500 prize) were removed as part of the transition to the new regime. This resulted in a significant drop in revenue for bingo clubs.

2.12 In 2007 the Bingo Association commissioned the Henley Centre to assess the impact on the industry of a range of government policies. The report showed that in 5 months to November 2007 bingo clubs experienced an average drop in revenues of 10.4% and profits of 38%.³

Split premises

2.13 Since the implementation of the Gambling Act in 2007 operators, particularly AGC operators, have opted to split what were hitherto single premises into two or more premises, thereby increasing the number of gaming machines authorised within the same floor space. Although premises licensing is primarily a matter for local authorities, the Gambling Commission sought to clarify a range of important requirements in relation to this matter when it issued an open letter to trade associations and similar guidance to licensing authorities on the subject of 'Definition of Premises' in April 2008⁴. The responses document published in October 2008 further clarified the Commission's position, which was reflected in a revised guidance to licensing authorities in May 2009⁵.

Rationale for intervention

2.14 AGCs make an important contribution to many local economies. They employ nearly 20,000 people across Britain as well as over 3,000 casual (seasonal) workers⁶. Many AGCs are situated in seaside towns, which remain an important part of the UK's visitor economy. The seaside tourist industry in England and Wales directly supports some 210,000 jobs spread across more than 100 resorts, with large numbers of additional jobs also supported indirectly through the supply chain. The estimated value to the economy of the jobs in seaside tourism is around £3,600 million.

2.15 AGCs often form an integral part of the tourism offer in many seaside towns, for example they are a significant element of many pier attractions. They are also significant employers locally, not just in terms of individual premises but also with supporting businesses covering supply and maintenance of gaming machines, which in turn have a direct impact on gaming machine manufacturing in Britain.

2.16 It is estimated that some three million people play bingo in Britain. As at 31 March 2009 there were 641 bingo halls in Great Britain, employing nearly 17,000 people⁷. Bingo clubs also provide a valuable social amenity which has been recognized in research over many years, fulfilling an important social function in many communities. For example the 2007 Henley Centre Report found that for many people, especially older and retired women, bingo is the main or sole leisure pursuit outside of the home⁸.

2.17 Many of the fundamental aspects of gaming machines are regulated through the statutory framework put in place by the Gambling Act, which also reflects the public protection objectives central to the Act. This is as a result of historical concerns about gaming machines and those features of them which could lead to repetitive and excessive play. Regulated aspects include the amount customers can stake in a single game, the amount of prize money that might be won and the maximum numbers of different types

³ Henley Centre, August 2007, Unlucky for Some: The Social Impact of Bingo Club Closures which can be accessed at http://www.culture.gov.uk/images/freedom_of_information/99220henleyreport.pdf

⁴ Gambling Commission <http://www.gamblingcommission.gov.uk/pdf/Definitions%20of%20premises%20-%20April%202008.pdf>

⁵ Gambling Commission
http://www.gamblingcommission.gov.uk/research__consultations/consultations/closed_consultations_with_resp/split_premises_and_primary_gam.aspx

⁶ Gambling Commission Industry Statistics 2008/9

⁷ Gambling Commission Industry Statistics 2008/9

⁸ Henley Centre, August 2007, Unlucky for Some: The Social Impact of Bingo Club Closures which can be accessed at http://www.culture.gov.uk/images/freedom_of_information/99220henleyreport.pdf

of machines that might be situated in each venue. In addition all gaming machines in operation in Great Britain must comply with a rigorous set of technical standards produced by the Gambling Commission⁹.

2.18 This means that the government has a major influence over the product mix, quantity of product available and product pricing of AGCs and bingo clubs. As a consequence these businesses, unlike those in other unregulated industries, have less scope to increase prices to customers in order to cover increases in costs such as, for example, machine costs, labour costs of technical support and tax and duty in order to maintain profitability.

2.19 The maximum stake and prize limits for some categories of gaming machine have been reviewed since September 2007, with regulations implemented in June 2009 to increase stake and prize levels for category C and some category D gaming machines. Maximum stake and prize limits for category C machines were increased from 50p/£35 to £1/£70. In addition, the number of B3 gaming machines that bingo clubs may offer was also increased from four to eight, with regulations enacting this change coming into force in February 2009.

2.20 However, the government is persuaded that the situation facing the amusement and bingo industries in Britain remains sufficiently grave to justify considering whether a small increase in the maximum stake for category B3 gaming machines and a recalibration of machine entitlements for AGC and bingo premises might be appropriate to allow greater operational flexibility, but without jeopardising the principal priority of the Gambling Act to protect the public.

2.21 The government believes that if it doesn't intervene there is a risk that further AGCs and bingo clubs will close, impacting negatively on local economies and wider communities, particularly in the case of bingo clubs where community amenities would be lost.

2.22 The government also believes that it is important to maintain the commercial viability of lower risk gambling premises such as AGCs and bingo clubs so as to ensure customers are offered a choice of different gambling environments. Any restriction in the type of gambling premises available in local communities could have long term consequences for the public protection objectives outlined in the Gambling Act. For example, licensed betting offices offer a harder gambling environment than AGCs and should not be the only type of gambling environment open to players on the high street. At the same time the current practice of operators artificially splitting their premises in certain circumstances brings with it further risks to the licensing objectives.

⁹ Gambling Commission

http://www.gamblingcommission.gov.uk/shared_content_areas/gaming_machines_technical_stan.aspx

Chapter 3: Options

3.1 The government is considering six options in relation to category B3 gaming machines and AGC and bingo premises:

i) Do nothing i.e. maintain current stake of £1 for category B3 gaming machines and current premises entitlements for AGCs and bingo clubs

ii) Increase the maximum stake limit for category B3 gaming machines from £1 to £2

iii) Permit a proportionate increase in the number of category B3 gaming machines in AGCs and bingo clubs to 20% of total number of machines in such premises

iv) For AGCs and bingo clubs permit one category B3 gaming machine per 170 square feet (16 square metres) of licensed area floor space

v) An increase to the maximum stake for category B3 gaming machines combined with a proportionate increase in the number of B3 machines in AGCs and bingo clubs based on machine numbers (option ii combined with option iii)

vi) An increase to the maximum stake for category B3 gaming machines combined with a proportionate increase in the number of B3 machines in AGCs and bingo clubs based on licensed area floor space (option ii combined with option iv)

3.2 These options are described in further detail below, with an analysis of the associated costs and benefits contained in the **Impact Assessment** published alongside this document:

Option 1: Do nothing i.e. maintain current stake of £1 for category B3 gaming machines and current premises entitlements for AGCs and bingo clubs

3.3 This option would involve effecting no change to the *status quo*. The maximum stake limit for category B3 machines would remain at £1 while B3 entitlements would remain at four machines for AGCs and eight machines for bingo premises.

3.4 The rationale for government intervention is set out in chapter 2. However, there is an argument to consider for maintaining the current stake limit and premises entitlements as they currently offer no risk to the licensing objectives central to the Gambling Act, in particular the protection of young people and the vulnerable from harm caused by problem gambling.

3.5 The government believes that without intervention there is a serious risk that significant numbers of AGCs and bingo clubs could continue to close. This would mean further job losses in these sectors as well as potential knock on effects to supporting industries such as gaming machine maintenance, supply and manufacturing. This could have significant economic and wider social impacts on many communities and their local economies

3.6 In addition, further closures of AGCs and bingo clubs could result in customers being offered less choice in terms of gambling environments in seaside towns and on the high street, where AGCs and bingo clubs provide a softer gambling environment for customers who wish to play gaming machines. Maintaining the *status quo* would also not resolve the issue of operators splitting premises.

3.7 It is for these reasons that this option is not the government's preferred option. However, it is recognised that maintaining the *status quo* remains feasible if the consultation process shows that it is the best approach in terms of balancing commercial requirements with protection of the public.

Option 2: Increase the maximum stake for category B3 gaming machines from £1 to £2.

3.8 This option would involve amending the regulations that prescribe stakes and prizes for category B3 machines under section 236 of the Gambling Act. There are three broad benefits that may come from increasing the maximum stake:

- Greater revenue for premises operators;
- Greater revenue for manufacturers and suppliers;
- More enjoyable games for customers.

3.9 Both the amusement and bingo industries argue that a £2 stake is an important factor in allowing them to reinvigorate their B3 gaming machine offer. Implementing this option would essentially reintroduce the £2 stake associated with the 'section 16' and 'section 21' machines that were popular with players prior to their removal by the Gambling Act. Both industries argue it would allow manufacturers to innovate and refresh game design, including exploring multi-staking options which appear to be popular with customers. In addition, BACTA argue that:

- On average the £500 jackpot on a B3 machine is delivered approximately every 5,000 games. By increasing the stake to £2 a game can be designed to provide this reward at a frequency of 1 in 2,500 games;
- With no differential between stake on C and B3 machines players are confused and marketers struggle to find a clear differential to promote between Category C (£1 stake/£70 prize) and category B3 games,
- The delivery of the larger jackpots on a 500:1 ratio is very low, impacting on perceived value by the customer.

3.10 Other options for altering the stake have been considered, but have not been brought forward as recommendations: The government is not proposing a stake between £1 and £2, such as £1.50. In part this is because stakes requiring more than one coin will be considered problematic by the industry (£1.50 being one potential stake that requires only two coins) but also because it is unlikely such a stake would bring the level of benefit required. The government is also not considering altering the maximum prize limit at this time.

3.11 The premises most likely to benefit from an increase in the maximum stake are those in the AGC and bingo sectors. The betting sector may also benefit as licensed betting offices can also offer B3 machines if they choose (and given its machines are largely networked and server based, may be able to implement changes faster than other sectors). However, given that betting premises can offer the higher stake category B2 machines (up to £100, albeit at a slower speed of play) any impact of an increased stake is likely to be less pronounced.

3.12 The proposed stake increase may enable a greater variety of games, or games that are more attractive to players, to be developed. An example given by the industry is that the doubling of stakes would enable the number of jackpots offered to also be doubled, which may be attractive to some players. BACTA has estimated that a £2 stake would bring about an increase of 22% in revenues to AGCs. Assuming a similar increase for bingo clubs, this could equate to some £50m per year in additional revenue across both sectors. Further work is required to understand the basis of BACTA's estimate and how the bingo sector might be affected.

3.13 If the maximum stake was increased manufacturers and suppliers should also enjoy greater revenue for a period of time, benefiting from premises operators purchasing new machines or updating

existing ones. BACTA estimates that a £2 stake might lead to a significant volume of sales in the next three years, against a backdrop of minimal sales expected if there is no increase. The profile of those sales by year would depend on when in the financial year the new stake was introduced, but BACTA predict that while sales would reduce in the third year they would still be significant. It should be noted though that, anecdotally, it appears at present the turnover of category B3 machines appears to be relatively low, with operators not regularly replacing their machines. If that were to continue to be the case after implementing a new stake limit then there is the risk that the market may quickly return to its current low level, thus requiring industry to seek a further impetus to increase sales in due course.

3.14 The potential risks associated with the proposal are broadly that:

- It poses a potential threat to the public protection objectives of the Act;
- It does not bring the benefits envisaged;
- It could negatively affect some parts of the sector it is intended to benefit.

3.15 DCMS will assess the potential threat to the licensing objectives with the Gambling Commission, although the Commission has noted that the availability of comparable stake and prize terminals under the previous regulatory regime did not appear to have any significant impact on the prevalence of problem gambling before the implementation of the Gambling Act. It has also noted that there is little evidence to suggest that a £2 maximum stake would have any significant impact on problem gambling. In addition, as there are already higher stake machines available on the high street, increasing the stake for B3 machines might simply reduce the relative attractiveness of other higher stake machines.

3.16 The government is mindful of the difficulty in predicting whether the proposed increase will bring the benefits that the industry suggests. It notes that a similar increase in the maximum stake for category C machines introduced on 1 June 2009 does not appear to have increased revenue or machine manufacture to the extent predicted by the amusement industry at the time. It also put category C and B3 machines in competition with each other in a way that had not previously been the case. However, an increase in the category B3 stake would not create such issues with any other category and would at least clarify the respective positions of category B3 and C machines.

3.17 The government will also take into consideration the question of whether small AGC and bingo operators would benefit from these changes if they are unable to raise funds to purchase new machines or upgrade their existing ones. It is possible that an increase in the stake limit might benefit those larger operators more able to raise funds and increase market pressure upon smaller operators.

Question 1: Do you agree with the government's proposals for adjusting stake limits to £2 on category B3 gaming machines?

Question 2: Will it provide sufficient benefits (consistent with the licensing objectives of the Gambling Act) to AGCs and bingo clubs, as well as machine manufacturers and suppliers, to outweigh any potential risks?

Question 3: Are there any other options that should be considered?

Options to permit a proportionate increase of Category B3 gaming machines in each AGC and bingo club

3.18 The proposal put forward by the amusement and bingo industries is that 20% of AGCs and bingo premises' machines be permitted to be at category B3. The government wishes to explore this proposal as well as consider whether alternative options may exist that would still permit the number of category B3 machines to be proportionate to the premises concerned. An alternative is considered at option four.

3.19 The aims of altering the basis on the number of category B3 machines permitted is calculated are:

- To ensure that the number of B3 machines is proportionate to the wider offering;
- That the incentive to split premises is removed;
- That the overall effect is positive for both premises based operators and manufacturers and suppliers.

3.20 There are a range of alternative approaches available to achieve similar ends, but the two that the government is seeking views on are:

Option 3: Permit a proportionate increase in the number of category B3 gaming machines in AGCs and bingo clubs to 20% of total number of machines in such premises

Option 4: For AGCs and bingo clubs permit one category B3 gaming machine per 170 square feet (16 square metres) of licensed area floor space

3.21 It is proposed that each of these options is underpinned by allowing all existing premises to retain their allowance of four or eight category B3 machines (depending on whether an AGC or bingo premises), even if the new arrangements would normally mean that their allowance would decrease. All of the options, if combined with the proposed continuation of rights to the current number of permitted category B3 machines for existing premises, could result in more B3 machines being made available for use by customers.

3.22 The government's rationale for considering a change to machine entitlements for AGCs and bingo clubs is set out in chapter 2. Its view is that if existing premises were not permitted to retain their existing machine allowances then some premises may potentially become unviable. Whilst progressing in that vein might support the aim that the number of B3 machines is proportionate to the wider offering, it could negate any overall benefit to the industry.

3.23 Confining retention of the current entitlement to machines to existing premises also avoids introducing an incentive to split existing premises to obtain the maximum entitlement for each subsequent premises.

Question 4: Is it appropriate that existing premises should be allowed to retain their current entitlement to machines, even if they would not be permitted that number of machines under any revised arrangements?

Option 3: Permit a proportionate increase in the number of category B3 gaming machines in AGCs and bingo clubs to 20% of total number of machines in such premises

3.24 This option, in conjunction with the right to retain the current allowance of category B3 machines, would result in an increase in the number of B3s in circulation. An analysis of the Gambling Commission's regulatory returns suggest that, should the overall numbers of machines in AGCs and bingo clubs remain the same, there could be in the region of 3,000 additional category B3 machines permitted under this option, with around 90% being available in AGCs. It is assumed that these machines would replace existing non-B3 gaming machines (i.e. category B4, C and D machines).

3.25 This should enable operators to generate greater revenue from B3 machines. Based on figures supplied by BACTA the government estimates that up to £64.5 million per annum in additional income could be generated across the AGC and bingo industries. This in turn should lead to greater revenues for the manufacturing sector than is currently the case. Furthermore, linking the number of category B3 machines proportionally to the total number of machines would remove the pressure to split premises as no benefit would be gained from it.

3.26 With regards to the practicality of monitoring compliance with such an approach, such issues will be considered in more detail once a proposal has been selected. However, the government feels that it should not be onerous for premises operators to keep a record of the number of gaming machines available at any one time along with the proportion of category B3 machines.

3.27 There are several issues and risks associated with this option. A key risk is whether additional category B3 machines might prejudice the public protection objectives of the Gambling Act. The government will discuss this matter with the Gambling Commission. At present they do not consider a modest increase in the number of category B3 machines available would pose a significant threat to the licensing objectives. However, it does have concerns that the numbers could potentially increase in an unlimited fashion if the implementation of an approach such as this were not handled carefully.

3.28 This option could also lead potentially to additional costs being incurred by AGC and bingo operators. While there is no limit under the regulatory framework as to how many category C and D gaming machines operators may make available to customers, there is a risk they could feel compelled to purchase more of these lower category machines simply in order to boost the number of B3s they are able to offer. Was this the case then purchasing machines not necessary in their own right could undermine any potential benefits to operators.

3.29 In addition, whilst this option should benefit the amusement and bingo industries it could, potentially, negatively affect other sectors of the gambling industry if additional B3 machines were to draw trade from elsewhere, rather than just increasing spending from existing AGC and bingo customers. The betting sector and possibly licensed family entertainment centres (FECs) would be most threatened. However, as discussed at paragraph 2.22 the government believes that harder gambling environments such as licensed betting offices should not be the only type of gambling venue open to customers on the high street. This option is intended to address an imbalance in the Gambling Act which has seen AGC and bingo customers migrate from these premises into harder gambling environments in order to continue playing similar types of machines they had enjoyed previously.

3.30 The government is aware that in some cases a single machine will offer different categories of gaming machine or even a different type of offering entirely, for example bingo. In some cases the number of machines or categories of game available at any one time will be limited, usually linked to the number of Amusement Machine Licence Duty (AMLDD) licences held. Where a gaming machine offers different categories of machines it will be the number of physical machines that is counted for the purpose of calculating the number of B3 machines permitted (rather than three categories of game on one machine counting as three machines). Where a machine offers gaming machine products and another product the number of AMLDD licences will be used to determine the number of machines for the purposes of calculating the permitted number of category B3 machines.

3.31 The government did consider a variation of this option where the number of permitted category B3 machines would be linked only to the number of category C and B3 machines available for use, rather than all machines. This alternative was proposed as it could be potentially inappropriate for the number of B3 machines to be dependent on the number of category D machines which can be played by children (except in AGCs). It was rejected because it was felt unlikely to bring any meaningful benefit to AGC or bingo operators. Analysis of the Gambling Commission's regulatory returns suggest that on this basis, should the overall numbers of machines in AGCs and bingo premises remain the same, there could have been in the region of 500 less category B3 gaming machines permitted (on the hypothetical basis that those machines would replace existing non-B3 categories of gaming machines) than is now the case. The most affected

would be the AGC sector. The proposal that any premises would be permitted to retain their existing allocation would have therefore rendered the overall effect of this option as likely to be neutral.

Question 5: Is the approach taken in Option 3, permitting 20% of the total number of machines in an AGC or bingo premises to be at category B3, feasible?

Question 6: Do you have any comments on the approach proposed in Option 3?

Option 4: For AGCs and bingo clubs permit one category B3 gaming machine per 170 square feet (16 square metres) of licensed area floor space

3.32 Option 4 is significantly different to option 3 in that it seeks to link the number of category B3 gaming machines to the licensed floor space of an AGC or bingo club. This, in conjunction with the right for existing premises to retain their existing allowance of category B3 machines, should enable a commercially significant number of additional category B3 machines into the market, depending on the ratio set. Accordingly, it should bring benefits similar to those outlined under option 3 in terms of enabling greater revenues to premises operators, manufacturers and suppliers. Based on figures supplied by BACTA the government estimates that up to £44.7 million per annum in additional income could be generated across the AGC and bingo industries by this option. In addition, linking the number of machines to floor space would also remove any benefit from premises splitting.

3.33 The government recognises that defining a ratio covering the area required per machine for AGCs and bingo clubs is likely to be a contentious topic. However, it could be a pragmatic approach to ensuring that the number of category B3 machines would be proportionate to the size of the premises. It has been calculated that one B3 machine per 200 square feet of licensed area floor space (approximately 18.5 square metres) would ensure that roughly the same number of B3 machines remain available as is presently the case (an estimated 11,800 according the Gambling Commission industry statistics 2008/09). The figure has been calculated from an analysis of the existing number of machines across a limited number of premises (including across split premises). On this basis a range of different ratios have been considered:

Ratio	Number of B3 gaming machines (approx.)
One B3 machine per 200 square feet	11,800
One B3 machine per 180 square feet	13,111
One B3 machine per 170 square feet	13,880
One B3 machine per 150 square feet	17,700
One B3 machine per 100 square feet	23,600

3.34 The government considers that one B3 machine per 170 square feet would deliver an increase in B3 gaming machines roughly in line with what has been proposed by the amusement and bingo industries and to a scale that would minimize any risk to the licensing objectives of the Gambling Act. To go beyond this level of increase would, in the opinion of government, significantly raise that risk. **The government is asking consultees specifically to consider this figure.** Underpinning this option is the assumption that existing premises would retain their right to four or eight machines as a minimum. Any changes made under this option in respect of bingo premises would not supersede the Gambling Commission’s licence condition concerning primary purpose.

3.35 The potential risk of negatively affecting other sectors, set out in section 3.29 above, is also applicable here.

3.36 The additional benefits of this option are largely in comparison to the risks posed by option 3. The overall numbers of B3 gaming machines could not be increased disproportionately to the size of the premises in the way that is theoretically possible under option 3 by densely populating it with lower

category gaming machines. Accordingly, it does not potentially undermine the approach taken in the Gambling Act. Furthermore it would not encourage premises operators to purchase category C or D machines that they would not otherwise be required in order to be permitted additional category B3 machines.

3.37 The government will discuss the potential threat to the licensing objectives with the Gambling Commission. At present, for the reasons set out in section 3.36 the Commission would not expect this option to have any significant impact on the level of risk to the licensing objectives inherent to the Gambling Act.

3.38 As with the other options consideration will need to be given as to how compliance with such an approach would be monitored in a straightforward manner. Premises operators will know the size of their licensed area (shown on the plans used to secure their premises licence) and the number of category B3 machines they have in place and should be able to demonstrate that their premises is operating within the permitted framework.

Question 7: Is the approach taken in Option 4, relating the number of machines to the floor space in the premises, feasible?

Question 8: Do you have any comments on the approach proposed in Option 4?

Question 9: If Option 4 was implemented, one machine should be permitted for how many square metres of floor space in an AGC or bingo club? Why have you proposed this figure?

Question 10: Should the figure for bingo clubs and AGCs differ? If so, how and why?

Other possibilities

3.39 A range of other approaches around proportionally increasing the number of category B3 gaming machines made available in AGCs and bingo clubs have been considered by the government but these have not been brought forward for consultation. These are detailed below:

3.40 A number of possibilities for managing a potential reduction in the number of category B3 machines an AGC or bingo club is entitled to as a result of options 3 or 4 were considered and rejected. These included allowing any premises, including new ones, to benefit from the current entitlements for B3 gaming machines and allowing a transitional period during which existing premises could retain their existing B3 entitlement. It was felt that these approaches would either fail to reduce the incentive for operators to split their premises in some cases or that, depending on which option might be implemented, it would not be possible for some businesses to make sufficient changes to ensure their premises would remain viable, even with a transitional period. In each case the overall benefit to the industry would still be reduced.

3.41 Other options were considered in a similar vein to options 3 and 4 above. Three options in particular were looked at but have been provisionally rejected.

- The government did not consider it appropriate to change the number of permitted category B machines to a new fixed number (for example permitted five machines in an AGC rather than four), largely because that has previously led to premises being split.
- An approach linking the number of category B3 gaming machines to the number of non-legacy machines (legacy machines are those that were in place before the new Act came into effect and had to meet less stringent standards than those compliant with the new technical standards) was considered but rejected. There are comparatively few non-legacy machines currently in the market and this option, whilst potentially boosting the manufacturing and suppliers market, could put a lot of pressure on premises operators to invest in a number of machines at once, which may not be affordable.

- The government did not think it would be appropriate to remove all restrictions on the number of category B3 machines in AGCs and bingo clubs. Maintaining the current approach of four and eight machines for AGCs and Bingo respectively, whilst not favoured by the AGC and bingo industries, also remains an option.

3.42 A series of options have been considered that would combine an increase in the maximum stake limit for category B3 gaming machines with a recalibration of premises entitlements. These are:

Option 5: An increase to the maximum stake for category B3 gaming machines combined with a proportionate increase in the number of B3 machines in AGCs and bingo clubs based on machine numbers (option 2 combined with option 3)

Option 6: An increase to the maximum stake for category B3 gaming machines combined with a proportionate increase in the number of B3 machines in AGCs and bingo clubs based on licensed area floor space (option 2 combined with option 4)

3.43 These options would combine an increase in the maximum stake for category B3 gaming machines to £2 with an increase in the maximum number of these types of machines permitted in AGC and bingo premises. The government believes these are viable options to consider as:

- Introducing an increase in the maximum stake limit only will not address wider regulatory issues and in particular the economic pressures put on operators to artificially split premises in order to offer more higher category gaming machines;
- Increasing the maximum stake should provide some benefit to operators and manufacturers but the benefit would be limited. Combining this proposal with more flexibility in machine numbers would bring greater benefit.

Question 11: Is the approach taken in Option 5, combining an increase in the maximum stake for B3 machines with permitting 20% of the total number of machines in an AGC or bingo premises to be at category B3, feasible?

Question 12: Is the approach taken in Option 6, combining an increase in the maximum stake for B3 machines with permitting a proportionate increase in the number of B3s in AGC or bingo premises based on licensed area floor space, feasible?

Government's preferred option

3.44 At this stage the government is not proposing a preferred option. This consultation is designed to explore the viability of proposals put forward by the amusement and bingo industries and to consider what other options and mechanisms to allocate machine numbers may be available in order to find the best approach that will benefit these industries without undermining the protection of the public.

3.45 The government wishes to make it clear that in bringing forward these options for consultation stake limits and premises' entitlements will continue to operate as part of the wider framework of regulation introduced by the Gambling Act. AGCs will continue to be non-accessible to people under the age of 18, whilst stringent controls regarding entry by under-18s to areas in bingo premises offering gaming machines are already in operation via the mandatory conditions attached to premises licences. Protections for consumers will continue to be secured through operating licences which are issued by the Gambling Commission. These are required by all those who manufacture, supply, install, maintain, adapt or repair gaming machines. The system is underpinned by the Licence Conditions and Code of Practice (LCCP) which all licensees must adhere to¹⁰. The government believes that the risks posed to the licensing

¹⁰Gambling Commission http://www.gamblingcommission.gov.uk/publications_guidance_advic/lccp.aspx

objectives by these options are minimal as the regulatory framework currently in place is robust enough to mitigate these.

Question 13: Which of the six options outlined in chapter 3 would your favour, and why?

Question 14: Are there any other potential options you feel that the government should consider, and why?

Chapter 4: Summary of consultation questions

4.1 You are invited to comment freely on any aspect of this consultation document. However, you may find it useful to refer to the checklist of questions below, which cover the main points on which we would welcome views. Where possible, please:

- Be as specific as possible in your responses;
- Explain, where possible, the reasons behind your agreement or disagreement with a proposal;
- Suggest what alternative you would prefer in place of any proposals you may disagree with.

Question 1: Do you agree with the government's proposals for adjusting stake limits to £2 on category B3 gaming machines?

Question 2: Will it provide sufficient benefits (consistent with the licensing objectives of the Gambling Act) to AGCs and bingo clubs, as well as machine manufacturers and suppliers, to outweigh any potential risks?

Question 3: Are there any other options that should be considered?

Question 4: Is it appropriate that existing premises should be allowed to retain their current entitlement to machines, even if they would not be permitted that number of machines under the revised arrangements?

Question 5: Is the approach taken in Option 3, permitting 20% of the total number of machines in an AGC or bingo premises to be at category B3, feasible?

Question 6: Do you have any comments on the approach proposed in Option 3?

Question 7: Is the approach taken in Option 4, relating the number of machines to the floor space in the premises, feasible?

Question 8: Do you have any comments on the approach proposed in Option 4?

Question 9: If Option 4 was implemented, one machine should be permitted for how many square metres of floor space in an AGC or bingo club? Why have you proposed this figure?

Question 10: Should the figure for bingo clubs and AGCs differ? If so, how and why?

- Question 11: Is the approach taken in Option 5, combining an increase in the maximum stake for B3 machines with permitting 20% of the total number of machines in an AGC or bingo premises to be at category B3, feasible?
- Question 12: Is the approach taken in Option 6, combining an increase in the maximum stake for B3 machines with permitting a proportionate increase in the number of B3s in AGC or bingo premises based on licensed area floor space, feasible?
- Question 13: Which of the six options outlined in chapter 3 would your favour, and why?
- Question 14: Are there any other potential options you feel that the government should consider, and why?



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