

<b>Title:</b> <b>Gambling Act 2005: Category B3 Gaming Machines</b>  <b>Lead department or agency:</b> Department for Culture, Media and Sport <b>Other departments or agencies:</b> Gambling Commission	<b>Impact Assessment (IA)</b>
	<b>IA No:</b> DCMS 007
	<b>Date:</b> 21/09/2010
	<b>Stage:</b> Consultation
	<b>Source of intervention:</b> Domestic
	<b>Type of measure:</b> Secondary legislation
<b>Contact for enquiries:</b> Alistair Boon 020 7211 6486	

## Summary: Intervention and Options

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

The amusement and bingo industries have come under increasing economic pressure since 2007, with 255 adult gaming centres (AGCs) and 91 bingo clubs reported by them as closing in this period. British gaming machine manufacturers have also been affected. Both sectors argue that difficult trading conditions arising from the economic downturn are being exacerbated by burdens placed on AGC and bingo clubs through the Gambling Act 2005. The government is persuaded that the situation facing these industries is sufficiently grave to justify considering whether a small increase in the stake limit for category B3 gaming machines (a significant source of income for AGCs and bingo clubs) and a recalibration of B3 machine entitlements for AGC and bingo clubs might be appropriate.

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

The government wants to give AGCs and bingo clubs more operational flexibility and freedom to take commercial decisions to prevent further closures and job losses. Allowing greater freedoms for AGC and bingo operators will also boost the gaming machine manufacturing and supply sectors through increases in their order book. The government aims to bring in these changes without undermining the public protection objectives central to the Gambling Act.

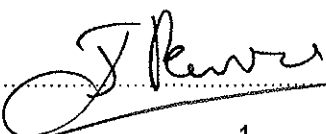
### What policy options have been considered? Please justify preferred option (further details in Evidence Base)

- (1) Do nothing
- (2) Increase the maximum stake limit for category B3 gaming machines from £1 to £2;
- (3) Permit a proportionate increase of the number of B3 machines in AGCs and bingo clubs to 20% of the total number of machines in such premises;
- (4) For AGCs and bingo clubs permit one category B3 gaming machine per 170 square feet (16 square metres) of licensed area floor space;
- (5) A combination of an increase to maximum stake for B3 machines and proportionate increase in number of B3s in AGCs and bingo clubs based on machine numbers (a combination of option 2 with option 3);
- (6) A combination of an increase to maximum stake for B3 machines and proportionate increase in number of B3s in AGCs and bingo clubs based on licensed area floor space (a combination of option 2 with option 4).

<b>When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?</b>	It will be reviewed 05/2011
<b>Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?</b>	Yes

**SELECT SIGNATORY Sign-off** For consultation stage Impact Assessments:

*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: 25/10/10

# Summary: Analysis and Evidence

## Policy Option 1

Description:

Do nothing

Price Base Year 2009	PV Base Year 2009	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Unknown	High: Unknown	Best Estimate: N/A

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	No change	N/A	No change	No change
High	No change		No change	No change
Best Estimate	N/A		N/A	N/A

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

The regulatory regime would continue in its current form, with no new costs imposed on AGC or bingo operators. Incentives would still remain for businesses to split their premises artificially in order to increase the number of B3 gaming machines they can offer, meaning they would still be required to pay for two separate premises licences and incur higher operating costs.

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

Statutory regulations covering the product mix, quantity of product available and product pricing for AGCs and bingo clubs mean that these businesses will continue to have only limited scope to increase prices to customers in order to cover cost increases such as, for example, machine costs, labour costs of technical support and tax and duty in order to maintain profitability.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	None	N/A	None	None
High	None		None	None
Best Estimate	N/A		N/A	N/A

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

None. The current regulatory regime constrains the offer of category B3 gaming machines in AGCs and bingo clubs, reducing their attractiveness relative to higher stake category B2 machines found in licensed betting offices. This has affected the competitiveness of many AGCs and bingo clubs on the high street and is a significant contributory factor to the scale of closures outlined on page 1.

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

Maintaining the status quo would mean retaining current stake limit and premises entitlements which are considered to offer no significant risk to the licensing objectives central to the Gambling Act, in particular the protection of vulnerable people from harm caused by problem gambling.

### Key assumptions/sensitivities/risks

Discount rate (%) 3.5

- (i) Without government intervention there is a serious risk that AGCs and bingo clubs will continue to close, meaning further job losses across both sectors and knock on effects to supporting industries such as gaming machine maintenance, supply and manufacturing;
- (ii) Continuing closures are likely to impact on local communities, both in economic and social terms;
- (iii) Maintaining the status quo would not resolve regulatory concerns around the issue of operators splitting premises.

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB: N/A	AB savings: N/A	Net: N/A	Policy cost savings: N/A	No

## Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			Great Britain		
From what date will the policy be implemented?					
Which organisation(s) will enforce the policy?			Gambling Commission and licensing authorities		
What is the annual change in enforcement cost (£m)?			None		
Does enforcement comply with Hampton principles?			Yes		
Does implementation go beyond minimum EU requirements?			No		
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			Traded: N/A		Non-traded: N/A
Does the proposal have an impact on competition?			Yes		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			Costs: N/A		Benefits: N/A
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro N/A	< 20 N/A	Small N/A	Medium N/A	Large N/A
Are any of these organisations exempt?	No	No	No	No	No

## Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
<b>Statutory equality duties<sup>1</sup></b> <a href="#">Statutory Equality Duties Impact Test guidance</a>	No	
<b>Economic impacts</b>		
Competition <a href="#">Competition Assessment Impact Test guidance</a>	Yes	36
Small firms <a href="#">Small Firms Impact Test guidance</a>	Yes	38
<b>Environmental impacts</b>		
Greenhouse gas assessment <a href="#">Greenhouse Gas Assessment Impact Test guidance</a>	No	
Wider environmental issues <a href="#">Wider Environmental Issues Impact Test guidance</a>	No	
<b>Social impacts</b>		
Health and well-being <a href="#">Health and Well-being Impact Test guidance</a>	Yes	39
Human rights <a href="#">Human Rights Impact Test guidance</a>	No	
Justice system <a href="#">Justice Impact Test guidance</a>	No	
Rural proofing <a href="#">Rural Proofing Impact Test guidance</a>	No	
<b>Sustainable development</b> <a href="#">Sustainable Development Impact Test guidance</a>	No	

<sup>1</sup> Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

# Summary: Analysis and Evidence

## Policy Option 2

### Description:

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

Price Base Year 2009	PV Base Year 2009	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: £345m	High: £422m	Best Estimate: N/A

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£5.9m	N/A	£5.9m
High	£82.6m	N/A	£82.6m
Best Estimate	N/A	N/A	N/A

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

No compulsory costs to AGCs, bingo clubs, manufacturers or suppliers, but non-compulsory costs will be incurred by operators and manufacturers as they invest in new machines or purchase upgrade kits in order to take advantage of higher stake levels. The costs above are based on all B3 gaming machines currently in AGCs and bingo clubs in Britain being replaced within 1 year of the introduction of a new stake limit.

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

Amusement Machine Licence Duty (AMLD): Under the current AMLD structure a category B3 gaming machine with a £2 stake would default to a B2 licence category. While this would have no impact as both types of machine face the same rate of AMLD, it's likely HM Treasury would seek to amend the AMLD bands. Further work is underway to identify whether any other costs that might be incurred by operators, suppliers, manufacturers or regulators.

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	£49.7m	£49.7m	£428m

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

BACTA estimate a maximum stake of £2 would increase revenue from B3 machines to AGC operators by 22% (it is not clear yet what period this figure relates to). Benefits have been calculated on the assumption of a 22% increase to the total estimated gross gaming yield (GGY) for B3 machines per year over a 10 year period. A similar increase has been assumed for the bingo industry (no equivalent data is yet available). At present GGY data is provisional.

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

BACTA estimate a new pricing structure for B3s would also lead to an ancillary increase in revenue from category C gaming machines of approximately 20%, along with manufacturing outputs increasing as operators seek to refresh their offer to customers with new machines. No data is yet available to allow these benefits to be quantified. In addition, AGC and bingo customers could benefit from more attractive and appealing games being made available to them.

#### Key assumptions/sensitivities/risks

Discount rate (%) 3.5

- (i) Public protection: Doubling the stake for B3s, combined with increased chances to hit jackpots, could encourage more vulnerable persons to gamble more frequently and with more money. Evidence indicates this did not happen under the previous regulatory regime;
- (ii) Limited data: It is difficult for government to be sure that a £2 stake will bring benefits on the scale estimated by the amusement and bingo industries but we have taken this as the best estimate available;
- (iii) Impact on small operators: In theory small operators might not benefit if they are unable to raise funds to purchase new machines or upgrade existing ones. This might benefit only larger operators more able to raise funds. However, no one is suggesting this within AGC/bingo sector.

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB: N/A	AB savings: N/A	Net: N/A	Policy cost savings: N/A	No

## Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			Great Britain		
From what date will the policy be implemented?			06/04/2011		
Which organisation(s) will enforce the policy?			Gambling Commission and licensing authorities		
What is the annual change in enforcement cost (£m)?			None		
Does enforcement comply with Hampton principles?			Yes		
Does implementation go beyond minimum EU requirements?			No		
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			Traded: N/A		Non-traded: N/A
Does the proposal have an impact on competition?			Yes		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			Costs: N/A		Benefits: N/A
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro N/A	< 20 N/A	Small N/A	Medium N/A	Large N/A
Are any of these organisations exempt?	No	No	No	No	No

## Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
<b>Statutory equality duties<sup>2</sup></b> <a href="#">Statutory Equality Duties Impact Test guidance</a>	No	
<b>Economic impacts</b>		
Competition <a href="#">Competition Assessment Impact Test guidance</a>	Yes	36
Small firms <a href="#">Small Firms Impact Test guidance</a>	Yes	38
<b>Environmental impacts</b>		
Greenhouse gas assessment <a href="#">Greenhouse Gas Assessment Impact Test guidance</a>	No	
Wider environmental issues <a href="#">Wider Environmental Issues Impact Test guidance</a>	No	
<b>Social impacts</b>		
Health and well-being <a href="#">Health and Well-being Impact Test guidance</a>	Yes	39
Human rights <a href="#">Human Rights Impact Test guidance</a>	No	
Justice system <a href="#">Justice Impact Test guidance</a>	No	
Rural proofing <a href="#">Rural Proofing Impact Test guidance</a>	No	
<b>Sustainable development</b> <a href="#">Sustainable Development Impact Test guidance</a>	No	

<sup>2</sup> Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

# Summary: Analysis and Evidence

## Policy Option 3

### Description:

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

Price Base Year 2009	PV Base Year 2009	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: £534m	High: £554m	Best Estimate: N/A

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£1.5m	1	N/A	£1.5m
High	£21m		N/A	£21m
Best Estimate	N/A		N/A	N/A

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

No compulsory costs to AGCs, bingo clubs, manufacturers or suppliers, but non-compulsory costs will be incurred by operators and manufacturers as they invest in new machines or purchase upgrade kits in order to take advantage of new B3 entitlements. The costs above are based on an estimated additional 3,000 B3s being introduced into AGCs and bingo clubs in Britain within 1 year of the introduction of new entitlements (based on Gambling Commission analysis of 2009 regulatory returns).

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

Amusement Machine Licence Duty (AMLD): Operators will face increased AMLD costs if they replace category C or D gaming machines with B3s.  
Removing incentives for operators to artificially split their premises in order to offer more profitable category B3 machines could mean a drop in income to licensing authorities as operators 'merge' previously split premises, thus paying for only one premises licence.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	N/A	1	N/A	N/A
High	N/A		N/A	N/A
Best Estimate	£64.5m		£64.5m	£555m

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

This option would allow a higher proportion of an AGC or bingo club's gaming machine offer to be B3s machines. These are more profitable for operators and this option could permit an estimated 3,000 additional B3s onto the market, with 90% located in AGCs (based on analysis of data from the 2009 regulatory returns and assuming the overall number of gaming machines in AGCs and bingo clubs remained the same). Benefit is calculated on the average (provisional) GGY per reported B3 over 10 years.

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

Manufacturing output should increase as operators seek to refresh their B3 offer (data is not yet available to indicate how much manufacturing revenue might increase by). Removing incentives for operators to split their premises in order to offer more B3 machines would mean less applications to licensing authorities to split premises and vary licences. It would also mean operators paying for one premises licence rather than two.

#### Key assumptions/sensitivities/risks

Discount rate (%) 3.5

- (i) Public protection: More B3s in AGCs and bingo clubs could encourage vulnerable persons to gamble more frequently and with more money.. However, evidence indicates this did not happen under the previous regulatory regime;
- (ii) Possible inefficiencies: Operators could feel compelled to purchase more category C & D machines that are not necessary in their own right simply to boost the number of B3s they can offer.
- (iii) Competition: This option could draw trade from other sectors of the gambling industry. However, it is also intended to redress the imbalance in the Gambling Act which has forced people out of AGCs/bingo clubs into harder gambling environments to play machines they had enjoyed previously.

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB: N/A	AB savings: N/A	Net: N/A	Policy cost savings: N/A	No

## Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			Great Britain		
From what date will the policy be implemented?			06/04/2011		
Which organisation(s) will enforce the policy?			Gambling Commission and licensing authorities		
What is the annual change in enforcement cost (£m)?			None		
Does enforcement comply with Hampton principles?			Yes		
Does implementation go beyond minimum EU requirements?			No		
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			Traded: N/A		Non-traded: N/A
Does the proposal have an impact on competition?			Yes		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			Costs: N/A		Benefits: N/A
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro N/A	< 20 N/A	Small N/A	Medium N/A	Large N/A
Are any of these organisations exempt?	No	No	No	No	No

## Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
<b>Statutory equality duties<sup>3</sup></b> <a href="#">Statutory Equality Duties Impact Test guidance</a>	No	
<b>Economic impacts</b>		
Competition <a href="#">Competition Assessment Impact Test guidance</a>	Yes	36
Small firms <a href="#">Small Firms Impact Test guidance</a>	Yes	38
<b>Environmental impacts</b>		
Greenhouse gas assessment <a href="#">Greenhouse Gas Assessment Impact Test guidance</a>	No	
Wider environmental issues <a href="#">Wider Environmental Issues Impact Test guidance</a>	No	
<b>Social impacts</b>		
Health and well-being <a href="#">Health and Well-being Impact Test guidance</a>	Yes	39
Human rights <a href="#">Human Rights Impact Test guidance</a>	No	
Justice system <a href="#">Justice Impact Test guidance</a>	No	
Rural proofing <a href="#">Rural Proofing Impact Test guidance</a>	No	
<b>Sustainable development</b> <a href="#">Sustainable Development Impact Test guidance</a>	No	

<sup>3</sup> Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

# Summary: Analysis and Evidence

## Policy Option 4

### Description:

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

Price Base Year 2009	PV Base Year 2009	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: £370m	High: £384m	Best Estimate: N/A

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£1m	1	N/A	£1m
High	£14.6m		N/A	£14.6m
Best Estimate	N/A		N/A	N/A

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

No compulsory costs to AGCs, bingo clubs, manufacturers or suppliers, but non-compulsory costs will be incurred by operators and manufacturers as they invest in new machines or purchase upgrade kits in order to take advantage of new B3 entitlements. The costs above are based on an estimated additional 2,080 B3s being introduced into AGCs and bingo clubs in Britain within 1 year of the introduction of new entitlements (based on Gambling Commission analysis of 2009 regulatory returns).

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

Amusement Machine Licence Duty (AMLD): Operators will face increased AMLD costs if they replace category C gaming machines with B3s.  
Removing an incentive for operators to artificially split their premises in order to offer a higher number of more profitable category B3 gaming machines could mean a drop in income to licensing authorities as operators 'merge' previously split premises, thus paying for only one premises licence.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	N/A	1	N/A	N/A
High	N/A		N/A	N/A
Best Estimate	£44.7m		£44.7.8m	£384m

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

This option would also allow AGC and bingo operators to offer a greater number of the more profitable B3 machines. It's been calculated that the proposed ratio should permit an estimated additional 2,080 B3 machines to come onto the market, generating a significant increase in revenues for operators and manufacturers. It's been assumed 90% of new machines would be located in AGCs. Benefit is calculated on the average (provisional) GGY per reported B3 over 10 years.

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

Manufacturing output would increase as operators seek to refresh their offer to customers with new machines but no figures are yet available to indicate how much manufacturing revenue would increase by. Removing an incentive for operators to split their premises in order to offer a higher number of B3 machines would mean less applications to licensing authorities to split premises and vary licences. It would also mean operators paying for one premises licence rather than two.

#### Key assumptions/sensitivities/risks

Discount rate (%) 3.5

- (i) Public protection: More B3s in AGCs and bingo clubs could encourage vulnerable persons to gamble more frequently and with more money.. However, evidence indicates this did not happen under the previous regulatory regime;
- (ii) Competition: This option could draw trade from other sectors of the gambling industry. However, it is also intended to redress the imbalance in the Gambling Act which has forced people out of AGCs/bingo clubs into harder gambling environments to play machines they had enjoyed previously.

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB: N/A	AB savings: N/A	Net: N/A	Policy cost savings: N/A	No



## Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			Great Britain		
From what date will the policy be implemented?			06/04/2010		
Which organisation(s) will enforce the policy?			Gambling Commission and licensing authorities		
What is the annual change in enforcement cost (£m)?			None		
Does enforcement comply with Hampton principles?			Yes		
Does implementation go beyond minimum EU requirements?			No		
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			Traded: N/A		Non-traded: N/A
Does the proposal have an impact on competition?			Yes		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			Costs: N/A		Benefits: N/A
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro N/A	< 20 N/A	Small N/A	Medium N/A	Large N/A
Are any of these organisations exempt?	No	No	No	No	No

## Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

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Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
<b>Statutory equality duties<sup>4</sup></b> <a href="#">Statutory Equality Duties Impact Test guidance</a>	No	
<b>Economic impacts</b>		
Competition <a href="#">Competition Assessment Impact Test guidance</a>	Yes	36
Small firms <a href="#">Small Firms Impact Test guidance</a>	Yes	38
<b>Environmental impacts</b>		
Greenhouse gas assessment <a href="#">Greenhouse Gas Assessment Impact Test guidance</a>	No	
Wider environmental issues <a href="#">Wider Environmental Issues Impact Test guidance</a>	No	
<b>Social impacts</b>		
Health and well-being <a href="#">Health and Well-being Impact Test guidance</a>	Yes	39
Human rights <a href="#">Human Rights Impact Test guidance</a>	No	
Justice system <a href="#">Justice Impact Test guidance</a>	No	
Rural proofing <a href="#">Rural Proofing Impact Test guidance</a>	No	
<b>Sustainable development</b> <a href="#">Sustainable Development Impact Test guidance</a>	No	

<sup>4</sup> Race, disability and gender impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

# Summary: Analysis and Evidence

## Policy Option 5

### Description:

An increase to the maximum stake for B3 gaming machines combined with a proportionate increase in the number of B3s in AGCs and bingo clubs based on machine numbers (option 2 combined with option 3)

Price Base Year 2009	PV Base Year 2009	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: £1188m	High: £1284m	Best Estimate: N/A

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£7.4m	1	N/A	£7.4m
High	£103.6m		N/A	£103.6m
Best Estimate	N/A		N/A	N/A

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

These are non-compulsory costs based from the assumption that operators would replace the estimated existing 11,800 B3 gaming in AGCs and bingo clubs and install an estimated 3,000 new B3 machines.

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

Costs as described under options 2 and 3.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	N/A	1	N/A	N/A
High	N/A		N/A	N/A
Best Estimate	£150m		£150m	£1291m

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

Key monetised benefits are described under options 2 and 3 i.e increased revenue from existing category B3 gaming machines resulting from an increase in the maximum stake limit plus additional revenue from an estimated 3,000 new B3 gaming machines with a £2 maximum stake.

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

Key non-monetised benefits are described under options 2 and 3.

Key assumptions/sensitivities/risks	Discount rate (%)
The risks and sensitivities associated with this option are outlined under options 2 and 3.	3.5

Impact on admin burden (AB) (£m):	Impact on policy cost savings (£m):	In scope
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New AB: /A	AB savings: N/A	Net: N/A	Policy cost savings: N/A	No
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## Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			Great Britain		
From what date will the policy be implemented?			06/04/2011		
Which organisation(s) will enforce the policy?			Gambling Commission and licensing authorities		
What is the annual change in enforcement cost (£m)?			None		
Does enforcement comply with Hampton principles?			Yes		
Does implementation go beyond minimum EU requirements?			No		
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			Traded: N/A		Non-traded: N/A
Does the proposal have an impact on competition?			Yes		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			Costs: N/A		Benefits: N/A
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro N/A	< 20 N/A	Small N/A	Medium N/A	Large N/A
Are any of these organisations exempt?	No	No	No	No	No

## Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
<b>Statutory equality duties<sup>5</sup></b> <a href="#">Statutory Equality Duties Impact Test guidance</a>	No	
<b>Economic impacts</b>		
Competition <a href="#">Competition Assessment Impact Test guidance</a>	Yes	36
Small firms <a href="#">Small Firms Impact Test guidance</a>	Yes	38
<b>Environmental impacts</b>		
Greenhouse gas assessment <a href="#">Greenhouse Gas Assessment Impact Test guidance</a>	No	
Wider environmental issues <a href="#">Wider Environmental Issues Impact Test guidance</a>	No	
<b>Social impacts</b>		
Health and well-being <a href="#">Health and Well-being Impact Test guidance</a>	Yes	39
Human rights <a href="#">Human Rights Impact Test guidance</a>	No	
Justice system <a href="#">Justice Impact Test guidance</a>	No	
Rural proofing <a href="#">Rural Proofing Impact Test guidance</a>	No	
<b>Sustainable development</b> <a href="#">Sustainable Development Impact Test guidance</a>	No	

<sup>5</sup> Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

## Summary: Analysis and Evidence

## Policy Option 6

### Description:

An increase to the maximum stake for B3 machines combined with a proportionate increase in the number of B3s in AGCs/ bingo clubs based on licensed area floor space (option 2 combined with option 4)

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: £986m	High: £1077m	Best Estimate: N/A

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£6.9m	1	N/A	£6.9m
High	£97.2m		N/A	£97.2m
Best Estimate	N/A		N/A	N/A

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

These are non-compulsory costs based on the assumption that operators would replace the estimated existing 11,800 B3 gaming in AGCs and bingo clubs and install an estimated 2,080 new B3 machines.

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

Costs as described under options 2 and 4.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	N/A	1	N/A	N/A
High	N/A		N/A	N/A
Best Estimate	£125.9m		£125.9m	£1084m

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

Key monetised benefits are described under options 2 and 4 i.e increased revenue from existing category B3 gaming machines resulting from an increase in the maximum stake limit plus additional revenue from an estimated 2,080 new B3 gaming machines with a £2 maximum stake.

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

Key non-monetised benefits are described under options 2 and 4.

#### Key assumptions/sensitivities/risks

The risks and sensitivities associated with this option are outlined under options 2 and 4.

Discount rate (%)

3.5

Impact on admin burden (AB) (£m):

Impact on policy cost savings (£m):

In scope

New AB: N/A	AB savings: N/A	Net: N/A	Policy cost savings: N/A	No
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## Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			Great Britain		
From what date will the policy be implemented?			06/04/2011		
Which organisation(s) will enforce the policy?			Gambling Commission and licensing authorities		
What is the annual change in enforcement cost (£m)?			None		
Does enforcement comply with Hampton principles?			Yes		
Does implementation go beyond minimum EU requirements?			No		
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			Traded: N/A		Non-traded: N/A
Does the proposal have an impact on competition?			Yes		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			Costs: N/A		Benefits: N/A
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro N/A	< 20 N/A	Small N/A	Medium N/A	Large N/A
Are any of these organisations exempt?	No	No	No	No	No

## Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

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<b>Economic impacts</b>		
Competition <a href="#">Competition Assessment Impact Test guidance</a>	Yes	36
Small firms <a href="#">Small Firms Impact Test guidance</a>	Yes	38
<b>Environmental impacts</b>		
Greenhouse gas assessment <a href="#">Greenhouse Gas Assessment Impact Test guidance</a>	No	
Wider environmental issues <a href="#">Wider Environmental Issues Impact Test guidance</a>	No	
<b>Social impacts</b>		
Health and well-being <a href="#">Health and Well-being Impact Test guidance</a>	Yes	39
Human rights <a href="#">Human Rights Impact Test guidance</a>	No	
Justice system <a href="#">Justice Impact Test guidance</a>	No	
Rural proofing <a href="#">Rural Proofing Impact Test guidance</a>	No	
<b>Sustainable development</b> <a href="#">Sustainable Development Impact Test guidance</a>	No	

<sup>6</sup> Race, disability and gender impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

## Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

### References

Include the links to relevant legislation and publications, such as public impact assessment of earlier stages (e.g. Consultation, Final, Enactment).

No.	Legislation or publication
1	Gambling Act 2005 <a href="http://www.opsi.gov.uk/ACTS/acts2005/ukpga_20050019_en_1">www.opsi.gov.uk/ACTS/acts2005/ukpga_20050019_en_1</a>
2	The Categories of Gaming Machine Regulations (SI 2007/2158) <a href="http://www.legislation.gov.uk/search?title=&amp;year=2007&amp;number=2158&amp;type=all">http://www.legislation.gov.uk/search?title=&amp;year=2007&amp;number=2158&amp;type=all</a>
3	The Categories of Gaming Machine Regulations (SI 2009/1502) <a href="http://www.legislation.gov.uk/search?title=&amp;year=2009&amp;number=1502&amp;type=all">http://www.legislation.gov.uk/search?title=&amp;year=2009&amp;number=1502&amp;type=all</a>
4	Gaming Machines in Bingo Premises Order 2009 (SI 2009/324) <a href="http://www.legislation.gov.uk/uksi/2009/324/contents/made">http://www.legislation.gov.uk/uksi/2009/324/contents/made</a>
5	Gambling Commission annual reports and industry statistics <a href="http://www.gamblingcommission.gov.uk/gh-about_us/annual_report_and_accounts.aspx">http://www.gamblingcommission.gov.uk/gh-about_us/annual_report_and_accounts.aspx</a>
6	British Gambling Prevalence Survey 1999 and 2007 <a href="http://www.gamblingcommission.gov.uk/research__consultations/research/bgps.aspx">http://www.gamblingcommission.gov.uk/research__consultations/research/bgps.aspx</a>

+ Add another row

### Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

#### Annual profile of monetised costs and benefits\* - (£m) constant prices

	Y <sub>0</sub>	Y <sub>1</sub>	Y <sub>2</sub>	Y <sub>3</sub>	Y <sub>4</sub>	Y <sub>5</sub>	Y <sub>6</sub>	Y <sub>7</sub>	Y <sub>8</sub>	Y <sub>9</sub>
Transition costs										
Annual recurring cost										
Total annual costs										
Transition benefits										
Annual recurring benefits										
Total annual benefits										

\* For non-monetised benefits please see summary pages and main evidence base section



Microsoft Office  
Excel Worksheet

## Evidence Base (for summary sheets)

### Issue

1. According to the British Gambling Prevalence Survey 2007 (Gambling Commission, 2007 [http://www.gamblingcommission.gov.uk/research\\_consultations/research/bgps/bgps\\_2007.aspx](http://www.gamblingcommission.gov.uk/research_consultations/research/bgps/bgps_2007.aspx)) 68% (32 million) of the adult population in Great Britain participate in some sort of gambling activity, with 14% playing gaming machines.
2. 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:

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)

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 from the previous year of 13,000 machines (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

4. Of these it is estimated some 11,800 were 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

5. It is estimated that around 22% of 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

6. The majority of category B3 gaming machines are found in AGCs and bingo clubs where they provide a major element of operators' income. For example analysis by the Gambling Commission of the regulatory returns for 2009 suggest B3 gaming machines generate an average of £20,000 in gross gaming yield (GGY) per machine for AGCs and £35,000 per machine for bingo clubs. It is estimated that the total GGY from B3 gaming machines in 2009 was somewhere in the region of £162 million for AGCs and £65 million for bingo clubs. 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.
7. Operators of AGCs and bingo clubs have come under increasing economic pressure since 2007. Data provided by these sectors show that over this period 255 AGCs have closed (representing a loss of some 1,360 jobs) along with 91 bingo clubs (no data available on job losses). The amusement and bingo industries attribute these pressures to a range of issues:
- The introduction of the ban on smoking in enclosed public spaces in July 2007, which they say has had a disproportionate effect on gambling premises;
  - Difficult trading conditions arising from the economic downturn over this period;
  - The implementation of the Gambling Act in September 2007, which the amusement and bingo industries argue has imposed increased administrative and cost burdens on many businesses and taken away their flexibility to respond to these sorts of economic and market challenges;
  - Increased competition from licensed betting offices which offer category B2 gaming machines, previously referred to as Fixed Odds Betting Terminals, which the amusement and bingo industries argue have drawn away many customers from AGCs and bingo clubs;
8. Underpinning these issues is the withdrawal of certain types of machines known as 'section 16' and 'section 21' machines from AGCs and bingo clubs following the implementation of the Gambling Act. Prior to then, technological advancements saw the introduction of what are now known as B2 machines into high street betting offices and the introduction of similar machines into AGCs and bingo clubs (referred to as 'section 21' and 'section 16' machines by operators in reference to the Lotteries and Amusement Act 1976). These machines exploited loopholes in the legislation to offer payouts of up to £500 with a maximum stake of £2. These machines proved popular with AGC and bingo customers (although no data about revenue is available) but in terms of machine numbers, location, access and stake and prize limits they sat outside of the regulatory framework.



9. The legality of these machines was far from clear. The government resolved the issue through the Gambling Act by categorising them as B3 machines with a £1 maximum stake and £500 maximum prize. The Act also introduced limits on the numbers of these machines per premises (increased from four to eight for bingo clubs only in 2009). Operators argue that the removal of these section 16/21 machines and the introduction of further regulatory restrictions have prevented the industry from countering increasing costs and developing new products to maintain its customer base.
10. To help counter these economic pressures the amusement and bingo industries have asked the government to consider increasing the maximum stake for category B3 machines from £1 to £2 and to introduce a proportionate increase of B3 machines in AGCs and bingo clubs to a maximum of 20% of the total number of machines per establishment.
11. The government is content that the regulatory arrangements across the range of gambling environments in Great Britain are broadly appropriate, but is persuaded there is a case for considering whether some recalibration of the scheme is necessary to allow more commercial flexibility for AGCs and bingo clubs in relation to category B3 gaming machines. It will consider the industries' proposal and explore other options that might achieve the same objective. At the same time it is important to consider the level of regulation in terms of risk to the licensing objectives of the Gambling Act and in particular to the protection of children and vulnerable adults.

### **Background: Adult Gaming Centres (AGCs)**

12. The British amusement industry 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 is in turn causing a reduction in capital spend. As a result there has been a significant reduction in the order book for suppliers and manufacturers. BACTA estimates 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, representing a 43% decline since 2006 and 71% decline since 2003;
  - Employment in the gaming machine manufacturing sector was down by 33% during 2009.
13. The amusement industry attributes this decline partly to the difficult trading conditions arising from the economic downturn over this period and partly to the more specific factors referred to in paragraph 7, including the smoking ban. Whilst it is difficult to assess how much of the decline might be attributable to this particular factor research published by the Gambling Commission in 2009 does show that, among other things, cigarette smokers are more likely than non-smokers to gamble (Gambling Commission March 2009, *Gambling, alcohol consumption, cigarette smoking and health: findings from BGPS 2007*).
14. The most important factor attributed by the industry to the decline of revenues is the implementation of the Gambling Act in September 2007. They argue this has increased administrative and cost burdens on many businesses. A key problem for AGC operators has been the removal of popular 'section 16' machines offering 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 to a maximum of four machines. No figures are available as to the number of section 16 machines removed from AGCs but there is enough anecdotal evidence to suggest the cut in stake from £2 to £1 and the limited numbers of B3 gaming machines has been received badly by customers.
15. The industry also argues that the Gambling Act has taken away the flexibility of businesses to respond to other economic and market challenges. AGCs have been affected by the growth in 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 seen their best customers migrate to betting offices.

16. Unfortunately, no consistent data is available regarding the number of customers using AGC and betting premises over the last few years. It is clear though that the number of B2 machines has increased, with an estimated 24,500 FOBTs in operation in 2005/6, rising to 27,500 in 2007/8 (BACTA estimates quoted in Gambling Commission Industry Statistics and annual reports <http://www.gamblingcommission.gov.uk/gh-about-us/annual-report-and-accounts.aspx>). Mintel estimates that the gaming machine market grew by an estimated 19% between 2008 and 2009 to reach a total value of £2.42 billion, with this growth driven by category B2 gaming machines in betting shops. They argue this masks an estimated decline of around £100 million a year elsewhere in the market (Mintel, January 2010 <http://academic.mintel.com/sinatra/oxygen/display/id=480771>).

## Background: Bingo Clubs

17. The bingo industry has also seen income and profits decline significantly 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 had 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.
18. The industry attributes this decline to the same range of factors experienced by the AGC sector. Like AGCs it also became subject to new controls implemented by the Gambling Act. The Bingo Association estimates that as a result of the Act nearly 2,700 'section 21' machines (similar to section 16 machines and offering a £2 stake/£500 prize) were removed as part of the transition to the new regime. These machines were popular with customers and their removal resulted in a significant drop in revenue for bingo clubs.
19. 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% (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](http://www.culture.gov.uk/images/freedom_of_information/99220henleyreport.pdf)).
20. These trends have continued and appear to be reflected in figures for gross gaming sales for bingo:

1 April to 31 March	Bingo: Gross gaming sales £million
2004/05	1,783
2005/06	1,826
2006/07	1,820
2007/08	1,620
2008/09	1,694

Source: Gambling Commission Industry Statistics 2008/09

## Rationale for Intervention

21. AGCs make an important contribution to many local economies. They employ nearly 20,000 people as well as over 3,000 casual (seasonal) workers (Gambling Commission Industry Statistics 2008/9). 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.
22. 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.
23. 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 people (Gambling Commission Industry Statistics 2008/9). Bingo clubs also provide a valuable social amenity which has been recognised 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 home.

24. Many aspects of gaming machines are regulated through the statutory framework put in place by the Gambling Act, reflecting the Act's public protection objectives. This is as a result of historical concerns about gaming machines and features on them which could lead to repetitive and excessive play. Regulated areas 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 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 Commission.
25. This means that central 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.
26. 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.
27. The government is persuaded that the situation facing the amusement and bingo industries in Britain is sufficiently grave to justify considering whether a small increase in the maximum stake for category B3 gaming machines and a recalibration of B3 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.
28. If the government doesn't intervene there is a risk that further AGCs and bingo clubs will close, impacting negatively on local economies and wider communities. In the case of bingo clubs valuable community amenities would also be lost.
29. It is also 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. The government believes that any restriction in choice could have long term consequences for the public protection objectives of the Gambling Act. For example, as licensed betting offices offer a harder gambling environment than AGCs it is arguable that they should not be the only type of gambling environment open to players on the high street. At the same time economic pressures have seen many AGC operators artificially splitting their premises and paying for two separate premises licenses in order to offer a higher number of more profitable gaming machines. This brings with it further risks to the licensing objectives as well as increasing economic and administrative burdens for operators and regulators alike.

## **Policy Objectives**

30. The government believes the regulatory arrangements across the different types of gambling environments covered by the Gambling Act are broadly appropriate. However, there is a case for considering whether some recalibration of the scheme is necessary for AGCs and bingo clubs. Through this policy the government is seeking to achieve five objectives:
  - To allow AGCs and bingo clubs a greater degree of freedom in making commercial decisions affecting the operation of their businesses within the regulatory framework currently in place
  - To permit these greater freedoms without undermining public protection objectives of the Gambling Act
  - To achieve benefits for AGCs and bingo but not to the detriment of other types of gambling businesses and without imposing any additional compulsory costs or regulatory burden onto the industry (AGCs, bingo and wider)
  - To ensure no AGCs and bingo clubs are disadvantaged by any new proposals

- To ensure minimal burdens are imposed on the Gambling Commission or licensing authorities by any new proposals.
31. In order to achieve these objectives certain aspects of the current regulations covering the use of category B gaming machines in AGCs and bingo clubs will need to be amended, specifically the maximum stake levels and the maximum number of B3s that AGCs and bingo clubs are permitted to offer.
  32. Secondary legislation will be required to achieve these objectives. The power to make regulations prescribing stakes and prizes for category B3 gaming machines is contained in section 236 of the Gambling Act and the parameters are currently set out in the Categories of Gaming Machines Regulations 2007 (as amended). Further regulations will therefore be required to increase the maximum stake for B3 machines.
  33. The number of category B machines authorised by the appropriate premises licences is prescribed in section 172 of the Gambling Act. There is a power in section 172(11) to alter the number of machines authorised by a particular type of premises licence by Order. An Order under section 172(11) would therefore be required.

## Options

34. The government is considering six options in relation to category B3 gaming machines and AGC and bingo premises:
  - i) Do nothing i.e. maintain the current stake limit 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);
35. At this stage the government is not minded to consider any increase to the maximum prize limit for category B3 gaming machines as the current limit of £500 seems broadly appropriate for the current level of gambling taking place in premises entitled to offer these machines. Any increase above this could pose some risk to the public protection objectives of the Gambling Act. The government would require a business case before it could consider any such proposal. It should be noted that this is not something the amusement industry is pushing for but it has been raised by the bingo industry in the past.
36. The government has also considered other options in a similar vein to the six outlined above but has chosen not to bring these forward for consideration:
37. It was considered whether a proposed stake between £1 and £2, such as £1.50 would be appropriate. This was discounted because stakes requiring more than one coin are considered problematic by the industry (£1.50 being one potential stake that requires only two coins) and such a level would be unlikely to bring the level of benefit sought.
38. It was not considered appropriate to change the number of permitted category B3 machines to a new fixed number (for example permitting five machines in an AGC rather than four) as this would not have resolved the issue of operators splitting premises, as outlined in paragraph 29.
39. Options including linking the number of category B3 machines in AGC and bingo premises to the number of non-legacy machines were considered (legacy machines are those that were in place

before the Gambling Act came into effect in September 2007 and so meet less stringent standards than those compliant with the Gambling Commission's current technical standards). It was decided not to take this forward as there are comparatively few non-legacy machines currently in the market. This option might have offered a boost to the manufacturing and suppliers market, but it could also have resulted in pressure being put on AGC and bingo operators to invest in a number of machines at once. This might not be an affordable option for many smaller businesses.

40. 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. In its view, to do so would significantly undermine the public protection objectives of the Gambling Act.

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

41. This option would entail maintaining the current maximum stake for category B3 machines of £1 and current premises entitlements of eight machines for bingo clubs and four machines for AGCs.

Positives	Negatives
Would maintain current stake limit and premises entitlements which are considered to 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.	Without government intervention there is a serious risk that significant numbers of AGCs would continue to close. This could mean further job losses of the scale outlined in paragraph 12. There could also be knock on effects to support industries such as gaming machine maintenance, supply and manufacturing.
	Further closures of AGCs could have a significant impact on seaside towns, not only in terms of jobs (both permanent and seasonal) but also undermining the tourist offer of coastal resorts e.g. where amusement arcades are integral to pier attractions. This could have a wider impact on some local visitor economies.
	There is also a serious risk that significant numbers of bingo clubs would continue to close. This would mean closures on the scale outlined on paragraph 17 and potentially deprive communities of local amenities that provide an important social function for many people.
	Further closures of AGCs and bingo clubs would result in customers being offered less choice in terms of gambling environments in seaside towns and on the high street. AGCs and bingo clubs provide a softer gambling environment for customers who wish to play gaming machines.
	Maintaining the status quo would not resolve the issue of operators splitting premises, as outlined in paragraph 29.

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

42. This option would involve amending the regulations that prescribe stakes and prizes for B3 machines under section 236 of the Gambling Act.
43. 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. They argue it would allow manufacturers to innovate and refresh game design, including exploring multi-staking options which appear to be popular with customers. BACTA have made the following points regarding a £2 stake:
- On average the £500 jackpot 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.

Positives	Negatives
Operators of AGCs and bingo premises argue that an increase in the stake limit to £2 would allow them to refresh their gaming machine offer in order to make them more attractive to customers, which would lead to an increase in revenue for operators e.g. BACTA has estimated that the proposed stake increase would bring about an estimated 22% increase in revenues to AGCs.	Any increase in stake levels could prejudice the public protection objectives outlined in the Gambling Act e.g. doubling the stake for B3 machines combined with increased chances to hit jackpots could encourage vulnerable persons to gamble more frequently and with more money.
Manufacturers and suppliers could also be expected to enjoy greater revenue for a period, benefiting from premises operators purchasing new machines or updating their existing machines. 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.	It is difficult to predict whether such an increase would bring the benefits that the industry estimates e.g. a similar increase in 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 and has potentially put category C and B3 machines in competition with each other in a way that was not the case previously.
£2 would be the maximum stake. Research into play of category B3 gaming machines by BACTA indicates that the new stake and prize ratio produced by a £2 stake would mean that in real terms the average stake would increase to approximately £1.60.	There is also a question of whether small 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 this change might benefit those larger operators more able to raise funds and increase pressure on smaller operators.

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

44. This option would involve bringing forward an Order to amend section 172 of the Gambling Act.
45. This option covers the proposal put forward by both the amusement and the bingo industries: that 20% of an AGC's and bingo club's machines are permitted to be at category B3. Altering the basis on which the maximum number of category B3 gaming machines permitted is calculated aims to:
- Ensure that the number of higher stake machines is proportionate to the wider offering;
  - Ensure the incentive for operators to artificially split premises is removed;
  - Ensure the overall effect is positive for both premises based operators and manufacturers and suppliers.
46. Underpinning this option would be the retention of the current entitlement of four or eight machines as a minimum for smaller premises. If existing premises were not permitted to retain the existing machine allowances then some premises may potentially become no longer viable under this option. It could be argued that continuing in such a vein might support the aim that the number of category B3 gaming machines is proportionate to the wider offering, but such an approach risks negating any overall benefit to the amusement and bingo industries.
47. This option would result in an increase in the number of category B3 machines in circulation.

Positives	Negatives
The popularity of category B3 gaming machines with AGC and bingo customers means that allowing a greater number of these types of machine into circulation should enable operators to generate greater revenue, in turn leading to greater revenues for the manufacturing sector.	It is arguable that additional category B3 gaming machines could pose a threat to the licensing objective of the Gambling Act and in particular the protection of young people and the vulnerable from the harm that can be caused by problem gambling, particularly if numbers were to increase in an unlimited fashion.
AGC and bingo clubs will benefit from greater operational and commercial flexibility, allowing them to pitch their gaming machine offer to meet customer demand. This will allow them to maintain and hopefully grow their customer base, thus helping businesses to achieve longer term stability.	Whilst the numbers of additional category B3 gaming machines that could be made available based on the current number of machines in bingo premises and AGCs could be relatively modest, the number of B3 machines has the potential to increase substantially. There is a risk that category C or D machines could be purchased simply to allow more category B3 machines rather than because they were genuinely expected to be used.
Linking the number of category B3 gaming machines proportionally to the total number of machines available in an AGC or bingo club would remove the pressure on operators to split premises as no benefit would be gained from it.	Whilst additional category B3 gaming machines might benefit the AGC and bingo sectors they could potentially negatively affect other sectors such as the betting sector and licensed family entertainment centres e.g. these additional machines could draw trade from elsewhere rather than just increasing spending from existing customers.

48. A variation of this option was considered where the number of category B3 gaming machines would be linked to the number of category C and B3 gaming machines available for use rather than all machines. This was because it was considered potentially inappropriate for the use of category D machines, which could be played by children (although not in AGCs) to justify the number of B3 machines that could be made available. The option was rejected on the grounds that it was unlikely to bring any additional B3 gaming machines into use on top of those already available, thereby offering no potential benefit to operators or manufacturers.

**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**

49. This option is significantly different to option 3 as it proposes linking the number of category B3 gaming machines to the floor space of a venue. This would bring additional category B3 machines into the market and, accordingly, bring similar benefits to option 3 in terms of enabling greater revenues to premises operators, manufacturers and suppliers. Linking the number of machines to floor space would also remove incentives to artificially split premises.
50. It's recognised 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 would remain available as is presently the case (an estimated 11,800 according the Gambling Commission industry statistics 2008/09). 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

51. It's been calculated that one B3 machine per 170 square feet should deliver an estimated additional 2,080 B3 machines. This is roughly in line with what has been proposed by the amusement and bingo industries and to a scale that would minimise any risk to the licensing objectives of the Gambling Act. To go beyond this level of increase would, in the government's opinion, significantly raise that risk. **The government will ask 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.
52. In addition to the considerations outlined in option 3 the following points should also be taken into account:

Positives	Negatives
The overall numbers of B3s could not be increased disproportionately to the size of the premises in the way that might be theoretically possible under option 3 by packing in lower category machines.	The area required per category B3 gaming machine for AGC and bingo premises is likely to be a contentious topic.
It would not encourage premises operators to purchase category C or D gaming machines that they would not otherwise in order to be permitted additional category B3 machines.	



**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)**

53. 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 (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.

## Costs and Benefits

54. An issue to address as part of the consultation will be the collection of further data to underpin the options outlined above. The gambling industry in Great Britain is diverse and covers a wide range of activities, many of which are often quite specialised in nature. The fragmented nature of the industry as a whole means it is difficult for the government to collect robust and consistent data.

55. The Gambling Commission collects data about different sectors of the gambling industry through regulatory returns and from licensing authorities but the quality of this data is variable. The Gambling Commission publishes this data as part of its annual reports and more recently as a separate document covering industry statistics. However, there is only a limited amount of information that can be ascertained from the regulatory returns, for example while they can show the number of licences in operation to operate, supply or manufacture gaming machines they cannot show the number of individual sites in operation.

56. Therefore the government intends to work with the amusement and bingo industries as part of the formal consultation process to further develop a cost/benefit analysis for options outlined below.

## Options: Summary of Costs and Benefits

Option	Costs		Benefits (Present Value) (over 10 years)	Net Benefit (Present Value) (over 10 years)	
	Low	High		Low	High
1	No change	No change	None	None	None
2	£5.9m	£82.6m	£428m	£345m	£422m
3	£1.5m	£21m	£555m	£534m	£554m
4	£1m	£14.6m	£384m	£370m	£384m
5	£7.4m	£103.6m	£1291m	£1188m	£1284m
6	£6.9m	£97.2m	£1084m	£986m	£1077m

## Analysis

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

#### Costs

##### Operators

57. This option will not impose any compulsory costs on AGCs, bingo clubs, gaming machine manufacturers or suppliers. It will be a commercial decision for operators as to whether they invest in new gaming machines should there be an increase in the stake limit for category B3 machines. It is reasonable to assume that the majority of operators will invest in new products in order to benefit from the new limits in the ways discussed above.
58. At this stage it is possible only to provide a rough approximation of the costs that might be incurred by operators should they chose to upgrade or replace their gaming machine offer. These costs would be dependent on factors such as the type of gaming machine in question, manufacturers' costs, contracts with suppliers and whether the machine in question is a terminal (which would require a software download) or a physical cabinet offering a single game.
59. Broadly speaking, there are two options open to operators:
- Invest in new gaming machines: Prices for new B3 gaming machines range from £1,000 for low-end rebuilt machines to £7,000 for new high-end video machines (estimates provided by the Gambling Commission);
  - Purchase kits from suppliers and manufactures to upgrade existing machines: Prices for such kits cost between £500 for rebuilt physical reel band-type machines to £2,000 for high end video-type machines (estimates provided by the Gambling Commission).

##### Description of range of estimated costs:

Upgrade kit for low end machine (rebuilt physical reel band)	£500 - £1,000
Upgrade kit for high end machine (video)	£1,000 - £2,000
Rebuild machine (low end)	£1,000 - £1,500
New machine (physical reel band type)	£2,000 - £3,000
New machine (video – high end)	£5,000 - £7,000

Source: Gambling Commission

60. On this basis it would cost an operator of an AGC entitled to a maximum of four category B3 gaming machines somewhere between £4,000 and £28,000 to upgrade or replace their products; and between £8,000 and £56,000 for a bingo operator to upgrade or replace eight B3 machines.
61. As at 31 March 2009 there were an estimated 11,800 category B3 gaming machines publicly available (Gambling Commission Industry Statistics 2008/09), the vast majority of which were situated in AGCs and bingo clubs. We have assumed for the purposes of this Impact Assessment that all B3 gaming machines are to be found in these two types of premises only.
62. No data is available yet as to how often AGC or bingo operators refresh their gaming machine offer to customers as part of their normal business cycle. Until more information can be obtained it has been assumed for the purposes of this exercise that all B3 machines would be replaced within 12 months of any changes to the stake limit being introduced.
63. Based on these assumptions it would cost AGC and bingo operators between £5.9 million and £82.6 million to replace the estimated 11,800 B3 gaming machines, depending on the types of new machines purchased. Given the many combinations of B3 product mix available to operators it is not possible to provide a best estimate.
64. Operators will also have to pay increased Amusement Machine Licence Duty (AMLDD) if they choose to replace any category C or D gaming machines with B3 machines. Current AMLDD rates (as at 30 March 2010) are:

Months for which licence granted Category A Category B1 Category B2 Category B3 Category B4 Category C

	£	£	£	£	£	£
1	520	265	210	210	190	85
2	1,015	505	395	395	360	150
3	1,520	760	605	605	545	225
4	2,025	1015	800	800	725	300
5	2,540	1,270	1,000	1,000	900	375
6	3,050	1,520	1,195	1,195	1,085	450
7	3,555	1,775	1,395	1,395	1,265	520
8	4,060	2,025	1,600	1,600	1,450	600
9	4,570	2,285	1,800	1,800	1,630	675
10	5,075	2,540	1,995	1,995	1,810	750
11	5,580	2,795	2,195	2,195	1,990	820
12	5,805	2,905	2,285	2,285	2,075	860

### **Manufacturers**

65. No data is available to suggest how much manufacturers might spend in respect of research and development of new games to offer within the limits of the B3 machine category.

### **Benefits**

#### **Operators**

66. Data submitted by BACTA suggests that a new stake and prize ratio for category B3 gaming machines produced by a £2 stake (with price of play options available to the player) would mean that the average stake on such a machine would increase to approximately £1.60. BACTA estimate the net effect of this would be that revenue to operators from B3 gaming machines would increase by 22%.
67. BACTA also indicates that it would expect to see category C revenues increase as the differentiation between category C and B3 gaming machines became clearer to customers. They estimate that category C machine revenue would increase by approximately 20% following implementation of a new pricing structure.
68. The government would like to work with BACTA and other industry bodies to explore these figures further and expand on the data available, for example BACTA has not yet provided the basis on which these figures have been calculated and how they might relate to different types and sizes of premises, for example an AGC situated in a seaside town or in a more urban environment. It is also not clear as to what period of time the figures for revenue increases refer to. Until further information is obtained it has been assumed for the purposes of this Impact Assessment that the increase in revenue from B3 gaming machines would be maintained over the assumed ten year life of this policy.
69. No equivalent data has yet been made available by the bingo industry. Until further information has been obtained it is assumed for the purposes of this Impact Assessment that any increase in revenue from category B3 gaming machines in bingo clubs will be the same as that in AGCs.
70. There is insufficient data available at present regarding category C gaming machines to provide any estimate of monetised benefits. The government will undertake further work with both sectors to develop this during the consultation period.
71. In order to estimate potential revenue increases to the industry data has been drawn from an analysis of Gross Gaming Yield (GGY) – that is the amount retained by gambling operators after payment of winnings but before deduction of costs of the operation - obtained from the Gambling Commission's 2009 regulatory returns. The estimated figures below are provisional and it should be noted that the data collected from regulatory returns is dependent on the quality of the data provided by operators.

	AGC			Bingo		
	2008	2009	Change	2008	2009	Change
Number of Operators Trading with Cat B3 machines	515	464	-10%	72	79	10%
Reported Sum GGY per Reported B3 Machine (average)	£16k	£20k	21%	£26k	£35k	36%
Estimated Sum GGY B3 machines	£156m	£162m	4%	£71m	£65m	-8%

(Source: Gambling Commission)

72. No equivalent data is available for pre-Gambling Act section 16/21 machines.
73. Based on these assumptions it is estimated AGCs and bingo operators could benefit from somewhere in the region of £49.7m per year in additional revenue, bringing the estimated GGY for B3s in the AGC sector to £197.6m (£162m x 22%) and £79.3m (£65m x 22%) for the bingo sector respectively (based on 2009 regulatory returns).
74. It should be noted that an increases in maximum stake (and prize) for category C machines introduced on 1 June 2009 does not appear to have increased revenue or machine manufacture to the extent predicted by BACTA at the time. Therefore, the government will engage with the amusement and bingo industries during the consultation period to explore whether further data might be provided.

### **Manufacturers**

75. Data submitted to the government by BACTA shows that machine sales in 2009 were 15% lower than 2008. They argue that anticipated sales of category B3 gaming machines over the next 12 months without an increase in stake limits would be around 750 machines total i.e. 15 machines per week. This would be an unsustainable level of production for British manufacturers, leading to a cessation of domestic production and operators having to import category B products from abroad.
76. BACTA go on to argue that an increase in the stake limit for B3 machines would stimulate operators of AGC and Bingo venues to reinvest in new equipment, giving the manufacturing industry a much needed boost. They would expect the following volume output:

2010 – 3,000 units (if introduced with sufficient time to allow product testing)  
2011 – 6,000 units  
2012 – 4,000 units

77. Further work will be required to obtain details about the basis on which these figures have been calculated. It is also not clear yet how benefits might be distributed across the manufacturing sector, for example how smaller or medium sized businesses could be expected to fare and what such increases in volumes might mean in terms of jobs. It's also not clear yet what the cumulative effect of other recent changes to stake and prize limits combined with the current proposals might mean for manufacturers. The government will therefore undertake some more work with BACTA to see if further data is available.

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

#### **Costs**

78. This option will not impose any compulsory costs on AGCs, bingo clubs, gaming machine manufacturers or suppliers. It will be a commercial decision for operators as to whether they invest in new gaming machines should there be an increase in the number of category B3 machines in AGCs and bingo clubs. It is reasonable to assume that the majority of operators will invest in new products in order to benefit from new entitlements in the ways discussed above. As discussed under option 2, two options are available to operators:
- Invest in new gaming machines: Prices for new B3 gaming machines range from £1,000 for low-end rebuilt machines to £7,000 for new high-end video machines (estimates provided by the Gambling Commission);
  - Purchase kits from suppliers and manufacturers to upgrade existing machines: Prices for such kits cost between £500 for rebuilt physical reel band type machines to £2,000 for high end video-type machines (estimates provided by the Gambling Commission).
79. This option would result in an increase in the number of category B3 machines in circulation. Analysis of the Gambling Commission's regulatory returns for 2009 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 gaming machines made available for use (on the hypothetical basis that those machines would replace existing other categories of gaming machines), with around 90% in the AGC sector. Therefore, based on the costs outlined under option 2 it is estimated that an additional 3,000 B3 machines would cost AGC and bingo operators between £1.5 million to £21 million, depending on the type of new product purchased.
80. There are associated costs to regulators that should be taken into account. Removing incentives for AGC and bingo operators to artificially split their premises in order to offer higher numbers of more profitable category B3 gaming machines could mean a drop in income to licensing authorities as operators 'merge' previously split premises, thus paying for only one premises licence. The Gambling Commission initially estimates that their fee income may decrease by approximately £300,000 (although not immediately as there will be costs associated with re-combining premises), whilst the amount of gambling taking place may increase. The government will consider the impact of this on the Commission's fee structure in due course.

#### **Benefits**

##### **Operators**

81. At present it is estimated there are around 11,800 category B3 gaming machine available for use in Great Britain. Implementing this option would mean an increase in the number of B3 machines. Data from regulatory returns collected by the Gambling Commission suggest that should the overall number of gaming machines in AGCs and bingo clubs remain the same then there could be in the region of 3,000 additional category B3 gaming machines permitted (on the hypothetical basis that those machines would replace existing other categories of gaming machines) with around 90% available in the AGC sector.
82. This will generate greater revenue for AGC and bingo clubs which has been estimated on the basis of the GGY figures outlined under option 2. Based on the reported sum GGY per reported B3 machine for 2009 it is estimated that an additional £64.5m per year in additional revenue would be generated across the ACG and bingo sectors ( $2,700 \times £20,000 + 300 \times £35,000$ ).
83. As discussed in paragraph 48 the government did consider, but rejected, a variation on this option whereby the number of permitted category B3 gaming machines would be linked only to the number of category C and B3 gaming machines available for use, rather than all machines. This option was rejected because it was felt it would not actually provide any revenue increase to operators through bringing additional B3 gaming machines into use. Analysis by the Gambling Commission of their 2009 regulatory returns suggested that on this basis, should the overall numbers of machines in AGCs and bingo clubs remain the same, there could be in the region of 500 less B3 machines permitted than now (on the hypothetical basis that those machines would replace existing non-

category B3 gaming machines), with the AGC sector more negatively affected. The proposal that any premises would be permitted to retain their existing allocation would therefore render the overall effect of this option as likely to be neutral.

### **Manufacturers**

84. The benefits to manufacturers are discussed under Option 2.

### ***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***

85. This is a significantly different approach to that outlined in option 3, although it is anticipated that the benefits to the amusement and bingo industries would be similar. Here, a proportionate increase in number of B3 machines would be linked to the floor space of a venue.

86. As with option 3 this option will not impose any compulsory costs on AGCs, bingo clubs, gaming machine manufacturers or suppliers. It will be a commercial decision for operators as to whether they invest in new gaming machines should there be an increase in the stake limit for category B3 machines. It is reasonable to assume that the majority of operators will invest in new products in order to benefit from new limits in ways discussed above. Should they do so the options already discussed will be available:

- Invest in new gaming machines: Prices for new B3 gaming machines range from £1,000 for low-end rebuilt machines to £7,000 for new high-end video machines (estimates provided by the Gambling Commission);
- Purchase kits from suppliers and manufacturers to upgrade existing machines: Prices for such kits cost between £500 for rebuilt physical reel band type machines to £2,000 for high end video-type machines (estimates provided by the Gambling Commission).

87. It is estimated that a ratio of one category B3 gaming machine per 170 square feet of licensed area floor space would result in somewhere in the region of an additional 2,080 B3 machines being made available to the public. Therefore, based on the costs outlined under option 2 it is estimated that an additional 2,080 B3 machines would cost AGC and bingo operators between £1 million to £14.6 million, depending on the type of new product purchased.

88. The associated costs to regulators discussed under option 3 would also apply here.

### **Benefits**

89. As discussed above implementing this option would mean an additional 2,080 B3 machines being made available. It has been assumed that on the basis of the Gambling Commission's analysis of regulatory returns outlined under option 3 an estimated 90% would be available in the AGC sector.

90. This will generate greater revenue for AGC and bingo clubs which has been estimated on the basis of the GGY figures outlined under option 2. Based on the reported sum GGY per reported B3 machine for 2009 it is estimated that an additional £44.7m per year in revenue would be generated across the AGC and bingo sectors ( $1,872 \times £20,000 + 208 \times £35,000$ ).

### ***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)***

### **Costs**

91. The non-compulsory costs that would be incurred by operators through this option are discussed at paragraphs 57 to 64 and 78 to 80.

### **Benefits**

92. The benefits to operators from options 2 and 3 are discussed at paragraphs 66 to 74 and 81 to 83. It has been assumed for option 5 that the estimated GGY per reported B3 machine in AGCs and bingo

clubs would increase by 22%. This is because the figures reported in the table at paragraph 71 are based on the current stake/prize ratio for B3 machines of £1/£500 and do not take into account the estimated revenue increases from a £2 stake. It is assumed that any new B3 machines purchased by operators would perform at the same level as existing machines. This gives a revised estimated GGY figure per reported B3 machine in AGCs of £24,400 per year and £42,700 per year for bingo clubs. Based on these assumptions it is estimated that an additional £150m per year in revenue would be generated across the AGC and bingo sectors ( $2,700 \times £24,400 + 300 \times £42,700$ ).

***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)***

**Costs**

93. The non-compulsory costs that would be incurred by operators through this option are discussed at paragraphs 57 to 64 and 85 to 88.

**Benefits**

94. The benefits to operators from options 2 and 4 are discussed at paragraphs 66 to 74 and 89 to 90. The same assumptions regarding the estimated GGY per reported B3 machine as described in paragraph 92 above have been applied to this option. Based on these assumptions it is estimated that an additional £125.9m per year in revenue would be generated across the AGC and bingo sectors ( $1,872 \times £24,400 + 208 \times £42,700$ ).

**Risks**

95. The key area of risk to consider with regards to this policy is the effect of any increase in stake and/or increase in numbers for category B3 gaming machines on the public protection objectives of the Gambling Act, in particular the protection of young people and the vulnerable from the harmful effects of problem gambling.

***Problem gambling***

96. The government recognises that there are widespread concerns about problem gambling and in particular the effect changes to the regulatory framework surrounding gaming machines might have on levels of problem gambling in Britain. There are a number of risks that have been identified with the proposals under consideration:

- Doubling the stake for popular category B3 gaming machines combined with increased chances to hit jackpots could encourage more vulnerable persons to gamble more frequently and with more money. This could prejudice public protection objectives;
- The options discussed above could see up to an estimated 3,000 additional category B3 gaming machines being made available to the public, presenting more opportunities for AGC and bingo customers to play for higher prizes. Such an increase could pose a threat to public protection objectives and in particular the protection of vulnerable from the harm;
- The approaches discussed in the options above could lead to an increase in the total number of gaming machines being made available to the general public. There is a risk that more category C or D gaming machines could be purchased by operators simply to allow more category B3 machines rather than because they were genuinely expected to be used;
- AGC and bingo operators may be less inclined to make low risk category D gaming machines available for use, resulting in customers having a less varied gambling offer to choose from;
- Any increase in levels of problem gambling in Britain that might result from this policy could disproportionately affect poorer families.

**Government Response**

***Licensing Objectives***

97. The Gambling Act 2005 is underpinned by three licensing objectives. These are:

- To prevent gambling from being a source of crime and disorder, being associated with crime or disorder or being used to support crime;
- To ensure that gambling is conducted in a fair and open way; and
- To protect children and other vulnerable persons from being harmed or exploited by gambling.

98. These public protection objectives are paramount and are central to the government's approach towards all aspects of gambling policy. The government believes that the policy options outlined in this document do not prejudice these objectives.

### ***Levels of Problem Gambling***

99. The 2007 British Gambling Prevalence Survey (undertaken by the Gambling Commission) showed that levels of problem gambling in the UK adult population did remain the same as in 1999 – 0.6% (284,000 people). This is lower than USA, South Africa and Australia. The Survey cannot be used to indicate causality but it did show that problem gamblers typically participated in a range of gambling activities. It is not possible to conclude from the survey if certain activities led to problem gambling.

100. It is also extremely difficult to ascertain whether certain social groups or particular genders might be susceptible to problem gambling. Research is inconclusive. For example, research by the Gambling Commission suggested that individuals who were male, single, had a lower level of qualifications, lower incomes and whose parents had gambled were more likely to report gambling problems. However, more generally, any individual regardless of gender, marital status, education and family background was deemed to be at risk from problem gambling if they participate in gambling activities on a frequent basis (Gambling Commission October 2008, British gambling prevalence survey: secondary analysis – gambling participation and problem gambling [http://www.gamblingcommission.gov.uk/research\\_consultations/research/bgps/bgps\\_2007/bgps\\_2007\\_related\\_research/bgps\\_2ndry\\_gam\\_part\\_prob\\_gam.aspx](http://www.gamblingcommission.gov.uk/research_consultations/research/bgps/bgps_2007/bgps_2007_related_research/bgps_2ndry_gam_part_prob_gam.aspx)).

101. It is also very difficult to establish any direct correlation between level of income and problem gambling. For example research by the Gambling Commission in March 2009 suggested that income was significantly associated with gambling prevalence and area deprivation was significantly associated with frequency and volume of gambling, with those living in the most deprived areas gambling more often than those in less deprived areas. However, this does not indicate any direct links with problem gambling nor does it conclude the types of gambling activity those people engage in (Gambling Commission, March 2009: The role of social factors in gambling: evidence from BGPS 2007 [http://www.gamblingcommission.gov.uk/research\\_consultations/research/bgps/bgps\\_2007/bgps\\_2007\\_related\\_research/bgps\\_social\\_factors.aspx](http://www.gamblingcommission.gov.uk/research_consultations/research/bgps/bgps_2007/bgps_2007_related_research/bgps_social_factors.aspx)).

### ***Regulation***

102. Stake limits and premises' entitlements for category B3 gaming machine should not be viewed in isolation but rather as part of a wider framework of regulation introduced by the Gambling Act. Many of these measures are in place to mitigate potential harm that could arise from gambling.

103. AGCs will continue to be non-accessible to people under the age of 18, while stringent controls regarding entry by under-18s to areas in bingo clubs offering gaming machines are already in operation via the mandatory conditions attached to premises licences. Protections for consumers are secured through operating licences, which are issued by the Gambling Commission and are required by all those who manufacture, supply, install, maintain, adapt or repair gaming machines. This system is underpinned by the Commission's Licence Conditions and Code of Practice, which all operators in receipt of an operating licence from the Commission must adhere to (see [http://www.gamblingcommission.gov.uk/publications\\_guidance\\_\\_advic/lccp.aspx](http://www.gamblingcommission.gov.uk/publications_guidance__advic/lccp.aspx)). Alongside this licensing authorities are responsible for licensing all gambling premises in their area as well as issuing a range of permits to authorise other gambling facilities. This system ensures that specific provisions in relation to, for example, underage gambling and problem gambling through rigorous requirements in respect of supervision, access, staff training and self-exclusion are in place. In addition all gaming machines made available for public use in Britain must conform to a



comprehensive set of technical standards which govern fundamental elements of gaming machine play such as speed of play and the linking of games i.e. those features that could lead to repetitive and excessive play.

### **Consideration**

104. The government believes that the risks posed to the licensing objectives of the Gambling Act by these options are minimal as the regulatory framework currently in place is robust enough to mitigate them. The government also notes that the availability of comparable stake and prize gaming machines under previous regulatory regime, plus their widespread availability and popularity, did not appear to have any significant impact on the prevalence of problem gambling pre- Gambling Act. There was no change in the levels of problem gambling between the 1999 and 2007 British Gambling Prevalence Surveys, which remained stable at 0.6% (both surveys can be accessed at [http://www.gamblingcommission.gov.uk/research\\_consultations/research/bgps.aspx](http://www.gamblingcommission.gov.uk/research_consultations/research/bgps.aspx)).
105. However, the government is mindful of the importance of these risks and will discuss any potential threat to public protection objectives with the Gambling Commission and other interested parties.

### **Further Research**

106. Research undertaken to date has been largely inconclusive about the potential links between the generic features of gaming machines, including those affected by these proposals, and levels of problem gambling in Britain. Research undertaken during 2008 and 2009 by the Gambling Commission considered possible links and made the following key points:
- The range of stakes and prizes on British gaming machines was relatively low by international comparison;
  - The existing body of international research did not provide a sufficient basis on which to evaluate the likely impact of any changes to stake and prize limits;
  - When looking at potential harm factors from machines, the size of stakes and prizes should not be looked at on their own, but in conjunction with a range of other factors, including gaming machine characteristics, the environment in which they're situated and the personal motivations of players.
107. The Commission recommended further research, including improving player education and information (pre-commitment) to help inform decisions about gambling, the impact of certain machine structural features and impact of the availability of cash machines on gambling premises. These recommendations are now being taken forward under the auspices of the Responsible Gambling Strategy Board (<http://www.rgsb.org.uk/>) and Responsible Gambling Fund (<http://www.rgfund.org.uk/>).
108. The Gambling Commission's research can be accessed at [http://www.gamblingcommission.gov.uk/research\\_consultations/research/research\\_programme/gaming\\_machines\\_research\\_progr.aspx](http://www.gamblingcommission.gov.uk/research_consultations/research/research_programme/gaming_machines_research_progr.aspx)

## **Administrative Burden and Policy Savings Calculations**

### **Industry**

109. There will be no additional administrative burden placed on businesses through these policy options. The policy aims to relax regulations in order to empower businesses to take decisions themselves within an overall regulatory framework with regards to the product mix they can offer to their customers.

### **Regulators**

110. A key aim of introducing a proportionate increase in the number of category B3 gaming machines permitted in AGCs and bingo clubs is to remove the incentive for operators to artificially split their premises in order to offer more B3 machines. This could impact on income to regulators. The Gambling Commission's operating licence fees are related to the number of premises, so re-combining premises could potentially lead to the Commission having to review its fees. Similarly, fewer premises would mean less income for licensing authorities. It should also be borne in mind that licensing authorities will need to reissue premises licences if mandatory and default conditions are amended.

## Summary

111. The amusement and bingo industries 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 period. This is also affecting British gaming machine manufacturers. They argue that difficult trading conditions arising from the economic downturn over this period are being exacerbated by burdens placed on AGC and bingo premises through the introduction of the Gambling Act 2005. 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 (a significant source of income for AGCs and bingo clubs) and a recalibration of machine entitlements for AGC and bingo premises might be appropriate.
112. The government wishes to explore ways in which it can provide AGCs and bingo clubs with more operational flexibility in relation to the regulatory framework currently in place in order to allow AGC and bingo operators a greater degree of freedom in making commercial decisions affecting operation of their businesses. This will allow operators to generate more revenue with the aim of preventing further closures and job losses. It will also provide a boost to gaming machine manufacturers through an increase in orders. The government will aim to permit these greater freedoms without undermining public protection objectives of the Gambling Act 2005.
113. The government is therefore considering six options:
- i) Do nothing
  - ii) Increase the maximum stake limit for category B3 gaming machines from £1 to £2
  - iii) Permit a proportionate increase in the number of B3 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 150 square feet (14 square metres) of licensed area floor space
  - v) An increase to the maximum stake for B3 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 B3 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)

## Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added where the Specific Impact Tests yield information relevant to an overall understanding of policy options.

### Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

<p><b>Basis of the review:</b> [The basis of the review could be statutory (forming part of the legislation), it could be to review existing policy or there could be a political commitment to review];</p> <p>Implementation of any new policy will be monitored regularly by officials from the Department for Culture, Media and Sport and the Gambling Commission as part of their regulatory responsibilities.</p>
<p><b>Review objective:</b> [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?]</p> <p>To undertake a proportionate check that any new regulations operate as expected and without undermining the public protection objectives outlined in the Gambling Act 2005.</p>
<p><b>Review approach and rationale:</b> [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]</p> <p>The implementation of any new policy is subjected to regular monitoring and review as part of the normal course of business of government. the process will be underpinned by advice from the Gambling Commission, licensing authorities as well as views from industry bodies and other interested parties.</p>
<p><b>Baseline:</b> [The current (baseline) position against which the change introduced by the legislation can be measured]</p> <p>Work will be undertaken during the consultation period to establish baseline principles in line with the issues set out in this Impact Assessment.</p>
<p><b>Success criteria:</b> [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]</p> <p>Assessment against the policy objectives set out at paragraph 30.</p>
<p><b>Monitoring information arrangements:</b> [Provide further details of the planned/existing arrangements in place that will allow a systematic collection of monitoring information for future policy review]</p> <p>Compliance against the regulatory framework set up by the Gambling Act 2005 is monitored by the Gambling Commission and licensing authorities.</p>
<p><b>Reasons for not planning a PIR:</b> [If there is no plan to do a PIR please provide reasons here]</p> <p>N/A</p>

## Annex 2: Competition Assessment

### Current Market

The majority of category B3 gaming machines in Britain are situated in adult gaming centres (AGCs) and bingo premises:

- **AGCs:** There are over 600 licensed AGC operators in Britain with an estimated 2,000 premises, employing nearly 20,000 people as well as over 3,000 casual (seasonal) workers (Gambling Commission Industry Statistics 2008/9). Premises vary in size from small family businesses to large multi-site operations such as Nobles, Shipley Leisure, Talarius and Agora. AGCs are located in towns and cities as well as in many seaside resorts where they are often a key part of a local tourist offer for example often situated on piers. They are permitted under the Gambling Act to offer a maximum of four category B3 machines
- **Bingo:** As at 31 March 2009 there were 641 bingo clubs in Great Britain, employing nearly 17,000 people (Gambling Commission Industry Statistics 2008/9 although it should be noted that this figure is disputed by the Bingo Association who report there are 536 bingo clubs operating at present). Bingo clubs are entitled to offer up to eight category B3 gaming machines to customers. Unlike AGCs these machines are usually offered to customers as an ancillary activity, with most machines played by customers during breaks between mainstage bingo games.

The key competition for AGCs and (to a lesser intent) bingo clubs are licensed betting offices (LBOs), which are exclusively permitted to offer up to four category B2 gaming machines, previously referred to as Fixed Odds Betting Terminals (FOBTs). As at 31 March 2009 there were 8,862 LBOs offering approximately 27,500 B2s (Gambling Commission Industry Statistics 2008/9)

The most important influence on this market in recent years was the implementation of the Gambling Act on 1 September 2007 which introduced a new set of regulatory controls over all aspects of the gambling industry in Britain. Two key factors relevant to this policy analysis are:

- Prior to the introduction of the Gambling Act, technological advancements saw the introduction of what were referred to as FOBTs into high street betting offices and the introduction of near identical machines into AGCs and bingo clubs (referred to as 'section 16' and 'section 21' machines by operators in reference to the Lotteries and Amusement Act 1976). These machines exploited loopholes in the legislation in order to offer payouts of up to £500 with a maximum £2 stake. They proved popular with AGC and bingo customers but were essentially unregulated in terms of machine numbers, location, access and stake and prize limits. The legality of these machines was far from clear. This issue was resolved through the Gambling Act, which removed these machines and replaced them with four category B3 machines per premises (increased to eight for bingo clubs only in 2009). Operators argue that the removal of the section 16/21 machines and the introduction of restrictions to machine numbers and stake and prize limits has prevented the industry from countering increasing costs and developing new products to maintain its customer base.
- At the same time there has been a rapid growth in the popularity of B2 machines. These are available to betting shops (four per premises) and have become a significant source of income for high street bookmakers, helping to compensate for a decline in traditional betting activity. Operators of AGCs and bingo clubs argue that the popularity of B2 machines has seen their best customers migrating to betting offices. As a result they are lobbying for a fairer playing field and parity with the betting offices.

There is no information available on the gaming machine manufacturing or supply sector at present.

### Analysis

Does this policy:

*Directly limit the number or range of suppliers? (E.g. will it award exclusive rights to a supplier or create closed procurement or licensing programmes?)*

**No**

*Indirectly limit the number or range of suppliers? (E.g. will it raise costs to smaller entrants relative to larger existing suppliers?)*

**No**

*Limit the ability of suppliers to compete? (E.g. will it reduce the channels suppliers can use or geographic area they can operate in?)*

**No**

*Reduce suppliers' incentives to compete vigorously? (E.g. will it encourage or enable the exchange of information on prices, costs, sales or outputs between supplier?)*

**No**

## **Consideration**

The government believes the situation facing the amusement and bingo industries in Britain is grave enough to justify considering whether a small increase in the maximum stake for category B3 gaming machines and a readjustment of machine entitlements for AGC and bingo premises might be appropriate, but without jeopardising the principal priority of the Gambling Act to protect the public. Without such intervention there is a risk that further AGCs and bingo clubs will close, impacting negatively on local economies through job losses and on wider communities through the loss of community amenities such as bingo clubs.

Through the Gambling Act the government has a major influence over the product mix, quantity of product available and product pricing of AGCs and bingo clubs as well as other types of gambling venues. These businesses 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.

Therefore, the policy options discussed in this Impact Assessment are intended to explore the ways in which AGCs and bingo clubs might be allowed a greater degree of operational flexibility within the current regulatory framework in order to allow them a greater degree of freedom in making commercial decisions. In practice this should allow AGCs and bingo clubs to become more competitive with LBOs in order to stabilize their respective customer bases.

There is a risk that other sectors could be negatively affected by these proposals, particularly if AGCs and bingo clubs draw customers away from other types of gambling venue rather than maximize income from existing customers. The most likely to be affected are family entertainment centres (FECs) and LBOs.

The government has considered this risk and assessed its likelihood and impact as low. There are two reasons for this rating:

- **Split premises:** Since the implementation of the Gambling Act many AGC and bingo operators have opted to split what were hitherto one single premises into two or more premises, thereby increasing the number of machines authorised within the same floor space.
- **Betting:** LBOs are permitted to offer category B2 machines, which are hugely popular with customers. Under the Gambling Act these types of premises are also entitled to offer category B3 gaming machines if they so wished to.

The government will continue to work with the Gambling Commission and industry bodies during the consultation period to refine this analysis.

### **Annex 3: Small Firms Impact Test**

#### ***i) Does the proposal affect small business, their customers or competitors?***

Yes: AGCs and bingo clubs vary in size from small family businesses to large multi-site operations. No information is available about the gaming machine manufacturing sector but small businesses will be affected by this policy.

#### ***ii) Would a more flexible approach, or possibly exemptions, be appropriate for firms with fewer than 20 employees?***

Yes: A key risk of implementing options 3 or 4 is that some premises could see their B3 gaming machine allowance decrease from the current maximum of four, depending on the size of the venue and the number of gaming machines the operators are able to install. Such premises could potentially become commercially unviable.

Therefore, the government proposes that each of options 3 and 4 are underpinned by allowing all existing premises to retain their current allowance of four category B3 gaming machines, even if the new arrangements would normally mean that their allowance would decrease.

#### ***iii) Is there potential to fully or partially exempt small business (those with fewer than 50 employees)?***

No: Exemption would be counter-productive as these policy options are intended to benefit all businesses across the amusement and bingo industries. They aim to provide all businesses within these sectors with more operational flexibility in relation to the regulatory framework in order to allow operators a greater degree of freedom in making commercial decisions affecting the operation of their businesses.

#### ***iv) Does the impact fall more heavily on small businesses (those with up to 50 employees) than large businesses?***

No: Measures will be put in place to ensure this policy benefits all of the amusement and bingo industries and any potential negative impacts on smaller businesses are mitigated (see ii) above).

## Annex 4: Health and Well Being Assessment

### *Potential Health Impacts*

Gambling has not been traditionally viewed as a public health matter, although there are significant social and health costs associated with problem gambling. For example, personal costs can include irritability, extreme moodiness, problems with personal relationships, absenteeism from work, family neglect and bankruptcy. It also brings with it the risk of other medical consequences, for example stress-related physical illness. Research by the Gambling Commission suggests that while health status was not associated with gambling, there was significant association between health and problem gamblers, with the problem gambling rate being over three times higher among those in poor health compared to those in good health. Research has also demonstrated that gambling, cigarette smoking and alcohol consumption are co-related behaviours, with cigarette and alcohol consumption often associated with problem gambling (Gambling Commission, March 2009: Gambling, alcohol consumption, cigarette smoking and health: findings from BGPS 2007).

However, the research is far from clear about whether direct correlations exist between gambling in its various forms and poor health. Similarly, research to date is unclear about what causal links might exist between different types of gambling and problem gambling. In the case of gaming machines there is no general agreement in the available research about how much gaming machines might cause gamblers to become problem gamblers.

Gambling Commission research does highlight evidence that suggests some associations between gaming machines and problem gambling in that machine players appear most likely to contact national telephone help lines. Evidence also suggests that while gaming machines appear to appeal to many gamblers, they seemed to be particularly attractive to those at risk of, or with a gambling problem. Compared to non-problem gamblers, problem gamblers tended to play on gaming machines more frequently, and spent more time and money on them (source: Gambling Commission, December 2008: Impact of high-stake high-prize gaming machines on problem gambling).

Within this context the government has considered the potential health impacts that might arise from the options discussed in this document:

- **Potential increases in levels of problem gambling in Britain:** A greater stake and a greater number of popular category B3 gaming machines could encourage vulnerable persons to gamble more frequently and more money. For example the options discussed above could see up to 3,000 additional category B3 gaming machines being made available to the public, presenting more opportunities for AGC and bingo customers to play for higher prizes.
- **Potential impacts on poverty:** Concerns have been raised that any increase in levels of problem gambling in Britain that could potentially arise as a result of the policy options discussed here could disproportionately affect poorer families.
- **Potential impacts on well being (exposure to stress):** The government believes that if it doesn't intervene in this area there is a risk that further AGCs, bingo clubs, manufacturing and supply businesses will close leading to further job losses. This would impact on individuals and wider communities, both in terms of the economic impact (for example the loss of employment opportunities in seaside towns) and community amenities such as bingo clubs which have a social function, particularly for older people.

### *Consideration*

The level of problem gambling in Britain is low - 0.6% (284,000 people) (Gambling Commission, 2007 British Gambling Prevalence Survey). Therefore, for the vast majority of people in Britain gambling is leisure activity which presents no threat to their well being. The level of problem gambling has remained unchanged since 1999 and is lower than USA, South Africa and Australia. Although the Survey cannot be used to indicate causality, it did show that problem gamblers typically participated in a range of gambling activities. It is not possible to conclude from the survey if certain activities led to problem gambling.

Therefore, the rationale for government intervention in this area and its considerations around potential social and economic impacts must balance public protection with the need to support these industries and the benefits they bring to communities.

## **Assessment**

### Problem Gambling

There is no general agreement in the available research about how much higher stake, higher prize gaming machines such as B3s might cause gamblers to become problem gamblers. While there is evidence to suggest that there are associations between gaming machines and problem gambling there is no evidence establishing any direct correlation. As discussed at paragraphs 106 to 108 in the Impact Assessment the Gambling Commission has recommended further research into this area which is being taken forward by the responsible Gambling Strategy Board and the Responsible Gambling Fund.

The government believes that the risks of these measures to those who might be vulnerable to problem gambling are minimal. A range of stringent regulatory measures are already in place to mitigate potential harm. These are discussed in more detail at paragraph 103 and are enforced through the Gambling Commission and licensing authorities. The government has also taken into account the Commission's view that the availability and popularity of machines with similar stake and prize levels under the old regulatory regime did not appear to have impacted on problem gambling levels. This is discussed at paragraph 104.

### Poverty

As discussed in paragraphs 100 to 101 in the Impact Assessment the lack of conclusive research makes it extremely difficult to ascertain whether certain social groups or particular genders might be susceptible to problem gambling or indeed whether any direct correlation might exist between level of income and problem gambling. On this basis the government believes that risk to poorer families in Britain from any potential increase in levels of problem gambling is minimal.

### Well being

The government's rationale for intervention in this area is to protect jobs and community amenities:

AGCs make an important contribution to many local economies, employing nearly 20,000 people as well over 3,000 casual (seasonal) workers (Gambling Commission Industry Statistics 2008/9). Many AGCs are situated in seaside towns and often play an important part in the visitor offer, being recognised as an established element of the traditional experience of the British seaside.

Research indicates that for many people going to bingo clubs is often the primary and sometimes only leisure pursuit they engage in outside of their home. While money is a key trigger to begin playing and remains an important motivation, the drive to play bingo regularly appears to be largely orientated around a need for social interaction and belonging, with a bingo club not only acting as a venue for a bingo game, but also enabling a unique social support network for members. In particular there is a strong belief that bingo aids wellbeing of the older generation, and it is perceived by members and experts alike that, for the older 60+ audience especially, there are few alternatives that aid mental agility to such a great extent (Henley Centre, August 2007: *Unlucky for Some: The Social Impact of Bingo Club Closures*).