

Gambling, Licensing and Lotteries Team,  
DCMS  
4<sup>th</sup> Floor  
100 Parliament Street  
London SW1A 2BQ

December 1<sup>st</sup> 2016

Dear Sirs

**Review of Gaming Machines and Social responsibility Measures  
Call for Evidence**

**Response from Praesepe, December 2016**

Praesepe is pleased to respond to the Government's Call for Evidence in response to its Review of Gaming Machines and Social Responsibility Measures

Praesepe was formed in October 2007 and renamed Praesepe in 2009. In 2010 Praesepe acquired the interests of the Beacon Group. This comprised some 26 AGC venues and 6 licensed Bingo Clubs. One of these clubs was the Beacon Club in North London, which is generally regarded as the largest Bingo Club in Europe. Later that same year Praesepe acquired a further three Bingo Clubs from the Noble Organisation.

In the autumn of 2012 Praesepe was acquired by the Gauselmann Group, a German company which trades in over 40 countries and which is generally regarded as the foremost provider of gaming machines in Europe. Gauselmann Group effected this acquisition by funding a UK vehicle called Merkur Casino (UK) Ltd. Today Praesepe operates 169 AGC arcades, 8 FEC's and 8 Bingo Clubs. It also owns part of Bingo Express Ltd.

We welcome the opportunity to respond to the Government's Review of Gaming Machines and Social Responsibility Measures. We support the review's objective of ensuring the right balance between socially responsible growth and the protection of consumers and wider communities. In particular, we see this call for evidence as being urgently needed due to the growing problems associated with Category B2 machines. There is now clear evidence that the stake on Category B2 machines is too high and causing widespread economic and social problems.

Praesepe would firmly support a substantial stake reduction on B2 or FOBT machines. In particular, in our view, a stake of £20 would bring these machines into line with other gaming machines that can be found on the high street and present the right balance between player protections and consumer enjoyment.

Below we focus our concerns about the current £100 staking level on a FOBT.

### **Response to questions:**

**Q1. What, if any, changes in maximum stakes and/or prizes across the different categories of gaming machines support the Government's objective set out in this document? Please provide evidence to support this position.**

**Q2. To what extent have industry measures on gaming machines mitigated harm or improved player protections and mitigated harm to consumers and communities? Please provide evidence to support this position.**

Across the country there are now around 35,000 FOBTs located in Britain's bookmakers. Since their introduction and the provision of a legal basis for them in the 2005 Gambling Act, the problems associated with FOBTs have grown exponentially. There is now a clear case for the very high stakes which can be wagered on these machines to be addressed.

FOBTs are causing very significant economic and social problems. In particular they are leading to:

Increasing incidents of money laundering in bookmakers as activity is largely unsupervised and it is therefore relatively easy for fraudsters to 'clean' their money  
More problems with payday loans as players take out loans to sustain FOBT usage.  
Increasing crime levels: betting shops now account for 97% of all Police call outs to gambling venues. Up to September 2014 there was also a 20% increase in Police call outs to betting shops

A clustering of betting shops on Britain's high streets. There has been a 43% increase in betting shops located in town and city centres which is destroying the health and vibrancy of our high streets.

The regulations introduced last year by the Government requiring players to open an account in a bookmaker if they want to stake over £50 have been shown to be largely ineffective. A recent evaluation of this measure has shown that players are getting round this by playing more frequently at stakes of £40-£50. This is still very high stakes gambling. Anecdotal evidence suggests that some players are now also playing two machines simultaneously to ensure they can play at £100.

The most effective way to limit the harm from these machines is to reduce the stake which can be gambled from £100. Below, we set out the reasons why further regulation of FOBTs is required and why we support a significant reduction in the stake which can be wagered on them.

### **Insufficient Regulation**

There is a strong case for further regulation of FOBTs since these now fall outside the generally agreed principles of gambling regulation which are used worldwide. The 1968 Gambling Act put in place a regulatory pyramid with harder gambling at the top, it strictly regulated Casinos with very high levels of player protection and supervision. The middle tier, general high street ambient gambling, was planned to be fairly soft gambling with lower levels of player supervision, in places like bookmakers, arcades and bingo halls. At the bottom are seaside arcades which have trivial gambling and the lowest levels of supervision and gambling. Sir Alan Budd agreed with this when he proposed the structure and basis for the 2005 UK Gambling Act.



The proliferation of FOBTs has taken place outside this regulatory structure. They allow very hard gambling in easily accessible locations with very low supervision levels.

In bookmakers, betting shop staff are failing to intervene when gamblers are exhibiting signs of problem gambling. They do not have the training, time or capacity to deal with the problem. No other country in the developed world has £100 stake gaming machines other than in highly supervised casino environments. They properly regulate all high stakes gambling and recognise hard gambling has to be in highly supervised premises that customers recognise as such. Where allowed at all, the normal for machines in low supervision, ambient gambling high street locations worldwide is around £2 a spin, as other high street machines are in the UK.

### **Effective regulation of FOBTs**

The most effective way to deal with FOBTs is to substantially reduce the maximum stake that can be gambled in one spin, correcting it to a stake appropriate for the location. This would provide sufficient levels of protection for those that can least afford to lose and ensure adequate protection for the most vulnerable in our communities.

It is important that policy makers continue to appreciate the distinction between the hard gambling on FOBTs which is undertaken in betting shops with low regulation and very low levels of supervision and that which is undertaken in casinos where there are very high levels of supervision and player protection. High stake machine gambling is simply inappropriate in a betting shop.

Bookmakers have been part of the high street entertainment for decades and have operated without problems. The advent of high speed, high stake FOBT casino machines has turned them into mini casinos, but without the necessary levels of supervision and control.

The Government has set out measures to deal with FOBTs but these have been shown to be ineffective. The bookmakers themselves also established a 'code of conduct'. The Responsible Gambling Trust (now Gamble Aware) has published a report on this code which shows how ineffective it has been.

Anecdotal evidence suggests that some players are now also playing two machines simultaneously to ensure they can play at £100. The regulations still enable players to stake up to £100 a spin and simply introduced a £50 staking threshold above which players are required to identify themselves to staff or sign up to a loyalty card. This means players can still stake up to £100 and it appears that the bookmakers are in fact using this change as an opportunity, where anyone signs up for a card, to further market products to them using the contact information.

Ladbrokes latest half-year report shows they gave away £3.7 million in free plays to FOBT users in the last 6 months compared to just £1.9 million to those participating in traditional over the counter betting.

### **Protecting the Young and Vulnerable**

There is now a growing evidence base setting out the need to reduce the stake on a FOBT in order to protect the young and vulnerable from being harmed or exploited by FOBTs. As the Call for Evidence notes, "The combination of high stakes and natural game volatility



means that players can win or lose significant amounts of money in a short space of time".

A report has just been published by the eminent academics Professor Peter Collins, former professor at the University of Salford, Professor Graham Barr, Professor of Statistical Sciences and Economics at the University of Cape Town and Dr. Leanne Scott, also from the University of Cape Town.<sup>1</sup>

Using innovative quantitative and qualitative research including focus groups and statistical analysis from computer simulations to accumulate evidence, the report:

Identifies a new quantifiable measure to estimate the effect of lowering the stake on peoples vulnerability called "Vulnerability to Large Losses" or VLL;

Finds that reducing the maximum stake on a FOBT would more than halve the likelihood of unaffordable losses by those who are most vulnerable to being, or becoming, problem gamblers;

Concludes that the Government should, in the interest of protecting the vulnerable, and in line with its policy of prioritising mental health issues, impose a substantial reduction on the maximum stake currently permitted on a FOBT in betting shops; and

Finds that a substantial stake reduction was also strongly supported by the general public with 65% concluding that the current £100 stake was "Significantly too high" and 63% suggesting that they should be banned altogether in order to protect the young and vulnerable.

Professor Collins concludes that "*Cumulatively all the evidence converges in support of a substantial reduction in the maximum allowable stake on FOBTs in betting shops.*"

Professor Collins' report is particularly powerful in the context of the Government's last review of stakes and prizes where the Government "sought quantifiable evidence that a reduction in B2 stake and/or prize would have an effect (positive or negative) socially, in terms of increased or decreased risk of gambling related harm, or economically, in terms of the impact on high street betting shops, investment and employment. The consultation indicated that if there remained no clear evidence following the consultation, the Government would retain the current stake and prize limits for B2 machines as part of this review and await the conclusion of longer term research." The bookmakers in response also claimed that there was "no empirical evidence existed suggesting a reduction in stake and prize levels has any positive effect in reducing problem gambling or minimising gambling related harm". Professor Collins' detailed report clearly demonstrates that this is not the case and provides clear empirical evidence of the net positive impact of stake reduction.

In addition to this, the Responsible Gambling Trust (now renamed GambleAware) has produced research which identifies that around 80% of FOBT gamblers exhibit problem gambling behaviour at stakes in excess of £13 a spin. Analysis shows that FOBTs use is the most common activity for problem gamblers.

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<sup>1</sup> 'Report on results of research into the likely effects of substantially reducing the maximum permitted stake of £100 per 20-second spin on category B2 electronic gambling machines in UK betting shops', November 2016, Professor Peter Collins, Professor Graham Barr and Dr. Leanne Scott.



Moreover, since their introduction, FOBTs have also become harder and more sophisticated, playing all versions of casino games in order to maximise income. Using a legislative loophole, bookmakers can also offer lower stake slot games ( B3 content), capped at £2 per spin, but players can seamlessly switch to higher stakes FOBT gambling at stakes up to £100 per spin, a dangerous option allowing chasing of losses.

### **B2 and B3 Content on FOBTs**

It is also imperative that in moving to regulate B2 machines, the Government draws a clear distinction between category B2 and B3 machines and the B2 and B3 content which is available on FOBT.

There has often been a blurring of the boundary between these two quite different levels of machine play. Whereas the maximum stake on a B2 is £100 on a B3 it is just £2 although both are available to play on a FOBT. Clearly the risks associated with a staking level of £2 are quite different to those risks presented by a staking level of £100.

As the Call for Evidence notes, when quoting from research by the Responsible Gambling Trust (RGT) utilising industry data on B2 gaming machines in December 2014 and secondary analysis of this research in May 2016, whilst problem gambling can occur at all stake levels, “there is some evidence to suggest higher stake sizes can increase the risk of gambling-related harm through spending more money or time than intended.”

Indeed on a FOBT machine, the bookmakers apply a screen message to display when a player moves from a B3 to a B2 game. This is wholly insufficient as all it indicates to the player is that he is actually moving from a B3 to a B2 game not what the implications of this are. Given that RGT research and feedback show that players do not understand “Return to Player” (RTP) functionality, this strongly suggest the same applies to an understanding of this switch between category of game content.

Betting shop operators have historically marketed their machines as “97%” pay-out machines based on roulette influenced and overall margin achieved. Indeed, they originally displayed a cabinet mounted notification of such. A players’ understanding of a B2 machine is very often as simple as describing it as a “roulette machine”.

It would be much better for players in bookmakers and the vulnerable for the terminal, within a bookmaker, to be separate and be distinct between the two categories of games. In other words, a terminal providing B3 games only at £2/£500 and a terminal providing B2 games £100/£500. Then, the player will always know without doubt the maximum stake which is available on each terminal, and there would be a clearer representation of game content available and a clearer indicator of RTP. Our understanding is also that the algorithms used on hybrid B3/B2 machines create a lot of lower value wins on B3 content which, in effect, then encourages the player to trade up and lose money more quickly on the faster B2 game.

A NatCen evaluation concluded that those B2 players accessing multiple content (B2 and B3) within a single session of play suffered the highest losses (median of £10 per session). This again is a unique feature of B2 machines and has the potential to exacerbate losses within a single session of play when compared to stand alone B3 machines or any other gaming machine for that matter.



## Economic Case for Stake Reduction

There is also a strong economic evidence base for reducing the stake on FOBTs. There has been a 43% increase in numbers of betting shops located in town and city centres, and they are opening materially longer hours. This is destroying the health and vibrancy of our high streets. The impact of the machines can be most heavily seen in London. In 2013, people lost £459m on FOBTs and many of these would have been the most vulnerable in society. Research published last December found that London stood out from other areas as the place with 'most bets placed, at the highest stake values and the most money was lost'.

The lucrative returns from FOBTs, the addictive nature of their high speed roulette content and a limit of 4 FOBTs per premises has resulted in the clustering of betting shops in areas of high social deprivation. Research commissioned by Westminster Council and Greater Manchester Council found that there was a disproportionate amount of bookmakers located in areas with the highest minority population. Bookmakers seem to be actively targeting those that can least afford to lose; the poor and more financially vulnerable that are more likely to use them.

Research for the Guardian newspaper also revealed that there are twice as many betting shops in the poorest 55 boroughs of the UK, typically working class and urban, compared with the most affluent 115, even when accounting for population size, so 4 times the density. Newham has one of the highest number of bookmakers of any London Borough with 87 currently in operation.

The problem in communities up and down the country has led to local authorities taking matters into their own hands. A recent Sustainable Communities Act petition led by Newham Council has been supported by 93 local councils in England and Wales, calling for the Government to take action against FOBTs. However, this petition, despite being the largest ever SCA submission, was blocked by Government and the decision is currently under appeal.

The demographic that plays the lower-stake, lower-risk, less volatile Category C machines in community pubs are the same who use FOBT machines in betting shops. With betting shops proliferating near to pubs, their higher-staking, more addictive FOBT gambling machines, are drawing custom away. With this income diminishing, pubs are no longer able to use their machine income to help pay towards their costs, increasing the rate of their closure.

Theories put forward by bookmakers that curbing FOBT machines would cause thousands of LBOs to close at the cost of many jobs are unfounded. Two useful pieces of research on the impact on businesses confirm the view that replacing FOBTs with £2 stake (B3) machines would in fact be revenue neutral and benefit the high street, as some of the money would still be spent on the machines, albeit at a less problematic maximum £2 a spin (and noting the bookmakers have said already over 30% of their income is from these low stake slot games), some would go back to traditional betting, and excess money otherwise being spent on FOBTs would be spent elsewhere on more labour intensive pursuits.

The first report published last year by Landman Economics found that because expenditure on FOBTs supports relatively little employment compared with consumer expenditure elsewhere in the economy, that £1bn of "average" consumer expenditure supports around 21,000 jobs across the UK as a whole, whereas £1bn of expenditure on FOBTs supports only 4,500 jobs in the UK gambling sector.



This implies that, other things being equal, an increase of £1bn in consumer spending on FOBTs destroys over 16,000 jobs in the UK. The results of the report suggest that, if current rates of growth of FOBT expenditure are maintained, gross industry revenues from FOBTs will double in real terms over the next ten years, resulting in a gain of around 5,000 jobs for the gambling sector by 2025/26 but a reduction of around 25,000 jobs for the economy as a whole. At the end of the ten-year period, the total annual wage bill in areas where FOBTs are established will be around £700 million lower (in today's prices) than if FOBT use remained at its 2015 level.

At the end of the ten-year period net tax receipts will also be around £120 million per year less, due to the expansion of FOBTs. Revenue from Machine Games Duty is forecast to increase by around £280 million but this is more than offset by reduced receipts from income tax and National Insurance contributions (due to lower employment) and reduced VAT receipts (due to lower consumer spending on other goods and services).<sup>2</sup>

The Second report, by NERA Economic Consulting, assessed bookmakers' claims of shop closures and job losses. It concluded that 'cutting the stake on these machines would reduce numbers of bookmakers by about 800, primarily where clusters have developed - just 5 to 10 per cent fewer shops than before the introduction of B2 machines in 2000', (which is probably expectable anyway with so much of the bookies business now being on-line). Moreover, it found that 'the move would create a net positive 2,000 high street jobs as money returned to other more labour-intensive and productive high street shops.

## **Crime**

A recent Freedom of Information request to the Gambling Commission has revealed that FOBTs are responsible for a 20 per cent rise in crime at betting shops as addicted gamblers turn violent. New figures show that betting shops across the country were forced to call out police officers 9,083 times last year, an increase of 1,600 incidents on the previous year.

Such crimes are directly linked to FOBTs as they are driving addictive gambling behaviour yet the bookmakers see FOBTs as requiring lower levels of supervision than other forms of betting such as horse racing. As a result, they are often operating premises with just one member of staff present when horse racing has ended for the day, just to supply the FOBTs.

## **Category D – Crane Machines**

Praesepe proposes an uplift in both the maximum stake and the maximum prize on crane grab machines to £2 and £75 respectively.

The crane grab machine is a traditional and important part of the seaside FEC offer. According to the BACTA/PWC Report it represents together with the penny fall or pusher machine the largest share of a FEC's income. It is very much a fun family game in a fun family venue and is typically offered on a low price of play such as 10p, 20p, 25p or 3 goes for £1 and with attractive but relatively low cost but high value prizes such as toys or film merchandise. Many FECs will have a feature crane on a 50p or £1 stake with an opportunity

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<sup>2</sup>The Economic Impact of Fixed Odds Betting Terminals, Landman Economics, 2015  
<http://fairergambling.org/wp-content/uploads/2016/02/The-Economic-Impact-of-Fixed-Odds-Betting-Terminals-20151.pdf>



to win a higher value prize such as an electronic gadget. These prizes must be of a value no greater than £50 currently.

An increase in maximum stake to £2 is not contentious being itself proposed by Government at the last triennial review (alongside a £60 maximum prize). A £2 maximum stake will allow the production of new crane grab machines to augment the current varieties on the market and give the opportunity to vary the prize offer according to the stake and give consumers the choice on what they want to spend for the chance to win a prize. The vast majority of cranes are and will remain on a sub-£1 stake.

At the same time it is important to continue to offer a prize the players want to play for. At one end of the spectrum that will be a soft toy, at the other end an electronic gadget of some kind. The prices of all of these have gone up (particularly for licensed merchandise), and whilst it is easy enough to purchase prizes at the lower end of the spectrum within the current maximum prize limit of £50, the more sophisticated prizes consumers want to play for are not. It is why specially manufactured devices with limited functionality are often presented as prizes in these machines. These simply are not that attractive to a consumer now familiar with the sophisticated technology of a smart phone. A new maximum prize limit of £75 coupled with the stake increase will allow a new, flexible, value for money offer to be made to customers.

Perhaps it should be stated here that all FEC locations actually like to see customers walking away with prizes. This advertises the fact that prizes can be won from that location.

The potential cost of winning a prize on a crane will vary depending partially on the skill of the player and partially on chance (compensators adjust the claw strength to achieve a predetermined average percentage payout), but on average there will be a one in three or four chance (by value) of winning a prize at any particular attempt.

As stated above, these machines are principally located in family seaside arcades. These family venues are a vital and traditional part of the seaside experience and have been for generations. The types of machines that can be found in these venues, such as cranes, have likewise been around for decades with no concern about them or in particular, their stake and prize despite the fact they are available to, and played harmlessly by, children.

Given their history, operators' experience and in the absence of any evidence to the contrary, we cannot see any threat to the licensing objectives from this proposal.

That absence of concern remains. The PWC study asked the public their views on an increase in the stake and prize on cranes (even with a £100 maximum prize). Just over 60% were in favour of the change or not against it.

Additionally the PWC Report in 2015 found that 97% of all visits to FECs were made accompanied by friends and/or family. This is, like other machines in the FEC, a game that provides low cost fun and entertainment to friends and family groups.

The points made above in relation to the costs of running an AGC are equally as applicable to running an FEC so they are not repeated here, other than to add that with a mix of gaming and non-gaming machines and very often ancillary business activities such as a catering offer, the FEC has to make a complex calculation for VAT under the 'partial exemption' rules. The industry is often disadvantaged as a result of these rules as it is the machines that generate the lion's share of income. Given many are technically gaming machines this



impacts on the ability of the business to reclaim VAT adding additional on-going cost to the business since the introduction of MGD. To be balanced there was a gain to FECs on lower stake machines which are taxed at a lower rate of MGD but it is the assessment of FEC operators that overall they are worse off as a result of the change.

### **Category D – Pushers**

Praesepe is seeking an adjustment to the maximum prize to accommodate an additional prize of a £10 note to be placed on the bed of the pusher alongside the coins and small non-monetary prizes currently found there. Pushers operate using 2p and 10p coins. 2p pushers predominate in the market. There are no 20p pushers as the coin is not suitable. We are also seeking an uplift in the maximum permitted stake to be lifted to 25p to accommodate closed loop pushers using tokens.

As with cranes above these machines are one of the mainstays of the seaside FEC arguably being the most iconic of the traditional machines available. Generations of families have enjoyed the entertainment they provide which is high on value and entertainment and low on cost. The machines allow players to insert a coin in a slot which falls onto a moving bed behind which a barrier is placed and which, depending on how the coins on the bed fall, push them into a winning chute or another moving bed. Often small trinkets are added to the bed of the pusher as an additional prize of interest and sometimes a £5 note is placed on the bed of the machine to add further interest.

The current maximum prize of £20 of which no more than £10 is in cash is very rarely reached if at all. However, in order to ensure it is not breached it is currently not possible to place a £10 note on the bed of a pusher at either the 2p or 10p price of play, as even an additional 2p falling over the pusher cliff with a £10 note would breach the statutory maximum.

If the maximum prize was adjusted to allow a maximum of £12 cash this would allow an odd £10 note to be added to the range of enhanced prizes available and add to the attraction of the machine.

As with the current £5 note the use of a £10 note would be a very limited occurrence. At 2p or even 10p a go it is uneconomic to have prizes greater in value than the small number of coins that fall from the edge of the pusher bed being won on anything other than a sporadic basis. It does however add interest and fun to the game as people aim to direct their coins to near the note in order to bring it the edge of the pusher bed and into the payout chute.

According to PWC over 60% of the public either support or have no concerns about these proposals.

Given the public perception of these machines, the very low price of play, the nature of these machines, and the absence of any evidence to the contrary, there is absolutely no risk to the licensing objectives from these machines.

In order to maintain a sensible ratio between monetary and non-monetary elements of the prize it is suggested the total maximum prize value for pushers is raised to £22. Prizes at this level will not appear (as now with the maximum prize at £20); it simply accommodates the uplift in the cash element.

The Closed loop pusher described above is a relatively new introduction to the market that is designed to be used in FECs with a strong redemption offer. There are relatively few in the market place (on 20p price of play) but we believe an attractive offer on these machines could see their growth. As pushers are effectively restricted currently to a maximum of 10p



stake (and most pushers are on 2p stake), the uplift in the maximum permitted stake would allow for a new and unique offer that would enhance the pusher/redemption category with something with a high perceived value, given up to £10 could be paid out as tickets.

**Q3. What other factors should Government be considering to ensure the correct balance in gaming machine regulation? Please provide evidence to support this position.**

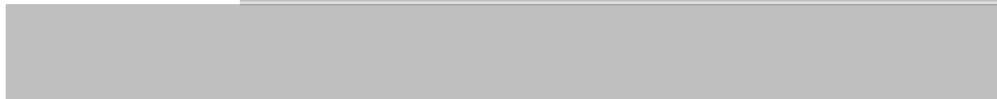
A reduction in the stake on B2 gaming machines to £20 will remove from the 'High Street' a product that does not belong in the 'Low stake. High Turnover' market. Players will move back to more established (and lower stake) gaming opportunities such as Category C in Pubs and Arcades and Category B3 in Arcades and Bingo Clubs. Players will return to playing for 'Entertainment' which has been the traditional activity of the slot machine industry in the UK.

**Conclusion**

Praesepe strongly urge the Government to reduce the maximum stake that can be wagered on a Category B2 machine. To bring B2s into line with other products available on the high street and to strike the correct balance between regulation and player enjoyment, we would support the stake being reduced to £20. This would support the Government's objectives as set out in the call for evidence, mitigate harm to consumers and communities and substantially improve player protections.

We would also ask that consideration be given to our requests regarding Category D Crane and Pushers machines which pose no threat to any of the licensing objectives and help maintain the traditional and much loved British seaside Family Entertainment Centre.

Yours faithfully



**Praesepe**  
**December 1<sup>st</sup> 2016**