



2016 REVIEW OF GAMING MACHINES AND SOCIAL RESPONSIBILITY MEASURES

BACTA'S SUBMISSION TO DCMS PROPOSING AN INCREASE IN STAKES AND PRIZES FOR VARIOUS CATEGORIES OF GAMING MACHINES

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Review of Gaming machines and Social Responsibility
Measures

1. FOREWORD BY BACTA PRESIDENT, JASON FROST

When I became President of bacta in the Spring of 2015, the 2016 Triennial review seemed a long way off. The industry was continuing to reel from the accumulated impacts of the smoking ban, changes to machines brought about by the 2005 Gambling Act, a recession and the competitive discrimination the Adult Gaming Centre sector in particular, suffered as a result of high stake gaming machines being permitted in competing high street gaming venues i.e Licensed Betting Offices.

Over the intervening months I have worked closely with the bacta team and bacta members to really understand what the machine landscape would need to look like. The proposals in this document seek to do just that and this would also allow us to recover some of the lost ground and to shape our industry for the future. They also balance both customer demand and social responsibility obligations.

They do so in the knowledge that the three licensing objectives set out in the Gambling Act, must be protected. Indeed we have committed to putting social responsibility at the heart of what we do. We mediate all our initiatives through that explicit statement and have done so with these proposals. We have as a result included a number of suggested ways to allay potential concerns that these changes may increase risk to the licensing objectives.

I have also read very carefully what the Government and Gambling Commission said in response to the last proposals set out in the last triennial review, particularly the need for evidence. We have, where appropriate, asked an independent test house to model our proposals to determine how the changes we propose would alter the amount a machine would typically take and thereby indicate the cost to the player to play the game. We have also canvassed the public for their views through independent research via PWC. Those opinions are included as part of our evidence. Furthermore we have estimated through conversations with operators the impact previous changes have had on their businesses. Finally we have asked PWC to calculate the benefit to the economy from the changes we propose.

We are happy to work with Government to review any of these numbers under different parameters.

The overall balance of the evidence supports the changes we propose.

On this basis we commend this document to the Department and sincerely hope that it can continue to help a legitimate business sector safely develop and grow.

Jason Frost
Bacta President

2. EXECUTIVE SUMMARY

- 2.1. The severe and chronic, economic and commercial conditions affecting the industry over the past decade can be significantly addressed through stake and prize increases and new machines or features, (some requiring amendments to the Gambling Act in the future) but most simply by Statutory Instrument.
- 2.2. A broad range of demanding 'modern consumers' has to be satisfied if they are going to continue to want to play machines or be attracted to our offer, which itself therefore has to broaden and change. They need variety and choice both of games and within games.
- 2.3. Any change is predicated on robust and effective social responsibility, which is already central to industry operations.
- 2.4. The case for our propositions is bolstered by qualitative and quantitative evidence that demonstrates economic value to the industry and the economy as well as public acceptance of what is proposed.
- 2.5. The changes will generate in total a recurring economic impact of £385.2 million including tax and excise receipts.
- 2.6. Previous changes to stakes and prizes in our sector have not led to any adverse social responsibility consequences. Problem gambling levels have remained constant.
- 2.7. Previous stakes and prizes increases have provided a boost to the sector or at least inhibited some of the decline.
- 2.8. Providing the opportunity to invest in new popular equipment that appeals to a broad range of customers, particularly at the seaside, will mean the older legacy machine is more likely to disappear from the market.
- 2.9. The suggested changes we propose are in no particular order:
 - 2.9.1. **Proposal 1.** Category B3 – new £2.50 maximum stake, no change to maximum prize of £500.
 - 2.9.2. **Proposal 2.** Category C – new £2 maximum stake with a new maximum prize of £150.
 - 2.9.3. **Proposal 3.** Category D Cranes – new £2 maximum stake with a new £75 maximum non-monetary prize.
 - 2.9.4. **Proposal 4.** Category D Pushers – new maximum prize of £22 of which no more than £12 cash and new maximum stake of 25p to accommodate token pushers.

- 2.9.5. **Proposal 5.** Category D Non-complex Other – raise the maximum non-monetary prize to £10 and the maximum stake from 30p to 50p for prize only machines, and with cash and non-monetary prize machines align the cash element with that for Category D complex machines.
- 2.9.6. **Proposal 6.** For Category D complex machines, bacta is supporting the case made directly by BALPPA for a 20p maximum stake and a maximum prize of £8 in cash or tokens.
- 2.9.7. **Proposal 7.** Permit in-venue linked jackpots for Category B3 machines to a maximum value equivalent to one times the maximum permitted prize on a B3 machine - currently £500 in total.
- 2.9.8. **Proposal 8.** Permit the subdivision of the Category C into sub-categories as is currently permissible under Secondary Legislation for Category B machines.
- 2.9.9. **Proposal 9.** Open discussion on how the player can pay for their games in a cashless society and on what method, in a socially responsible way, players can use their money to play gaming machines.
- 2.9.10. **Proposal 10.** A new Category B5 entertainment machine with a maximum stake of £10 and a maximum prize of £125 with a game length of at least 30 seconds.
- 2.9.11. **Proposal 11.** Introduce a percentage cap on the number of the new Category B5 machines permitted to 10% of the total number of machines permitted in AGCs and bingo hall.
- 2.9.12. **Proposal 12.** Raise both the maximum aggregate stake and prize for prize gaming (prize bingo) in FECs and AGCs to £1000, with an individual maximum prize of £100 and raising the maximum stake to £2.
- 2.9.13. We are proposing no change to B3A or B4 machines.

3. INTRODUCTION AND BACKGROUND

3.1. Description of the Industry

- 3.1.1. The members of bacta are manufacturers, suppliers and operators of the 310,000 amusement machines in the UK (excluding 34,000 machines in Licensed Betting Offices and 2,800 machines in Casinos). These amusement machines include gaming machines found in pubs (Category C and D), working men's clubs and political and private clubs, (Categories D, C, B3A and B4), machines in Family Entertainment Centres (Category D machines and Category C in over 18 areas) and those in Adult Gaming Centres and Bingo Halls (D, C, B3 and B4 machines). Our members also manufacture and supply juke boxes, pinball machines, children's rides and Skill with Prizes machines, etc. We do not represent Casinos, Licensed Betting Offices, Bingo Halls or on-line gambling activities.
- 3.1.2. The amusement machine sector is predominantly in the business of providing a leisure activity for its customers, with the emphasis heavily on the element of fun. This is especially true of the Family Entertainment Centres, which are a key element of many traditional seaside holiday destinations and are part of the tourist attraction of British coastal resorts. The gambling element of the majority of gaming machines found in this type of venue is so small as to be almost unrecognisable as such to the public¹.
- 3.1.3. Machines in pubs provide an important additional and ambient attraction (and consequent income), to a sector that has seen well-documented contraction. Pubs, like Bingo Halls, working men's clubs and AGCs provide a valuable community asset, often in areas where other amenities are not readily available. A community hub of this kind contributes to social cohesion. The fruit machine is a part of the mix of entertainment and leisure these venues provide and is seen as very much at the soft end of the gaming machine spectrum with a current maximum stake of £1 and maximum prize of £100.
- 3.1.4. There is more of an element of gambling in the dedicated gaming AGC sector as they are able to offer a limited number of low stake gaming machines, namely Category B3. The numbers are constrained to either 4, or 20%, of the total number of machines available. The maximum stake on a B3 is currently only £2 and the maximum prize is £500. By way

¹ A recent survey by PWC for bacta found that the word most associated in the public minds with FECs was overwhelmingly 'fun'.

of contrast the maximum permitted stake on a B2 machine, found in Licensed Bookmakers, is £100.

- 3.1.5. Machines in our sector are generally associated by the public with fun and amusement.²
- 3.1.6. The amusement machine industry in the UK is an exporter and our manufacturers lead the world in many areas of innovation. Although not a gaming machine, we have for example seen in the past two years, the first UK manufacturer of pinball established in Merthyr Tydfil, which is already shipping product abroad. Changes allowing new machines to be produced could boost the appetite for UK manufacturers to seek new overseas markets.
- 3.1.7. The industry employs highly creative and technical people including designers, graphic artists and software engineers, but like other creative industries face considerable pressures from overseas markets.³
- 3.1.8. In total both direct and indirect employment stands at 34,000 people and the industry contributes just under £2 billion to the UK economy (excluding Category B2 and above machines)⁴.
- 3.1.9. The amusement machine industry is therefore bigger than the video games industry which employs just under 11,000 and contributes £1.25 billion to the UK economy according to its trade association TIGA.⁵ Similarly the UK film industry in 2015 generated box office receipts of just over £1.2 billion.⁶ Both enjoy far greater Government support than the amusement machine sector.
- 3.1.10. To illustrate the importance of the sector to other industries that utilise our product as part of their offer, one need look no further than the pub sector where, although machine income has been in decline, pub operators rate machine income as a small but important contributor to profits.⁷ The same is true for clubs where machine income is arguably more important to their success or failure.
- 3.1.11. The industry has a long and proud tradition with its roots firmly planted in the nineteenth century when travelling novelty shows and fairs were hugely popular with the British

² In the same survey, although slightly less frequently than in FECs, the word 'fun' was overwhelmingly associated with these premises and machines in them.

³ As one of the more liberal gambling markets and with a unique FEC offer machine manufacturers often target the UK market.

⁴ PWC Report for becta 2015

⁵ *Making Games in the UK Today: August 2015*

⁶ BFI Statistical Yearbook 2016

⁷ Financial Times September 16 2016 Games Machines lose their Slot

public. Many of these shows and showmen eventually settled at a single location or resort and these sites have become the location for many of the arcades and entertainment centres we enjoy today.

3.2. Historic and Current Market Conditions

- 3.2.1. Despite this clear affection and historical tradition, many parts of the amusement machine sector have significant difficulties and are facing severe economic challenges. Unfair competition on the High Street, competition from the internet, the recession, social changes and faltering regeneration have all combined to erode the viability of many of our outlets, the decline in the numbers of customers have inhibited these businesses from investing and innovating for the future. For example according to the latest Gambling Commission statistics **36.4% of AGCs** have disappeared over the past 5 years. That number is approaching 50% in the past decade. From the same figures more than 10% of the workforce has been lost. Ours is the only sector to see a reduction in Gross Gaming Yield over the period.⁸
- 3.2.2. It is well documented that there has been a marked decline in pub numbers and closures have now reached historic levels down from nearly 70,000 in 1982 to just over 50,000 in 2015⁹. From 2005, when the Gambling Act was introduced, the decline has been around 5,000. Therefore opportunity for this part of the industry is under severe pressure, as every space in the pub has to pay its way and the pub gaming machine is played regularly by only a very small customer base. A similar story is true of the club sector.
- 3.2.3. Our seaside resorts are some of the poorest communities in the country, with high unemployment and considerable social pressures. Both the Centre for Social Justice¹⁰ and the Office for National Statistics¹¹ in 2013 published Reports that evidenced the large scale of the problems faced by most seaside towns. Many desperately need investment and regeneration, something acknowledged by Government, which has launched a range of initiatives to try to help, such as the Coastal Communities Fund.
- 3.2.4. Where regeneration has taken place at seaside resorts it is often through investment by Family Entertainment Centre operators. For example in Clacton a local FEC operator

⁸ Gambling Commission Industry Statistics to September 2015.

⁹ British Beer and Pub Association

¹⁰ Turning the Tide. Social Justice in Five Seaside Towns. CSJ. August 2013

¹¹ A Profile of Deprivation in Larger English Seaside Destinations, 2007 and 2010. ONS. August 2013

purchased the lease to a rundown seafront facility previously operated by the Council and has turned it into a successful leisure and high quality food outlet providing an added facility for the town and drawing more tourists to the seafront who in turn are spending money with other local businesses. Helping the industry will stimulate this kind of investment and return.

- 3.2.5. Family Entertainment Centres continue to be an important and traditional part of a British seaside holiday and add to the tourism attraction for many coastal towns. They provide important work for local people and are seen as offering an inexpensive, fun attraction for all the family. Any further demise would be a sad loss to these seaside resorts and potentially threaten their viability as a resort as well as the investment in seaside town regeneration they can bring.
- 3.2.6. AGCs are a well-established although recently diminished community asset, and are part of the high street in many towns across the country, and have many thousands of customers that enjoy a flutter in a safe, fun AGC environment. Gambling Commission statistics put this decline at over 30%. Even in Central London the number of AGCs has declined from 15 to 5.
- 3.2.7. AGCs offer relatively benign gambling in a safe and highly regulated environment where the stakes and prizes are comparatively low, as befits the high street location.
- 3.2.8. Over the past few decades the whole sector has been under considerable pressure, including from the smoking ban, the economic downturn of the UK economy, on-line activity and principally the rise and rise of Category B2 gaming machines (commonly referred to as FOBTs) and the subsequent proliferation of LBOs.
- 3.2.9. PWC identified that around 1.5 million lapsed players of machines (those that had not played on a machine in the past 12 months in venues where amusement machines are located) had now played machines in licensed betting offices.¹²
- 3.2.10. All machine markets obviously drive the manufacturing sector, which has seen a drastic reduction in numbers of companies, revenues and quality high tech jobs. Machine production has dropped from 22,362 in the year to March 2012 to 18,074 in the year to September 2015 a decline of just over 19%.¹³ If we go back to the period before the introduction of the

¹² PWC Report for bacta 2015

¹³ Gambling Commission Statistics to March 2015. Excludes B2s.

Gambling Act machine manufacturing was around 70,000 per year. Attached at Appendix C is a graph showing the decline in the sales of AWP/Category C gaming machines based upon the bacta Factfile annotated with relevant key events courtesy of Novomatics UK Ltd.

- 3.2.11. Unlike any other industry, the amusement machine industry cannot introduce and market test new products. This means all changes to games, let alone to stakes and prizes, either succeed or fail in the real market place. This is an added and significant cost to our sector that simply would not be experienced in a normal manufacturing business that can product test in limited trials before a full scale launch.
- 3.2.12. Not only do the technical standards restrict game design within current stake and prize limits, but those statutory maxima mean that, **unlike any other business, the machine sector cannot pass on costs to consumers**. Neither is it commercially possible to adjust the percentage payout as players simply walk away from a machine which they feel does not offer value for money; that is to say the right balance between what is charged, the return and the length of time for which one can play the machine.
- 3.2.13. This means that every single pound increase in cost is straight off the bottom line of the business. With inflation in those costs that are by far and away the most significant for our sector namely, electricity, staff and premises costs, which have outstripped both CPI and RPI, the impact is, cumulatively, hugely significant in reducing profitability. Inflation for electricity costs alone has according to ONS nearly doubled since 2005.¹⁴ We have also seen spiralling insurance costs across the sector, additional compliance costs since the 2005 Act and the cost of the new living wage which will itself add an estimated £20 million to the industry's collective wage bill. Coupled with the new requirements to provide work place pensions and the current rate review, the cost burden for staff alone is almost unbearable.
- 3.2.14. The change to Machine Games Duty in 2013 meant that whilst they still were taxed on their cash box, businesses could no longer claim VAT back on their costs. This has for many meant an additional 20% cost increase. One typical FEC in the West Country for example saw its costs rise by £20,000 overnight simply on its rent.
- 3.2.15. The magnitude of the cost burden faced by the industry over recent years has greatly curtailed investment especially in

¹⁴ ONS CPI dataset for electricity

new equipment, with the consequent impact on manufacturers. As stated above, according to the Gambling Commission, new machine sales into our sector have fallen by over 19%.

- 3.2.16. Whilst we are as an industry working hard to improve our premises, our offer, and our customer service, the principal driver for our profitability can only come with the opportunities provided by increases in maximum stake and prize (and minor changes to the Gambling Act). This provides a much greater range of parameters for games designers to write algorithms and software that entertain the player.
- 3.2.17. It is important to note that the maximum stake is not the stake at which all players chose to play. Many players play on machines at lower stakes for lower prizes within machine categories that allow higher maximum stakes. Often a higher maximum permitted stake allows games designers to incorporate a wider range of staking options on the same machine to increase its flexibility and appeal to a wider group of players. The wider the staking opportunities, the lower the average stake as a proportion of the maximum. In a recent study of B1 machines in casinos during the period when the maximum stake was raised from £2 to £5 the average stake moved from 79p to 88p¹⁵.
- 3.2.18. The opportunity to change the machine landscape through the review of stakes and prizes, not only encompasses giving our current player base something new to entertain them, but also to attract new players. Bacta has researched the player and potential player base with PWC. Some of the insights from that work will be referred to in this submission. These changes could provide a significant boost to the industry and to the economy.

3.3. Social Responsibility and changes within bacta

- 3.3.1. Bacta has over the past eighteen months launched a range of social responsibility initiatives. These augment the excellent record the industry has on social responsibility. We are the only sector that has amongst its team of twelve people, four whose job is exclusively to help members fulfil their social responsibility obligations through training, advice and enforcement. We also have a dedicated Social Responsibility Committee comprising large and small operators that drive our social responsibility agenda and allow us to share best practice.

¹⁵ Forrest, McHale, Wardle. *Raising the Stakes*. December 2015. RGT harm minimisation conference.

- 3.3.2. It is also important to acknowledge that over the past couple of years the Social Responsibility Code of the LCCP has seen significant additions and requirements. These have all been absorbed by the industry and in themselves constitute a major upgrade to the SR performance of the industry since the previous Review of machine stakes and prizes.
- 3.3.3. In November 2014 bacta committed to the production of a Social Responsibility Charter, establishing an accredited and independent Alternative Dispute Resolution entity, formalising its age-verification scheme with independent monitoring, and developing a national self-exclusion scheme. In the space of twelve months these objectives have been achieved.
- 3.3.4. The reason these initiatives are important is because bacta also committed in November 2014 to demonstrate that Social Responsibility is at the heart of what we do as an organisation and as an industry. We recognise that there is an unarguable moral dimension to the task of delivering the three licensing objectives. We also recognise that there is a business dimension. The more we can demonstrate that we can keep gambling crime free and fair and above all protect the vulnerable, the more we will build the trust necessary to request and receive the help we need, particularly around stake and prize increases. We believe we have introduced the necessary measures to be extended that trust.
- 3.3.5. Furthermore, we also commit through this submission to DCMS to introduce onto relevant machines (Category B machines that utilise screen technology) any messaging, limit setting or similar where the evidence supports us doing so. B2 machines in LBOs currently carry opportunities to set limits on spend and time as well as provide Social Responsibility messages to players. We understand their effectiveness is currently being evaluated.
- 3.3.6. Additionally, we will continue to work closely with the Industry Group for Responsible Gambling (IGRG) to develop and ultimately use effective messaging.¹⁶
- 3.3.7. Similarly, the IGRG/GambleAware funded work stream on training will provide the industry with best practice guidance on augmenting current training so that any interventions made by staff will have the best chance of having a positive

¹⁶ The IGRG comprises the five gambling trade associations and has an independent Chairman. It has agreed, *inter alia*, to lead on two important pieces of work, funded by the RGT, to look at effective messaging to consumers about gambling generally, the nature of the games being played and on direct in or pre-play Social Responsibility messaging. Furthermore the training work stream will go beyond simply devising good training packages to examine the effectiveness that training has in delivering effective interventions in gambling premises.

outcome for those who are identified as being at risk from harm.

- 3.3.8. Bacta has recently agreed to support GambleAware week 2017.
- 3.3.9. We also believe, contingent on the changes to stake and prize we propose, that it would be helpful to agree through the Technical Standards, minimum game times for certain categories of machine. We have suggested this below specifically for our proposal for a new Category B5 entertainment machine. This would reduce the volatility and the potential size of loss a player might experience in any given time.
- 3.3.10. This is an important and significant approach that we would like to emphasise. In the past the size of the maximum permitted stake has been the metric by which one has considered the cost of playing the machine. **It is not the correct metric.** Players play for time. It is a leisure activity and like other leisure activities, such as watching sport; the price one pays is the cost of a period of time. On a gaming machine that cost is variable, but illustrative averages can be calculated using the three key parameters for each game - typical game length, average stake and typical percentage payout. We have illustrated in this submission that the increased price of the time over which a player plays the machine is perfectly reasonable.
- 3.3.11. Bacta further commits to establish a panel of industry experts that will collect, analyse and share with the Gambling Commission intelligence about the performance of Category B and C machines pre and post any changes that may be introduced as a result of this triennial review process. This process is in hand.
- 3.3.12. Furthermore we commit to require members with AGC licences, to devote in any window advertising, at least 10% of the advertising space (i.e the poster or similar) to socially responsible messaging.

3.4. The need for evidence

- 3.4.1. The response to the previous triennial review by the Gambling Commission and the Government was clear – evidence must be provided to support any request for a change in stakes and prizes. Evidence of the impact of past changes would also inform future changes. We accept this reasonable challenge to the sector and have endeavoured insofar as we can, to

supply quality evidence to support the case we make. We repeat the commitment made in paragraph 3.3.11 that we will form a panel to analyse and share data on machine performance going forward.

- 3.4.2. Clearly the inability to test new ideas, stakes or prizes in the market inhibits the provision of live data, but for the Category C and B proposals we make below we have asked NMI¹⁷ to model the proposals contained in this document. We have modelled the machines with a typical performance profile. That is to say we have assumed an average stake, a typical percentage payout and a typical game length. This provides us with an illustrative figure for the typical income a machine would generate over an hour. An hour was chosen simply as a standard metric for comparative purposes. Players generally play for much shorter periods.
- 3.4.3. It is also worth explaining that the reason the average stake is lower than the maximum permitted stake is because multi and variable staking are very common choices for players and this is what happens in practice.
- 3.4.4. From our experience, historic changes to stake and prize largely go unnoticed by the public and are rapidly accepted by players.

3.5. A strategic view

- 3.5.1. Under its new leadership, becta has begun some detailed thinking on the long-term future for the sector. Whilst that process is not complete it is clear that operator experience both in the UK and abroad has identified that the modern consumer is sophisticated, informed and fickle. As a result, retailers of recreational gambling must tune their products to a very wide range of different and nuanced tastes. A broad range of stakes and prizes with certain small legislative change is part of the mix necessary to achieve this. Other retailers have had to travel this journey – grocery retailing being one of the most visible. It was a point made very explicitly by a retail expert to the 2015 becta Convention and it requires the industry to respond in new ways and which include a much broader range of products that can be personalised to this sophisticated consumer.
- 3.5.2. The range of that customer preference is from those that simply want low stake/low prize gaming on simple machines, through to gamblers that want to demonstrate knowledge in

¹⁷ An independent and Gambling Commission approved test house based in North Wales.

playing, to those that simply want to play and win at a higher level. Currently the industry is satisfying part of that wide range of customers. A widening of the range of stake and prize opportunities with the changes we seek, and introducing a new machine to market and finding a way to allow customers to pay for the leisure time in the way they wish, is necessary to allow us to entertain more players.

3.5.3. Given the context outlined above, bacta believes the proposals below give the amusement machine industry an opportunity to develop and grow in a way easily consistent with the licensing objectives and will in part at least stem the decline it has suffered since the introduction of the Gambling Act. The amusement machine industry is a valued and valuable part of the economic landscape of Britain and in the seaside context a central pillar of the seaside and heritage economy. As mentioned above, we employ 34,000 directly and indirectly. We contribute just under £2 billion to the UK economy. It is an industry that deserves Government support.

3.5.4. We estimate that our proposals would lead to a £385.7 million boost to the economy¹⁸. On Category B3 and C machines we would expect to see a 6-7% boost to cash box, and on the new Category B5 machine industry estimates the Average Net Balance will be of the order of an average £300 per week. This would also generate new investment and new jobs across the industry as well as boost MGD receipts for the Government, all by offering a machine that will be played by customers at socially responsible game speeds for that location and environment.

¹⁸ PWC Economic impact of bacta's proposals. Appendix D.

4. THE DETAILED PROPOSALS

4.1. Proposal 1 - Category B3

- 4.1.1. Bacta proposes that the maximum permitted stake for Category B3 machines should move from £2 to £2.50.
- 4.1.2. This increase will enable the machine to meet customer demand and remain relevant to the player by introducing new multi-staking options. With no increase the machine will become increasingly stale.
- 4.1.3. B3 machines are generally the most profitable of the machines in the AGC. They tend to be played by the customer who prefers to play with higher stakes for a higher prize as opposed to the generally older customer who uses the AGC as a social venue and plays for longer periods of time on the lower stake lower prize machines. It is also worth noting that the B3 is generally more popular in urban areas and more popular in the South (with London dominant) of the UK than the North.
- 4.1.4. The proposal is based on the need for the AGC Sector to both satisfy the consumer and generate income to keep pace with increased costs. As has been described above the inability of the AGC to pass on increased costs, the combination of a range of other economic pressures and the commercial discrimination caused by B2s in Licensed Betting Offices has meant the sector has been in significant decline.
- 4.1.5. The reputational damage caused by the negative impacts of B2s has also had an effect on other sectors of the gambling industry, not least the amusement machine sector. That has meant opportunities to market an amusement offer have been damaged by the negative publicity surrounding B2 machines.
- 4.1.6. Furthermore since the introduction of MGD in 2013, the machine industry and especially the AGC sector, which is purely a gaming machine business, has not been able to claim VAT back on the costs of running the business. This represents another 20% hit to the bottom line.
- 4.1.7. Going forward the whole amusement machine sector will be faced with a multi-million pound cost for the introduction of the new £1 coin in 2017. This cost will have to be incurred in a six-month period during the switch from the old to the new £1 coin. On top of this, the industry is already feeling the cost of managing the new polymer notes being introduced in 2016 through to 2020.

- 4.1.8. Also going forward the sector has to somehow find the revenue to pay its staff the living wage, a requirement introduced in the last budget and expected to add in the order of £20 million to the collective wage bill.
- 4.1.9. The AGC sector is an age-controlled adult environment. These adults are free to gamble on-line for unlimited stakes and prizes or more importantly to walk off the street into other age-controlled adult gambling environments such as an LBO. It is inconsistent and unreasonable that there should be discrimination in the machine offer between the two high street venues. The level of supervision and customer engagement in the AGC environment is superior to that in an LBO. We are unaware of any criticism of staffing levels and customer care ever having been levelled at the AGC sector.
- 4.1.10. The level of supervision and interaction by AGC staff with those who might be vulnerable is well documented in the records kept by AGC businesses. These businesses are regularly examined by GC inspectors and bacta's own compliance team assist in training, monitoring and enforcing the LCCP. There is no evidence for suggesting that an uplift in the stake from £2 to £2.50 will increase the risk to the vulnerable. As stated above we would nevertheless include on these machines any statements, breaks or limits that will assist in protecting the vulnerable in light of the experience of the bookmakers and B2 machines as well as the outcome of the IGRG/GambleAware messaging work.
- 4.1.11. The ability to offer a stake range of from 25p to £2.50 will give manufacturers a greater scope to innovate new styles of games where the player is in control of the risk/reward ratio according to his or her appetite.
- 4.1.12. PWC also concluded that this measure would generate an economic benefit of £33 million and generate taxes of £5 million.
- 4.1.13. A poll of bacta members who operate AGCs in December 2015 showed that the impact of the increase of the stake from £1 to £2 in 2011 was relatively modest but positive. No member reported any social responsibility issues as a result, which can be verified from the companies LCCP logs.
- 4.1.14. Furthermore, we were able to determine through the modelling of NMi that this is roughly 7% higher than with the current B3 configuration¹⁹. Given inflation in our sector since the last increase in stake, this is not an unreasonable

¹⁹ It is worth noting that machines in AGCs are typically played for in total between 4 – 6 hours per week

increase. Players are after all purchasing time. These are reasonable prices to pay for a leisure activity.

- 4.1.15. The slightly higher stakes will only appeal to higher staking players and provide them with a sensible multi-staking offer and will significantly enhance the range of entertainment this machine can provide.

4.2. Proposal 2 – raise Category C maximum stake to £2

- 4.2.1. Bacta proposes an increase in the maximum stake of Category C machines from £1 to £2 and the maximum prize from £100 to £150.
- 4.2.2. The market in the public house is particularly challenging for operators and the pubs themselves. Pub numbers have declined significantly over many years meaning a loss of a much loved community asset. Machine income is an important part of the income mix for pubs and can represent a significant portion of a pub's income, but only around 6% of pub customers play the machines currently available. These players tend to be relatively young and male but are an ageing demographic.
- 4.2.3. The traditional pub machines consist of three reels that spin over a relatively short time period. Whilst wins can be achieved by aligning matching fruit symbols on those reels, the entertainment in the game and the higher prizes are mainly available by accessing the feature board displayed on the machine glass in front of the player. This offers a range of games or features the player can play. Game knowledge can help the player utilise best strategies to improve the chance of winning and therefore adds to the entertainment of the machine. Players like a short reel spin to quickly build up trails or to win features that allow them to access the feature board where the principal entertainment of the machine is to be found.
- 4.2.4. The £1 stake was introduced in 2009, an increase from 50p, at the same time as the maximum prize was raised to £70, from £35. It is estimated this boosted revenues by 6% (although most of this uplift was to a large extent taken by the pub retailers and not the operators who traditionally supplied machines on a rental. The few operators with an arrangement to share machine income did better). In recent years many Managed Public Houses have moved to a share arrangement. Between 2001 and 2009 machine income in pubs reduced significantly in the absence of a stake and prize change in the face of significant changes in the competitive

environment. More specifically Category B2 machines being introduced in large numbers to Licenced Betting Offices drew players away from the pub (including their spend on food and drink) and the explosion in Internet Gaming. The Chairman of the British Beer and Pub Association and Association of Licensed Multiple Retailers' machine sub-committee, recently estimated the impact of B2s on pub machine income at 6%.²⁰ Clearly even the last stake and prize increase therefore did nothing to move the overall income forward for the sector. At best it allowed the pub sector to recover some lost ground.

- 4.2.5. The pub is a highly regulated and responsible venue for low stake/low prize gaming machines that provide amusement and a gamble. Pubs need stake and prize increases so as to remain relevant to players that can gamble anywhere, at any time, on the Internet. In January 2014 the maximum prize increased to £100. It is estimated that the £100 prize increased income by 6% in Managed Houses and 9% in Tenanted/ Leased Houses. However, much of this enabled pubs to 'catch up' from the decline that is usual in the latter years before a stake and prize review, especially if there is more than three years between stake and prize reviews. And as has been mentioned above the pub continues to lose income to the Category B2 machine in bookmakers. An uplift in stake to £2 we estimate would generate an uplift in income of around 6%; similar to previous occasions.
- 4.2.6. With an increase in stake it is important to offer to the customer an ostensible increase in reward if it is to be accepted as value for money. A maximum permitted prize of £150 provides that function and is reasonable.
- 4.2.7. There is no evidence from the previous increase in stake from 50p to £1 that there were any adverse impacts on players.
- 4.2.8. We have asked independent test house NMI to model a £2 maximum stake, £150 maximum prize game. Again that test data is available at Appendix E.²¹
- 4.2.9. The information we gave above in relation to the cost base for AGCs is similar to that for pubs in that since MGD was introduced an element of VAT cannot be reclaimed by them in relation to machine rental or share (the input VAT). This has increased the overall tax burden for the pub industry, even though MGD was considered by the Treasury to be neutral across the gambling industry. Both pubs and operators have had to incorporate the cost of the new National Living Wage,

²⁰ Mr John Appleton in a speech to the All Party Parliamentary Group on betting and gaming seminar 7th June 2016

²¹ NMI report at Appendix E. NMI refer to the pub machine as high tech

with pubs, like AGCs and FECs employing a lot of people, sometimes seasonally. Costs have risen on average roughly 16% since 2009 according to the ONS.

- 4.2.10. The proposed change to a £2 maximum stake will offer manufacturers the opportunity to develop a range of multi-stake games that will appeal to existing players and could be marketed to potential players with low cost entry play points that could allow them to develop knowledge of the game and thereby improve their chances of winning as well as enhancing their enjoyment.
- 4.2.11. Category C machines are also found in AGCs and Licensed FECs (for over-18s only). The clientele is different to the pub customer but given the size of the market relatively few Category C machines are made specifically for this sector²².
- 4.2.12. We estimate in this sector that Category C machine income will rise by 7%.
- 4.2.13. The demand in the AGC/FEC is for a broad range of different machines and an increase in stake and prize will introduce enhanced opportunities to those manufacturers that do operate in this market to broaden the range of games they offer. It is interesting to note that one of the more popular versions of the Category C machine currently in the market is operating at a 20p stake and £10 prize (often referred to as Category C Light), which is indicative of the broad appeal AGCs and FECs have to provide to their customer base. More variety will attract new players.
- 4.2.14. PWC have calculated that the benefit to the economy of this proposal would be £72 million and generate £10 million in tax revenue.

4.3. Proposal 3 – Category D Cranes

- 4.3.1. Bacta proposes an uplift in both the maximum stake and the maximum prize on crane grab machines from £1 to £2 and £50 to £75 respectively.
- 4.3.2. 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 an 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

²² These are referred to as low tech in the NMi report

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

- 4.3.3. 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).²³ 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.
- 4.3.4. 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.
- 4.3.5. 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.
- 4.3.6. 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.
- 4.3.7. 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

²³ Package 4 of the Consultation Document

stake and prize despite the fact they are available to, and played harmlessly by, children.

- 4.3.8. 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.
- 4.3.9. This is, like other machines in an FEC, a game that provides low cost fun and entertainment to friends and family groups.
- 4.3.10. 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.
- 4.3.11. PWC calculated the economic benefit of this proposal to be £16 million and generating £0.3 million of tax revenue.

4.4. Proposal 4 – Category D Pushers

- 4.4.1. Bacta 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 25p to accommodate closed loop pushers using tokens.²⁴
- 4.4.2. As with cranes, 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

²⁴ A closed loop pusher does not payout coins. Rather pre-purchased tokens are inserted into the machine through a slot and drop to the moving shelves as normal. The successful player pushes a number of these tokens over the shelf cliff but rather than having them returned through the payout chute to the player as would occur with coins, the machine pays out a number of tickets equivalent in value to the tokens won. These tickets can then be used to purchase small gifts or combined with other tickets, whether from the current machine or others, to purchase larger items.

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.

- 4.4.3. 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.
- 4.4.4. 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.
- 4.4.5. 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.
- 4.4.6. 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.
- 4.4.7. 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.
- 4.4.8. The closed loop pusher described above is a relatively new introduction to the market and 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 a 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.

- 4.4.9. The limits that determine the category of machine for the purposes of Machines Games Duty would have to be adjusted to ensure a pusher of this type is classed as a lower rate category of machine. If these adjustments are not made, (and they have followed automatically stake and prize changes in the past), the machine is unviable.
- 4.4.10. On the basis that it will attract the 5% duty rate, PWC calculated that the economic benefit of this proposal would be £9 million and generate £0.2 million in tax receipts.

4.5. Proposal 5 Other non-complex Category D machines

- 4.5.1. There a number of other non-complex Category D machines in the seaside arcade market which encompass a vast range of novelty games some of which are subject to statutory stake and prize limits. These types of products are particularly suited to the concept of redemption whereby families can play on a wide range of games to win tickets that can then be added together to purchase a prize from the FEC redemption prize bar. The current maximum stake for these machines is either 10p (with a maximum prize of £8 of which no more than £5 can be in cash), or 30p where the maximum, non-monetary, prize is £8. For all the reasons articulated above in relation to the seaside arcade we see no reason why the maximum prize should not be adjusted in both cases to £10 and the cash element in the case of the former to £8. The current £8 maximum figure was fixed in 2009 and even simply taking CPI inflation since that time of 16%, justifies a simple inflationary adjustment to over £9. And as has been said above the major costs for the FEC of electricity and wages far outstrip that.
- 4.5.2. We also believe that an increase in maximum stake to 50p for the second of these categories of machine (i.e. where there is no cash prize) will allow the development of a full range of staking options across a wide range of different machines allowing much greater choice to the customer. As with cranes it is likely that a few higher stake machines will appear on the market but most will remain on the current low stake options. For the first category the maximum stake and cash prize element should follow the increases for Category D (complex) machines which is proposed be set at 20p and £8 respectively.
- 4.5.3. Similar to pushers these machines are not perceived as gaming machines. The prize is very modest and if in the form of tickets is used as part of the redemption offer in those venues that offer prize redemption as part of the

entertainment. (Redemption allows tickets won from gaming and skill machines to be aggregated to buy prizes from a redemption prize bar situated on the premises).

- 4.5.4. Again similar to pushers we can see no reason, nor is there any evidence to suggest, that these types of machines pose any threat to the licensing objectives.
- 4.5.5. PWC calculated the economic benefit of this proposal would be £0.9 million generating taxes around £0.1 million.

4.6. Proposal 6 – Complex Category D machines

- 4.6.1. Complex Category D machines are predominantly reel based fruit machines currently on a maximum price of play of 10p and maximum £5 cash prize. We have spoken with the British Association of Leisure Parks Piers and Attractions (BALPPA) and fully support their request for a change in the maximum stake and prize for these types of machines to 20p stake and £8 cash or £8 tokens. We therefore are not addressing this machine directly in our submission other than to say this proposal is entirely consistent with the suggestions in this section of our submission.

4.7. Proposal 7 – Permit in-venue linked jackpots

- 4.7.1. A further measure which would allow the AGC sector to add additional entertainment to its offer would be to a maximum value equivalent to one times the maximum permitted prize on a B3 machine - currently £500 in total.
- 4.7.2. This is simply another way to win. It gives more players the opportunity to win the top prize and adds to the excitement and entertainment on the premises as well as some additional theatre.
- 4.7.3. As the prize does not exceed the current statutory maximum and would be a relatively rare and random occurrence, there is no additional incentive to players to play machines or spend more money playing machines than they would otherwise do. The amount that could be won is modest and not life-changing, and on the B3 equivalent to the average weekly wage in the UK.²⁵
- 4.7.4. The jackpot would be funded by taking a small portion of each stake from the linked machines and depositing it in the

²⁵ ONS Labour Market Statistical Bulletin October 2016 Av. Weekly Wage was £504.

jackpot, which would be won at random (and as a result could be less than the statutory maximum).

- 4.7.5. It would provide another small improvement in the number of ways AGC operators can enhance their offer to customers and address the regulatory and economic discrimination against AGCs described above. Prizes of this level are typical across Europe.
- 4.7.6. The proposal can be achieved easily by a small amendment to the Gambling Act 2005 s.244(2), adding the words 'or Adult Gaming Centre premises licence', after 'casino premises licence'.
- 4.7.7. It would be sensible to permit the same change for bingo halls, where linked bingo games are already a mainstay of the product. This could be achieved with a similar amendment of the same clause of the Gambling Act 2005.

4.8. Proposal 8 – sub-division of Category C gaming machines

- 4.8.1. Currently the Gambling Act permits the Secretary of State through secondary legislation to sub-divide only the Category B of gaming machines and to thereby permit or restrict the locations in which they may be sited, as well as their maximum permitted stake and prize. This power has been exercised. We suggest this power is extended to permit sub-division of Category C.
- 4.8.2. Category C machines are located principally in pubs but also in AGCs, FECs and bingo halls. Our original thinking in relation to our new Category B5 proposal below was that this machine or similar would appeal to pub goers in way similar to the quiz type Skill with Prizes machines (which has now shrunk in number to a few thousand in pubs). From the description of the machine below it is a machine that would offer a new type of game and one that would encourage play by groups of customers. We believe those customers would not be the traditional pub fruit machine player.
- 4.8.3. Sub-division of this category would allow separate Technical Standards to be developed for the different Categories of machines as is currently the case for the different types of Category B machines, as well as different maximum stake and prize levels.
- 4.8.4. As has been said above in relation to our Category C proposals the pub market is in desperate need of a boost to its machine income. The opportunity to provide new games

that depart from the traditional fruit machine model could expand the market and therefore assist the economic viability of the pub.

- 4.8.5. Having a single Category C means that a new game of the type we propose below as a Category B5 cannot be brought comfortably into the existing regime.
- 4.8.6. In the AGC market we expect the new Category B5 machine to offer an additional game style to the current Category C machine player as well as potentially offering something to new players.

4.9. Proposal 9 – Accommodating new payment methods

- 4.9.1. Whilst a completely cashless society is somewhat off, there is clear evidence of a decline in the use of cash, particularly for incidental transactions, and the growth of other forms of payment, from contactless to ApplePay and similar systems. It is an increasingly popular form of payment by young people – who are axiomatically the consumers of the future.
- 4.9.2. It will become increasingly difficult for our customers to understand that their journey in other retail establishments allows them to pay for what they want in the most convenient form, yet, uniquely, when it comes to paying for entertainment on a machine, that is perplexingly prohibited. This will only add to a narrative that suggests machine playing is old-fashioned and an irrelevant pastime; a narrative we are changing to one which says machine entertainment is modern safe and fun.
- 4.9.3. Furthermore, the handling of cash, and particularly coins, is expensive both for businesses and the banks. The banks and other cash handlers charge for managing cash. Incentives, such as loyalty points and cashback deals, push consumers towards cashless transactions.
- 4.9.4. In addition bank branches are closing making it more difficult to deposit cash.
- 4.9.5. Banks have also mistakenly refused amusement machine operators banking facilities on the basis that playing an amusement machine comprises serious gambling and has associated reputational and money laundering risks that the bank wish to avoid.
- 4.9.6. These are just a few examples of the trends we are witnessing.

- In 2014 cashless payments surpassed cash payments for the first time in the UK, with research (from cashless payment provider Kalixo Pro) suggesting that the average Brit only carries £17.79 in cash at any time and 1 in 4 will walk away if a business doesn't accept card payment.
- According to a survey by payments company Worldpay, six out of 10 young adults would prefer not to use cash at all.
- The UK spends more by cashless transaction than any other European country according to the European Central Bank in 2015.
- Many countries are moving towards near-cashless societies. In Sweden for example companies are already allowed to refuse to deal with cash. The trend away from cash use there is growing. There are examples of the 'war on cash' across the globe.
- Deutsche Bank boss, John Cryan said in 2015 that cash would disappear within the decade.

4.9.7. It is clear therefore that without an ability for gaming machines to take non-cash payment, the gaming part of the amusement machine sector (which represents in revenue terms nearly 80% of income) is going to potentially wither and die and the whole amusement machine industry will wither and die with it.

4.9.8. The prohibition on the use of debit and credit cards is contained in the Gaming Machines Circumstances of Use Order 2007 (extract at Appendix G).

4.9.9. Clearly something needs to be done if we are not to witness the slow demise of one of the UK's traditional industries due to the move to a cashless society. The amusement machine supports other businesses and jobs, not just in Adult Gaming Centres and Family Entertainment Centres at the seaside, but pubs, clubs and bingo halls. The Seaside Family Entertainment Centre is often one of the principal economic activities at the seaside providing in many cases investment in the local infrastructure and local heritage. Britain's Victorian piers are effectively maintained by the income from the seaside arcades located there. The income from machines to pubs, themselves declining in number, helps to keep many of them open. Without machines many more of these important community assets would disappear.

- 4.9.10. The principal concern about any card use is the ease with which a player can unthinkingly continue to spend money from the card until it is exhausted. With a credit card (which no one is advocating should be used for gambling) up to the credit limit or on a debit card up to the limit of an individual's current account cash resources or their overdraft limit.
- 4.9.11. Although in the vast majority of cases people gamble and do so safely and for fun, some people are vulnerable to developing gambling problems. Also whilst the amusement machine sector provides low stake low prize gaming, problem gambling can be associated with modest stakes and prizes. The ability therefore to access cash from one's bank account more readily than is currently the case has to be assessed very carefully.
- 4.9.12. At the moment it is possible to use a debit card to pay for credits to put on the machine to a chosen value by making a payment through an individual at a cash desk for example. It is also possible to obtain and use an electronic purse, which can be loaded up with cash that can then be used on a machine. Furthermore, it is legal for ATMs to be located in gambling establishments. An individual can therefore readily access cash from their bank account up to the value of their daily debit card ATM limit. The only restriction is that the ATM must be located away from the machine(s) but can be legally located in the same premises.
- 4.9.13. Cards are the only form of payment that can be used to gamble on-line albeit by crediting an account with an amount using a debit or credit card. Nevertheless, on-line the amount that can be spent on one simple transaction can be compared to what is available in venues such as casinos and bookmakers - very high.
- 4.9.14. It seems sensible as a minimum to allow a customer to access their cash through the use of a debit card for a gaming machine (NOT a credit card) in a way that replicates the decision making process undertaken in accessing cash from an ATM and then using that to play a gaming machine. This means that the mental breaks inherent in utilising an ATM could also be replicated (or indeed enhanced) if the use of a debit card in a gaming machine was permitted. The Gambling Commission and others have said it is these breaks that allow a problem gambler or at risk gambler to assess their expenditure and potentially decide to stop gambling.
- 4.9.15. We would therefore propose that the use of a debit card is permitted in a gambling machine in the following, or a similar way.

- A player inserts their card into a machine or taps the card on a contactless card reader.
 - The machine, through a screen message, acknowledges the insertion of a card and requests the player to confirm that they wish to pay for plays on the machine by the use of the debit card.
 - The player confirms that they do.
 - The player is requested to enter an amount (this could be limited by agreement or regulation).
 - Having done so the player is asked to confirm that this is the amount they wish to transfer to the machine's bank.
 - The player confirms that they do.
 - The machine could then display a message about responsible gambling and request the player to confirm for a second time that they wish to transfer some cash to the machine's bank.
 - The transaction is complete and the player is asked to remove their card (if inserted).
- 4.9.16. The same approach would be followed with other payment methods such as ApplePay. In this case only payments linked to debit cards would be permitted).
- 4.9.17. Whilst there are clear concerns about the use of debit cards there are unique social responsibility opportunities from using cards or other payment systems. Namely the monitoring of the unique machine activity associated with that card. Whilst work is on-going in this area, particularly around Category B2 gaming machines, it is theoretically possible to identify certain markers of use that indicate potentially harmful behaviours that could then trigger an intervention, automatic or human, with the player questioning their playing behaviour.
- 4.9.18. Technology also allows for certain purchases to be prohibited with a debit card.
- 4.9.19. It is also possible to stop a debit card being used in a particular venue, which could help with self-exclusion initiatives.
- 4.9.20. Furthermore, the use of debit cards or other forms of payment would almost totally remove any money-laundering risk.

Whilst the industry is low risk, that risk could almost be eliminated with the removal of cash from the play cycle.

- 4.9.21. A simple amendment to the Circumstances of Use Order, via Secondary Legislation, which removes the reference to debit cards in Clause 4, would permit the use of debit cards in gaming machines. Details on how a debit card could be used could either be contained in the amending Order or could be agreed, via Technical Standards, with the Gambling Commission.

4.10. **Proposal 10 – Category B5 entertainment machine**

- 4.10.1. This proposal would introduce a new entertainment machine to the AGC market with a maximum permitted stake of £10 and a maximum permitted prize of £125. Manufacturers have indicated that they could incorporate a range of entertainment games alongside the traditional offer. For example fishing games, skill-based gaming, shooting games, roulette, keno or horse racing have all been suggested (we have provided some mock ups of the types of game that could be offered at Appendix F). Looking at the horse race game, with say five horses at different odds, in more detail, this game would have an optimum game length of anything between 30 seconds and a minute. The stake would be up to £10. A player could put all their money on one horse, the favourite or long-shot. Or the player could stake less in the same way or spread his stakes across different horses for different amounts. Machines would also be able to offer 5 goes for £5 or 10 goes for £10 as well as allowing for incremental staking from as little as 20p, for example buying an extra card in a card game to increase the chance of a win. The game could also, because of the game length, pause mid-game and offer the player the chance to change their bet. We believe the machine will encourage groups of friends to play in the way they did when the quiz-based Skill with Prizes machine (SWP) was widespread and thereby offer something different for the over-18 arcade market. Skill games could also form part of the compendium of games available on this machine. It would provide a wholly new game experience for the sector.
- 4.10.2. We also envisage a form of low stake soft roulette working well on this machine. Roulette is a popular game (and so gives at least some commercial certainty that the product will work), but with incremental staking up from £1 up to a maximum of £10 and with a £125 maximum prize the maximum stake anyone could place on any one number would be £3.47. All roulette has a percentage payout of 97.3%. We have asked NMi to model roulette on this proposed category of machine.

- 4.10.3. Game length would be determined in discussion with the Gambling Commission and included in the Technical Standards as is currently the case but we would anticipate a **minimum** 30 second game length would work for all games envisaged. Many will play for longer.
- 4.10.4. As a result of these parameters B5 games will have low volatility.
- 4.10.5. With new games and a variety of stakes to play the games, this proposal will broaden the appeal of the AGC offer to the over 18 sector and will help to attract new customers.
- 4.10.6. We acknowledge that as a totally new concept, the acceptability and performance of the new B5 cannot be market tested. We would therefore propose that we revisit the stake, prize and game time parameters with the Gambling Commission after the product has had a minimum of twelve months to bed down. Should any of these parameters need to change, up or down, we would cooperate with the DCMS and the Commission in bringing forward a Statutory Instrument to achieve revised limits.
- 4.10.7. As mentioned above we asked NMI to model the new proposal and chose the game of roulette as we know this is popular. This showed that typical machine income would be £16.20 per hour.²⁶
- 4.10.8. As with our pusher proposal above, there would need to be an adjustment to the Machine Games Duty, this time to ensure this machine fell into the 20% tax category. As the figures demonstrate it would be wrong for it to fall into the higher rate category of 25% that currently applies only to B2 machines.
- 4.10.9. Assuming that there is a 10% cap on the number of machines permitted in the venue (Proposal 11), PWC estimate that this change would result in 10,000 machines being manufactured. This proposal would generate an economic benefit of £165 million and tax receipts of £25 million. There would be a one off contribution of £39 million with £9 million in VAT being generated.

²⁶ NMI Report at Appendix E

4.11. Proposal 11 – Introduce a new percentage cap for the proposed Category B5 machine of 10% of sited machines.

- 4.11.1. From 2011 AGCs and Bingo Halls were allowed to have as part of their product mix a number of Category B3/B4 machines not exceeding 20% of the total number of machines available for play on the premises.²⁷ Previously they were entitled to four such machines.
- 4.11.2. We propose a similar approach is taken in relation to the proposed Category B5 machine and that the cap is set at 10% of the total number of machines on the premises.
- 4.11.3. Whilst these percentages are arbitrary and do not reflect customer demand, the industry has worked with the current B3 percentage and a similar approach would work for the proposed B5. We do not know how successful this machine will be but to give it some commercial headroom in the market place to effectively allow this market testing to take place, we believe a 10% cap is about right for the moment. We can revisit the number in the future and, if not right, adjust it accordingly.
- 4.11.4. The change would obviously boost the manufacturing sector as we expect many sites to adjust the number of machines they have to meet the level of demand and flex their machine entitlement. The change will also potentially reduce the number of legacy machines and other out-dated or poorly performing product in the market and thereby much better reflect what customers want. It would be another important measure to help the AGC and Bingo sectors.
- 4.11.5. This change can be achieved by simply amending by Statutory Instrument the percentage of B3/B4 AND B5 machines permitted under Clause 172(7)(a)(1) of the Gambling Act in accordance with the above proposed limits.

4.12. Proposal 12 - Prize gaming - raise the maximum permitted stake to £2, the individual maximum prize to £100 and the maximum aggregate stake and prize to £1000

- 4.12.1. Prize gaming in AGCs and FECs consists exclusively of prize bingo. Its popularity has waned in recent years and a number of venues have removed their prize bingo units in favour of amusement machines. However there is still a market for the game, particularly at the seaside. It provides for a more elderly clientele a longer, sociable opportunity akin to bingo in

²⁷ The Gambling Act 2005 (Gaming Machines in Adult Gaming Centres and Bingo Premises) Order 2011

a bingo hall but at very much reduced stake and prize levels in a more convenient location.

4.12.2. The previous review of stakes and prizes in 2012/13 considered that an uplift to these maximum limits (save it was proposed to leave the stake at £1) was entirely consistent with the evidence provided that the game needed to move forward and given the absence of any social responsibility concerns whatsoever with this type of gaming. Those changes were not implemented.

4.12.3. It is unnecessary again to reprise the arguments as to why the amusement machine industry is in need of stake and prize changes to revitalise the sector. Prize bingo may now be niche in the FEC/AGC sector (different arguments and different limits apply for prize bingo in the bingo sector) but it is still important to allow continued investment in products that appeal to a section of the customer base. This can only be done if customers play the game and they will only do so if they see the stake and prize on offer as relevant.

5. CONCLUSION

5.1. The amusement machine industry has for over a decade been in decline. A legitimate part of the economy with customers who enjoy the products and benign social environment, generating extensive tax revenues, it provides good jobs often in areas of high unemployment and often, in the manufacturing sector in particular, high-tech ones. A significant part of this decline for the AGC sector in particular, is attributable to the B2 machine available in Licensed Betting Offices, which has indeed cannibalised business from the whole leisure sector.

5.2. The industry is looking for the opportunity to develop and build its offer to its varied customer base, from those who enjoy the fun of the seaside arcade and its very low level gambling, novelty and amusement, through to the customer who prefers a more simple straightforward gamble, to the pub player that likes to play games that have a modest gamble/reward and a high degree of entertainment. Any improvement feeds up the supply chain to manufacturers, many of them British. An improvement in the amusement machine industry improves the British economy.

5.3. In the absence of the ability to test our ideas in the real world we have modelled, tested and asked consumers about the proposals we have made above. The responses have been positive.

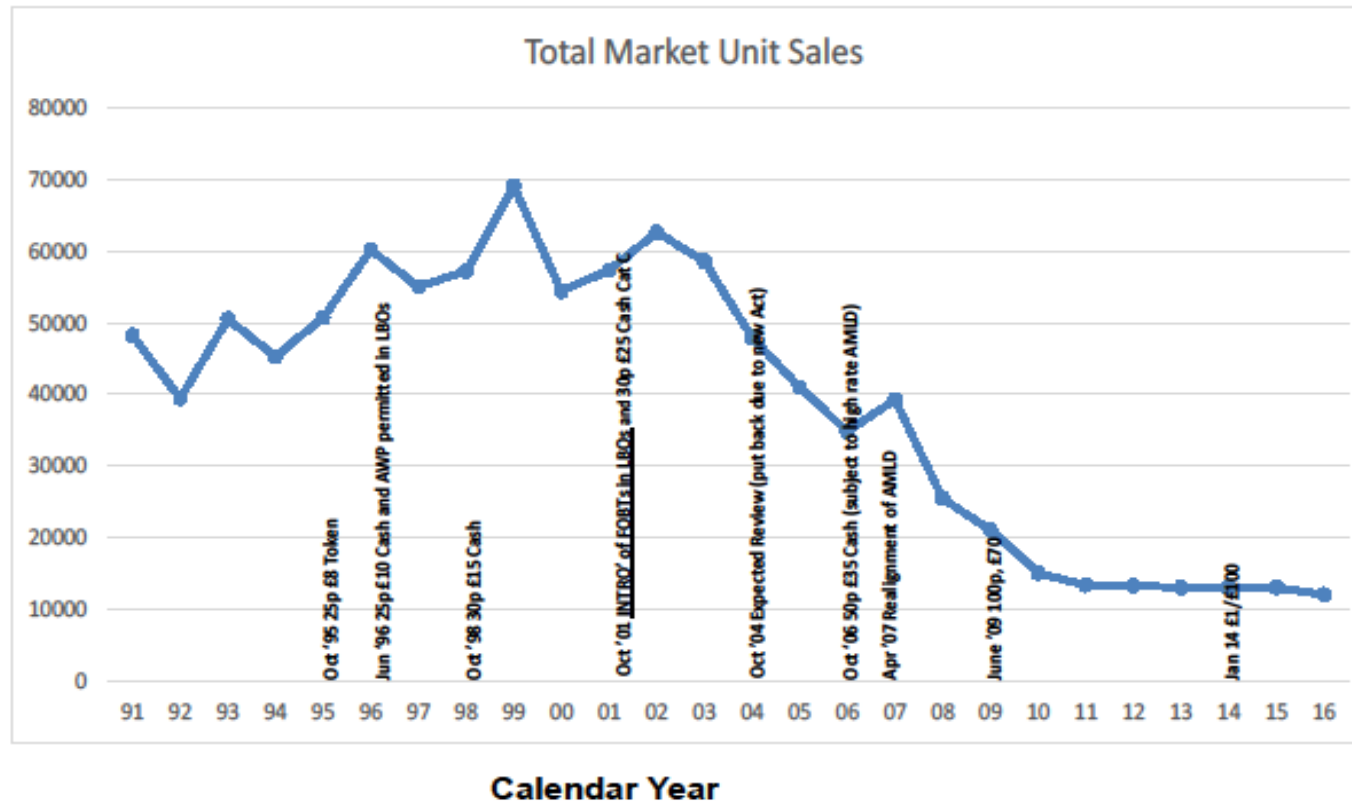
- 5.4. The industry absolutely recognises the need to put the licensing objectives front and centre of any proposals to change gambling legislation or changes to stakes and prizes levels. We have demonstrated that the changes proposed in this document do nothing to place those objectives in jeopardy. Either things will stay very much as they are, or there will be an improvement in player experience as more entertainment is provided by the machine, or there will be greatly enhanced opportunities to make appropriate and direct interventions with players that demonstrate problematic behaviours.
- 5.5. We commend these changes to the Department as proportionate, sensible, helpful and above all safe.

APPENDICES

APPENDIX C

DECLINE IN ANNUAL AWP/CAT C SALES 1991 – 2016 Courtesy of Novomatics

AWP/CAT C SALES
Incl re-builds, excl kits



APPENDIX F – CATEGORY B5 SCREEBN VISUALS

Horse race - Play individually or in a group. Pick your favourite horse and hope you have selected that lucky winner



Bingo - A fun, entertaining and ever popular game where player's can stake in small increments up to the maximum stake.



Football - Select which section of the goal you think the ball will score in - pick your stake and shoot !



**APPENDIX G – STATUTORY INSTRUMENT (EXTRACT) PROHIBITING
USE OF DEBIT CARDS IN GAMING MACHINES**

Methods of payment

4.—(1) A gaming machine shall not be made available for use if it is designed or adapted to permit money to be paid by means of a credit card or debit card.

(2) A person making a gaming machine available for use shall not participate in, arrange, permit or knowingly facilitate payment of a charge for use by means of a credit card.

(3) In this regulation—

“credit card” means a credit-token within the meaning of section 14 of the Consumer Credit Act 1974(6); and

“debit card” means a card enabling payment to be debited against a person’s banking account, and which is not a credit card.

In the Gambling Act 2005 s.245, written in identical terms to the above, banned the use in gaming machines of credit cards only. The above SI repealed s245.

APPENDIX H - RESPONSES TO THE QUESTIONS CONTAINED IN THE DCMS CONSULTATION DOCUMENT REVIEW OF GAMING MACHINES AND SOCIAL RESPONSIBILITY

Bacta's proposals meet the government's objectives of striking the right balance between socially responsible growth and the protection of consumers and wider communities.

Given we have prepared an extensive narrative, we set out below our thoughts on the specific questions proposed in the DCMS consultation as an addendum to our arguments and evidence contained in our main document.

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.

Bacta has set out in its submission a range of fully evidenced proposals that meet the Government's objectives. The amusement machine sector is very much at the softer end of the gambling hierarchy and has suffered extensively from a range of problems, not least unfair competition from B2s in LBOs. The package of changes we propose will provide the growth we need. There is little or no evidence that the product we provide is a significant contributor to gambling related harm, nevertheless the industry takes its responsibilities in this area seriously and has, and will continue, to provide a socially responsible offer to its customers. A number of new initiatives in this area are underway.

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.

It is impossible to prove a negative. What we can say however is that overall we know problem gambling rates among the UK population have remained constant. What we don't know is whether there has been movement of behaviour within that figure; for example are more problem gamblers playing B2s? Nor can we know whether the social responsibility measures taken by industry have prevented a growth in the number of problem gamblers given gambling activity itself has expanded. As a general observation this fact points to measures generally speaking being effective.

For the amusement machine sector specifically, the vast majority of the machines we operate are not problematic. Indeed over a third of them aren't gaming machines at all. Of those that are, machines at the seaside and the machines in pubs are very low stake low prize machines or, in pubs, played more for the entertainment and challenge of winning. Even the best performing machines in pubs only take a few hundred pounds a week indicating that players are not spending fortunes to play them.

The only real gambling machine in the amusement machine sector bacta represents is the B3 and these are limited to Adult Gaming Centres (bingo and LBOs are covered by other organisations) and limited in number to 4 or 20% of the total number of machines. Even so the maximum stake of £2 means these are hardly hard gaming and average cash box takings on these machines are also generally in the low hundreds of pounds.

This tends to indicate that problem gambling is at the low end of frequency and harm, a fact that is confirmed by anecdotal reports from bacta members.

Nevertheless, every problem gambler is one too many and gambling can be a problem for people at lower stake levels. Bacta and its members have taken their SR responsibilities very seriously. Our document sets out some of the measures we have taken to mitigate potential harm. We are currently looking at what possible metrics we could use in what is a notoriously difficult area, in order to provide statistical indication of the impact of what we do. It may not be a solvable problem as many academics have found; the issues are nuanced, complex and individual-based. Nevertheless, some measures help and we do have numbers for self-exclusions (which seem to be stable) and on age-verification testing where the industry has improved significantly its pass rate over the past few years.

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

Bacta has itemised a number of proposals we believe would bring improvement from both an economic and socially responsible perspective.

We would emphasise what we have said about payment systems. Consumers are moving to cashless payment and like every other retailer we have to move with them.

Whilst there are obvious and real concerns about allowing the use of non-cash payment on machines there are also, helpfully, a number of socially responsible interventions that could flow. First and foremost the use of a debit card would allow, where problem gambling activity was indicated (and there is on-going work by the bookmakers on what this might look like in relation to B2 machines), a direct intervention could be made.

Bacta would also under this question like to restate its position on Category B2 machines in bookmakers. In their current form they are wholly inappropriate for the High Street. They have caused real and significant economic damage to the amusement machine industry and their customers from pubs, clubs, bingo hall, FECs and above all AGCs. It has been and remains a wholly incongruous machine and a substantial reduction in the stake to bring these machines in line with others available on the High

Street is wholly justified. It is the only conclusion that can be drawn from all the evidence that has been submitted to Government and the Gambling Commission over the years.

In a recent speech²⁸, Sir Alan Budd, whose report provided the foundations for the 2005 Gambling Act which legalised FOBTs, said: “FOBTs are not in the spirit of our report. We did not anticipate or support the introduction of these machines into betting shops”. He went on to say that gambling of the kind found on FOBTs is not appropriate in bookmakers and that this kind of gambling should be reserved for specific, highly regulated, large premises.

Q4. What, if any, changes in the number and location of current gaming machine allocations support the Government’s objective set out in this document? Please provide evidence to support this position.

Bacta are proposing no change to current machine entitlement. We are however suggesting the introduction of a percentage cap for our proposed new Category B5 machine of 10% of sited machines. The rationale for this change is detailed in our submission.

Q5. What has been the impact of social responsibility measures since 2013, especially on vulnerable consumers and communities with high levels of deprivation? Please provide evidence to support this position.

Please refer to our answer to question 2. We would add in relation to communities that clubs, pubs, bingo halls and AGCs are community assets. As has been stated, particularly in relation to AGCs, they have been closing in droves.

Q6. Is there anything further that should be considered to improve social responsibility measures across the industry? Please provide evidence to support this position.

Bacta is with others working to improve its social responsibility measures. It is a journey. We with others have come a long way but fully appreciate that the destination is not in sight; perhaps it never will be. We are however committed to continuous improvement in what we do, proportionate to the risks and commensurate with the licensing objectives. New initiatives and ideas will continue to be developed, trialled and evaluated by industry, government, regulators and academia.

We are fully committed to the Responsible Gambling Strategy Board’s strategy for the sector. This document provides a road map for future activity for all stakeholders.

We are actively involved in the IGRG/Gamble Aware initiatives on machine messaging and on training (indeed bacta’s CEO is leading this project). We will support the output from this work.

²⁸ At the launch of the Peter Collins research on 18 November 2016, entitled Report into the Effects of Reducing the Stake on a B2 machine, or Fixed Odds Betting Terminal in UK Betting Shops

Q7. Is there any evidence on whether existing rules on gambling advertising are appropriate to protect children and vulnerable people for the possible harmful impact of gambling advertising?

Bacta members rarely advertise their products other than through shop window displays. We therefore do not have a view on this question.