BACTA'S RESPONSE TO THE DEPARTMENT FOR DIGITAL, CULTURE MEDIA & SPORT CONSULTATION ON PROPOSALS FOR CHANGES TO GAMING MACHINES AND SOCIAL RESPONSIBILITY MEASURES

JANUARY 2018

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FOREWORD – GABINO STERGIDES, BACTA PRESIDENT

Bacta has been consistent in its call for a substantial reduction in the maximum permitted stake on Category B2 machines or FOBTs. We believe the evidence clearly points to that maximum being £2.

Whilst it has taken a long time for Government to bring forward proposals to address what has been recognised by many for the past decade as an anomaly in our gambling hierarchy, bacta is pleased that at last the issue is to be addressed.

Once legislatively concluded, this will bring a welcome opportunity to share more actively with other sectors of the gambling industry the social responsibility and player protection measures that enhance the gaming offer. Currently many good initiatives are being taken by sectors individually and new joint initiative and best practice ideas could be developed.

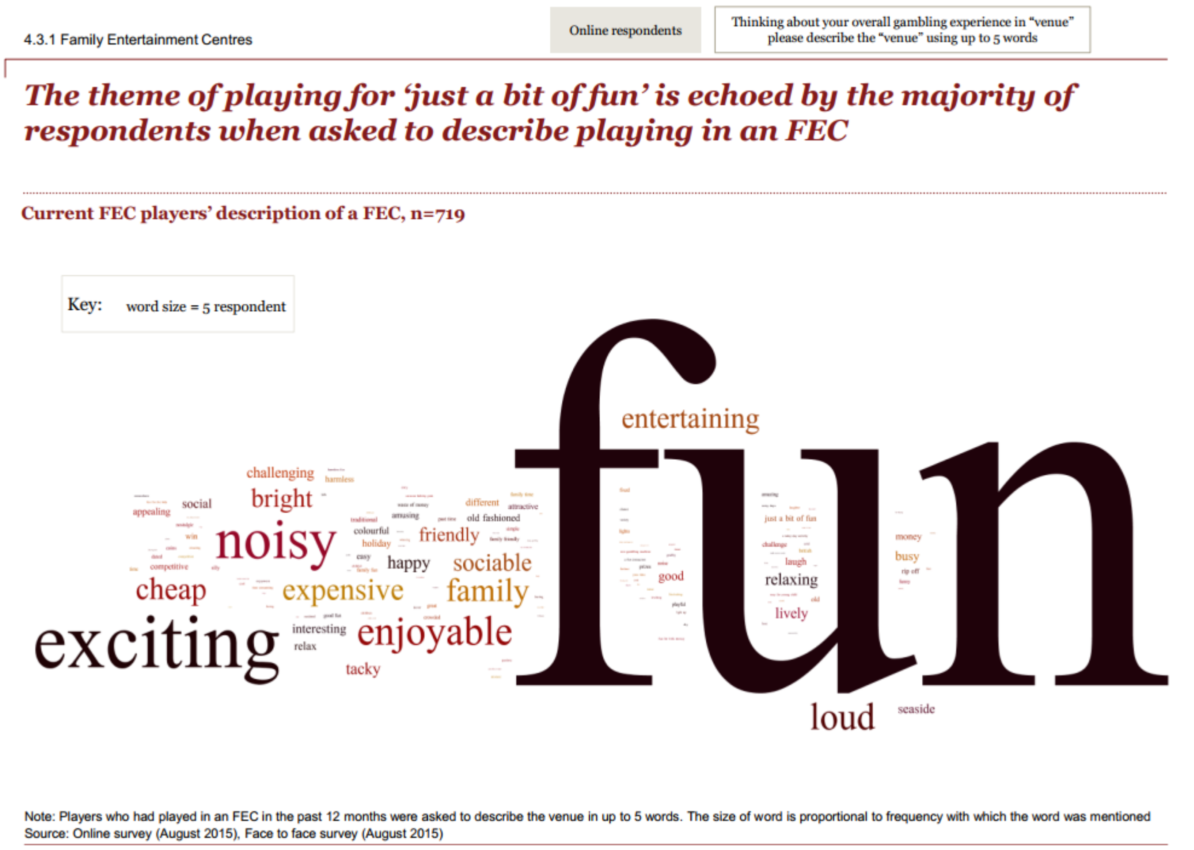
It is also clear from the Consultation Document issued by Government late last year that the toxicity of the FOBT debate has mistakenly washed over all sectors of the gambling industry and into the family entertainment sector bacta represents. Amusement machines at the seaside are low stake, low prize offers, that, mixed with other types of machine and leisure entertainment, form the mainstay of the holidays and day trips enjoyed by the vast majority of the British public. They are enjoyed because they provide fun. There is no concern of which we are aware about the low stake low prize Category D non-complex/ non-cash payout machines in these venues, such as cranes and penny pushers. We would therefore encourage Government to look again at our proposals for modest stake and prize increases on these machines.

It is acknowledged that the amusements sector needs help to halt the decline we identified in our response to the call for evidence. To encourage further growth and investment in our seasides, investment such as that on the pier at Weston Super Mare, Adventure Island in Southend or the seafront at Clacton, that brings all year round entertainment to visitors and jobs to local communities. We need to see movement in the price of play. Unlike any other industry we cannot pass costs on. Every day, inflation eats away at already small margins.

Player expectations and tastes have evolved; into online gambling and gaming, in-bet play, in-app purchases, skins trading etc. We are simply asking Government to help keep our sector relevant and competitive for the family demographic.

This response document is meant to be helpful to Government in making its final determination on these issues. In addition we believe that the observations made in our submission to the Call for Evidence still stand. We have also tried to provide a helpful critique of other relevant submissions to the Call for Evidence. Finally, we have commissioned research on the economic impact of a stake reduction on FOBTs to help Government construct a more informed impact assessment.

In conclusion, bacta wants to reiterate as part of this submission that it believes partnership working both with industry and between stakeholders from Government to Regulator is the best way to achieve the common objectives laid down in the Gambling Act.



Word cloud produced by PWC for bacta showing unprompted mentions of up to five words customers used to describe FECs. The size of the word is proportional to its mentions. The results speak for themselves.

1. INTRODUCTION

1.1. The Government published a Consultation Document on 31st October 2017, setting out a series of matters on which it sought views following a call for evidence issued in Autumn 2016. Bacta responded to the call for evidence, with a comprehensive and compelling case for change, supported by detailed evidence, that sought modest and necessary increases for the products its members supply or operate. We encourage the Government to revisit that comprehensive evidence as it contains extensive background support on the state of the industry as well as support for many of the comments made below in relation to Category D non-complex/non-cash payout machines[1].

1.2. Bacta also provided compelling evidence on why the maximum permitted stake on Category B2 gaming machines should be reduced.

1.3. Bacta has read the consultation document carefully alongside the supporting evidence and the submissions made by respondents to that call for evidence.

1.4. On the basis of that careful reading, bacta is not minded to revisit any of its proposals for change other than for non-complex/non-cash payout Category D machines (cranes, penny falls and other machines paying out non-monetary prizes), where the consultation makes a number of erroneous statements, and comments around player protection are disproportionate and misplaced. We also plan to revisit with DCMS and the Gambling Commission how to take forward our ideas for an Entertainment with Prizes Category B5 machine.

1.5. Although the evidence and concern is focused almost exclusively on Category B2 machines, bacta accepts the responsibility to work with others in the industry to develop additional player protection tools and initiatives for Category B3 machines to add to those new and long-standing schemes that currently exist. These are different machines and will require separate analysis and solutions. That work will continue over the coming months with industry partners and with the Gambling Commission.

1.6. We accept that our proposals for a new Entertainment with Prizes machine, or Category B5 machine, will require further work and will need to be evaluated in light of the impact of a stake reduction on Category B2 machines. We believe a new innovative soft gambling product for the high street would benefit all high street gaming venues.

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[1] Appendix B provides a description of Category D machines. As we explain below the consultation document and associated advice from the RGSB indicates a lack of understanding of the types of machines to which our submission referred.

1.7. Finally, bacta is wholly in line with churches and faith groups, local government, all the opposition political parties, many Conservative Party MPs, the Royal Society for Public Health, the All Party Parliamentary Group on FOBTs, gambling commentators, consumer groups, social activists, think tanks and the public in requiring the maximum permitted stake on Category B2 machines to be reduced to £2. This is arguably the greatest consensus of view in favour of a specific public policy ever assembled.

1.8. The evidence for such a reduction is there on the grounds of consumer protection alone. It is proportionate in all the circumstance and it will reduce harm. It will also restore a level commercial playing field to the High Street where AGCs have nearly halved in number due to Category B2 machines.

1.9. Given the weaknesses in the draft Impact Assessment that are set out in Section 2 of this submission, bacta has commissioned the independent and well respected, Centre for Economics and Business Research, to provide a comprehensive cost/benefit analysis of a range of reductions in the maximum permitted stake on Category B2 machines. Their Report is attached as part of this evidence at Appendix A. It shows that on a reasonable and realistic set of assumptions that the impact of a stake reduction on Category B2 machines to £2 will be to reduce Gross Gaming Yield (GGY) to the betting industry by around £335 million as opposed to the £640 million estimated by the draft Impact Assessment. The Report also identifies that when the redistribution of lost income from B2 machines is taken into account there is a net addition to the Gross Value Added of the economic activity associated with the redistributed income, and a net increase in the number of jobs in the economy. The Report also identifies the cost associated with problem gambling on Category B2 machines.

2. CATEGORY B2 GAMING MACHINES – THE CASE FOR A £2 MAXIMUM PERMITTED STAKE

2.1. The Consultation Document makes it clear that the Government is minded to reduce the maximum permitted stakes on Category B2 gaming machines. Despite offering four illustrative suggested levels to which the stake could be reduced it is clear that other options will be considered if proposed.

2.2. The evidence for a reduction is referenced in the Consultation Document. That evidence shows that on the basis of session data for B2 gaming machines, significant numbers of players are losing extraordinarily large amounts of money on B2 gaming machines. The document is right to use actual session data over any theoretical modelling as this data represents real behaviour in real world situations and is therefore the best information upon which to base a decision. As we demonstrate later in this document reliance on averages or theoretical maximums can be misleading.

2.3. Furthermore, the document also identifies from health survey data that problem and at risk gamblers are both highly associated with Category B2 gaming machines and with higher session losses. It is also stated that treatment providers also report a high proportion of those who report for treatment identify Category B2 gaming machines are their main form of gambling.

2.4. Using the illustrative proposals given in the document it is worth noting that it is only at the £2 maximum permitted stake (at the current jackpot and speed of play) that a significant reduction in the number of problem and at risk gamblers becomes apparent. At all the other stake options presented in the document problem and at risk gambling rates associated with B2 machines are well in excess of 80%. On that basis alone it is impossible to justify any maximum permitted stake level other than £2.

2.5. The Consultation Document suggests an option whereby the maximum permitted stake for slots and non-slot games (in practice a form of roulette) are set separately; at £2 and £20 respectively in the illustrative example in the document. Bacta does not favour this approach as at this level, session loss data confirms that there are still very high numbers of problem and at risk gamblers associated with the product. This approach would under current arrangements permit a player to move any winnings from a £2 slots game to a £20 roulette game perpetuating the ability of a player to chase losses that could be problematic given the ability even at £20 to win and lose significant sums of money quickly. It is noted that electronic roulette played on Category B2 machines is at least three times faster than physical roulette that can be found in casinos.

2.6. A reduction in the maximum permitted stake to £2 will correct the anomaly created when these machines were permitted in the first place (and which is now considered to be a mistake by those involved in that decision). It would align bookmakers and other sectors, principally AGCs and Bingo halls, levelling the commercial playing field on the high street. It will allow these other venues to attract players on the basis of the quality of their venues. Stimulating competition in this way will stimulate investment. This is all good news for customers.

2.7. The Consultation Document attempts to make an assessment of the impact of a reduction in the stake on category B2 gaming machines. With a reduction to £2 it claims that the Gross Gaming Yield (GGY) of the bookmaking sector would be reduced by £640 million per year. Whilst this would reduce the tax take from this sector, the redistribution of lost income would boost other sectors of the economy. This would offset any reduction in tax to the Treasury as money will be spent on other goods and services that themselves attract a tax charge – either various gaming duties if the redistribution is within the gambling sector, or as VAT and other taxes, if spent outside of it.

2.8. However, bacta believes that the Impact Assessment has materially miscalculated the impact of a reduction in the stake on Category B2 machines. The figures use a simplistic assessment of the redistribution of the income that would be lost following a stake reduction. For example a belief that 25% of that lost income would be redirected towards the casino sector is fanciful given there are less than 150 casinos in the country and it is highly unlikely that B2 machine players who felt that they needed to spend more than £2 on a machine, would travel the distances required to locate a casino to do so. Bookmaking businesses, like all good business, will adapt to new market conditions with new products and new investments. Planning and investment is already taking place. For example bookmakers are rapidly expanding their electronic betting terminal offer.

2.9. Furthermore, the Impact Assessment explicitly does not attempt a wider cost/benefit analysis of stake reduction which includes the benefits to the health service of a reduction in those presenting with issues associated with problem and at risk gambling.

2.10. Bacta has therefore commissioned the Centre for Economic and Business Research (CEBR) to help the Department in finalising its Impact Assessment. That Report is attached. It shows that on a reasonable and realistic set of assumptions that the impact of a stake reduction on Category B2 machines to £2 will be to reduce the betting industry's Gross Gaming Yield by around £335 million as opposed to the £640 million suggested in the Impact Assessment.

2.11. The Report also identifies that when the redistribution of lost income from B2 machines is taken into account there is a net addition to the Gross Value Added of the economic activity associated with the redistributed income of around £45 million, and a small net increase in the number of jobs in the economy. Even allowing for margins for error it can be stated unequivocally that a reduction in the maximum stake on Category B2 machines to £2 will have no adverse impact on the economy as a whole.

2.12. Furthermore, the Report provides, for the first time, a figure for the cost of problem gambling associated with Category B2 machines, utilising concepts that Government itself use in assessing policy impacts. By assessing the dis-benefits of problem gambling in fiscal terms (the cost of treatment for example) and the impact on the social welfare of problem gamblers, their friends and family, a monetised cost of over £1.5 billion is calculated. Furthermore this figure can be augmented by 10% by a conservative application of the law of diminishing utility.

2.13. Finally, bacta thinks it is important that the Government reflects thoroughly on the advice it has been given by the RGSB. We do so in the next section of this response.

3. OBSERVATIONS ON THE EVIDENCE SUBMITTED BY THE RESPONSIBLE GAMBLING STRATEGY BOARD

3.1. The advice itself is sound and generally based on evidence. However, in some places the RGSB has missed important points and important nuances to the evidence. We set out these observations below to be helpful rather than critical.

3.2. The evidence does suggest that a significant stake reduction will reduce harm all other things being equal. Although dismissed by the RGSB for being laboratory based, the work of the highly-regarded Professor Peter Colllins[2] (submitted as part of our response to the call for evidence) does demonstrate this clearly from validated and peer reviewed research. The challenges made by the RGSB were anticipated by Collins and answered in his Report. We would suggest a more thorough look at this evidence is taken and a conversation held with the author who is a veteran academic in the field of gambling studies and would prove helpful for the Department to consult directly.

3.3. What Collins does not do, and did not seek to do, is examine where any money not spent on FOBTs post a stake reduction, is ultimately spent. That does not invalidate the evidence of Collins who incidentally drew on extensive academic research to back his call for a stake reduction. It is nevertheless acknowledged that evidence on redistribution has been historically varied. However, research by NERA[3] (submitted as part of bacta's response to the call for evidence), Landman[4] and more recently by CEBR[5] (Appendix A) does now provide a solid evidence base to help answer this question.

3.4. Following conversations with DCMS it is clear the Impact Assessment makes some simplistic assumptions to answer this question. It is hoped the CEBR study in particular will enable DCMS to provide a more accurate assessment of redistribution as this in turn will inform the likely impact of stake reduction more broadly.

3.5. We would concur with the RGSB that real time data is more helpful in predicting player behaviour and therefore monetary redistribution. The analysis of the £50 soft cap Regulations[6]

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[2] P. Collins, L Scott and G.Barr: Report into research on the likely effects of substantially reducing the maximum permitted stake on Category B2 electronic gambling machines. (2016)

[3] NERA: Impact Assessment on he Reduction of B2 Machine Maximum Stakes. July 2016. Submitted as part of bacta's response to the call for evidence.

[4] Landman: Landman Economics, 'The Economic Impact of Fixed Odds Betting Terminals: 2015 update', December 2015

[5] CEBR: Assessing the impacts of potential stake reduction on Category B2 gaming machines. January 2018

[6] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/493714/Evaluation_of_Gaming_Machine__Circumstances_of_Use___Amendment__Regulations_2015.pdf

provides an interesting study and is referenced by the studies listed above. In essence that analysis shows that as a consequence of the Regulation, staking above £50 reduced significantly whilst staking between £40 to £50 increased significantly. Overall FOBT income continues to rise, contrary to the predictions that there would be a significant adverse impact from the introduction of any measures to reduce the maximum stake of Category B2 machines.[7]

3.6. In terms of net expenditure therefore, the soft cap had no material impact and therefore no impact on social harm caused by FOBTs. This is not to say that a lower stake would not have impact as has been argued. Forrest and McHale[8] were clear on this point in their analysis of the Regulation's impact. This points to a much more dramatic stake being warranted.

3.7. It is also clear from the session loss data provided in the Consultation Document that higher stakes are associated with higher expenditure and that it is not until the staking levels are reduced down into single figures that there is any material impact on the amount of a session loss. This is clear and real evidence that harm can be reduced by reducing the maximum permitted stake to £2.

3.8. It is also important to note that the comparisons made between Category B3 play and Category B2 slots play in AGCs and LBOs must be treated with some caution, because the only data available for AGCs are from a limited number of server based games. Virtually all B2s are server-based. The B3s in AGCs that are not server based could well provide different session loss data that modifies the conclusions drawn by the RGSB in its advice. The server-based B3s in AGCs also tend to be the latest games with the best income. We made this point in our submission to the call for evidence.

3.9. It is also important to note that players are not all the same and that it is the cumulative net expenditure of a session that is important not any individual stake. We find that players may start off with modest stakes but as they play those stakes tend to grow in size. For example at the top end 1% of sessions start at a £100 stake on a B2 but eventually three times as many end up with staking at £100. This is evidence of loss chasing. Many more players will be betting at high stakes at less than £100 as is

[7]https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/248922/Association_of_British_Bookmakers.pdf

[8] D. Forest and I. McHale: FOB-Ts in British betting shops: Further analysis of machine data to examine the impact of the £50 Regulations. January 2017 for GambleAware.

evidenced by the session loss data quoted by the Consultation Document.

3.10. The RGSB advice also makes assertions about the potential loss rates of Category B3 machines and Category C machines. It does so on the basis of a theoretical model that relies on incorrect assumptions. Firstly, it relies on RTP and says this is determined over the lifetime of a product. This is not necessarily the case and it can be determined over a set number of games. Secondly volatility can only be determined by real time play not theory as each game will have a different design and particularly in the case of Category C machines in pubs, will be dependent of the way a player plays the machine. This data does not exist. Whilst a theoretical volatility measure can be derived it will be unhelpful if it is not applied to real time data. Thirdly, reliance on average data seriously masks the impacts of those players who play at the extremes. These points are acknowledged in paragraph 39 of the RGSB advice.

3.11. These points are important to bear in mind when making assumptions about losses on machines as the RGSB does in section VI of its advice. It creates an Expected Theoretical Cost per hour. Whilst this allows for comparison it is flawed because theory does not match reality and can lead to a false assumption that machines are comparable in some way. They are not; roulette play is entirely different to slot play. In relation to Category C machines in particular the model would need to be adjusted because the average game time is closer to 5 to 6 seconds rather than to the minimum 2.5 seconds stipulated by Gambling Commission Technical Standards which relates to reel spin time not game time. Also on Category C machines in pubs it is possible to play in a way that enhances the chance of winning thereby boosting the percentage payout for the majority of pub machine players. Therefore using the quoted minimum percentage payout is inaccurate. Also the minimum percentage payout on the growing number of video based pub Category C machines varies between approximately 86% to 92%. On B2s there are different percentage payouts for roulette and for slots. The percentage for roulette is the only one quoted by the RGSB.

3.12. Furthermore, the model does not take account of the important factor of session length. Obviously, and in reality, the way a player plays the machines is hugely significant in determining their potential loss and therefore the potential harm. For a real comparison across a theoretical model a further determination would need to be made that multiplied the theoretical loss per hour by the average session length for each machine. It would explain why average cash box income on a B2 is around £1000 per week compared to, for example, £60 per week on a Category

C in an AGC or around £300 on a top performing Category C in a pub[9].

3.13. As a general point averages are helpful in some respects and not in others. The RGSB has failed to make this distinction. Reality is important. For example, the higher stake on B2s permits the chasing of losses in a way that simply cannot be done on low stake machines. The analysis of harm should not be averaged.

3.14. It is suggested that B3 machines or even Category C machines are potentially as problematic as B2 machines. The session loss data does not support this contention. Unhelpfully, the RGSB and the Consultation Document uses a proportional comparison between B2s and B3s. We have urged some caution in this approach above in that the same percentage figure can be identical for a large population as well as a small population. However, the real evidence comes by comparing actual session losses which show that there is an order of difference between the amount lost on a B2 and a B3 and a Category C machine[10]. The volume of losses on a B3 is simply nowhere near as high as on a B2. The Category C machine even less so. However, the only way in which player behaviour changes can be measured, and therefore judgements made about the accuracy of the RGSB analysis, is by reducing the maximum permitted stake to £2 on Category B2 machines and measuring how play changes on other categories of machines. The RGSB acknowledges itself that this is the only approach that allows us to ensure we don't conflate evidence by making multiple adjustments to variables.

3.15. The RGSB offers some comments associated with violence around machines as it has been alleged that significant numbers of B2 machines are attacked, smashed or destroyed by disgruntled players. This is a clear indicator of problematic play.

3.16. The RGSB expresses surprise that bookmaking companies are unable to provided data on the number of machines smashed by disgruntled customers. So are we. In response to a request from the RGSB (not referenced in their evidence) bacta supplied data on the number of B3 and other machines that were damaged in AGCs. This was a relatively straightforward exercise and showed that very little damage was caused to machines in AGCs (this data is available on request). We have been told that between a quarter and a third of B2 machines are damaged each year by customers who have lost control. That is somewhere between 8,500 and 11,000+ machines. We can only conclude from the

[9] For comparative information on machine income please see the PWC Report submitted as part of bacta's response to the call for evidence.

[10] The extensive session loss data provided by the Gambling Commission for example shows that session losses over £1000 on Category B2 machines in LBOs number over 230,000 per year. On B3s the figure is 655 and on Category C the figure is 5.

reluctance to supply actual data that these anecdotal figures are probably correct or even potentially understated.

3.17. As a general observation the RGSB is very keen for industry to trial new initiatives and then evaluate them even in the absence of robust evidence that the initiative is likely to prove helpful. Put simply the industry is asked to try something and see if it works. The same approach should be taken in relation to B2s. Whilst not complete the evidence clearly points to a maximum permitted stake of £2. We would argue that the RGSB approach should be followed: introduce the maximum stake at £2 and evaluate what happens. Further changes can be introduced in light of the new and real evidence of player behaviour.

3.18. A stake reduction to £2, for the above reasons as well as all the evidence quoted by the RGSB, is not therefore disproportionate but correct.

3.19. The RGSB suggests that players would divert their play to other forms of harmful gambling. The RGSB does not specify what this means. The assertion is not supported by evidence and therefore is speculation. However, should this happen and other harms arise then they will have to be dealt with when we have the evidence. If we resist change on the basis of our inability to accurately identify outcomes the consequent policy decision would always to be to preserve the status quo. That is patently nonsense. Furthermore, in relation to machines, it is the case that similar machines on the high street have a maximum permitted stake of £2. We know from the session loss data that the same quantum of losses are simply not experienced by players, therefore play on these machines, if it occurs, is axiomatically less harmful.

3.20. The RGSB offers its views on bacta’s request for changes to certain Category D machines. It says that Britain is unusual in allowing under 18s to gamble. It is not. The current seaside machine offer utilises a business model that is popular for family entertainment around the globe, Games UK legislation defines as games of chance, such as pushers and cranes, can be found in many jurisdictions including Europe, the USA and Middle East where gambling generally is prohibited.

3.21. There is a long history and tradition of families playing low stake, low prize, games of chance and skill in the UK for fun. They are regulated to ensure they remain fun. It has been synonymous with going to the seaside for generations, as much a part of the experience as buckets and spades, sticks of rock and the Punch and Judy show. In our response to the call for evidence we provided DCMS with a major piece of work conducted by PWC for bacta which amongst other things included a word cloud that showed that ‘fun’ was by far and away the word customers most frequently associated with our product.

3.22. Bacta was baffled by the suggestion that stake and prize increases on Category D machines should not be entertained unless we could demonstrate that no additional harm could be caused. Firstly, this presupposes harm is already being caused. There is no evidence that it is. Secondly, it is inconceivable that the changes we proposed for cranes, pusher and non-cash payout machines would fundamentally alter the product. These changes would as in any other industry allow for the accommodation of inflation and drive the evolution of the product.

3.23. It is our belief on the basis of further conversations with DCMS that the difference between Category D complex machines (the fruit machine with a current maximum stake of 10p and a maximum prize of £5) and Category D non-complex products such as cranes and pushers and non-cash payout machines has not been understood. We would encourage the DCMS to seek additional RGSB or Gambling Commission advice in light of this additional information as there are simply no public or private concerns about these products of which we are aware.

4. OBSERVATIONS ON OTHER EVIDENCE SUBMITTED TO THE CALL FOR EVIDENCE

4.1. Evidence from the ABB, Bookmaking companies and machine suppliers to the bookmaking industry all took a similar line. We offer some observations on that evidence that we believe will correct the misleading presentation it makes of certain elements of the debate insofar as they differ from the points made above.

4.2. The evidence submitted is highly partial and based upon a position which is seeking to protect a very lucrative income stream. It should therefore be treated with a great deal of caution.

4.3. The suggestion that Licensed Betting Offices are the safest place to gamble is one that is palpably incorrect and to state there is no link between problem gambling and Category B2 gaming machines is simply incorrect. Reliance on meaningless (in this context) comparators with other venues (for example the existence of limit setting on machines – which itself is rarely utilised) does not help the debate. The absence of any reference to the level of violence directed towards B2 machines, and the widespread practice of single staffing of shops gives an incomplete picture of reality. Like Casinos, AGCs and Bingo Halls all operate bespoke and effective measures to spot and minimise behaviours indicative of problem gambling. They are venues not associated with violence. AGCs are generally staffed by a number of trained personnel who are located on the shop floor actively interacting with customers and not behind a reinforced glassed-off screen.

4.4. The use of averages is widespread throughout the evidence. Using averages masks the reality of the high numbers of session losses where large amounts of money are lost.

4.5. As we have explained above there are problems associated with the use of rate of loss as a proxy as it cannot reflect real play and does not take account of session length. It is not a good predictor of harm. Real data shows that high levels of expenditure are associated with higher stakes on B2 machines.

4.6. The low volatility and high percentage payout of roulette games does not mean that large numbers of people cannot lose large amounts of money on the B2. The maximum £100 stake allows them to place high aggregate bets and be exposed to large total losses and the quantum of the maximum stake and speed of play readily allows loss-chasing behaviour.

4.7. It should be noted that despite objections to debit cards being used on machines, bookmakers have been taking payments by debit cards for years. These payments can be credited direct to the Category B2 machine and are unlimited in size, nor restricted by the daily cash withdrawal limits that are required of an ATM.

4.8. We simply do not accept that a stake reduction will see redistribution of lost B2 income into an illegal market. With a range of opportunities to bet legally in the UK, coupled with a strong regulatory infrastructure, this is highly unlikely. Bookmaking companies will see revenue redistribution principally with the bookmaking environment either on other machine games, or back to over the counter products. Any redistribution on-line will benefit bookmaking companies that have a strong presence on-line (as the CEBR Report shows). These will often be linked where a player has an account with the bookmaker.

4.9. The ABB rely heavily on average loss rates. For the reasons explained above in relation to the RGSB advice, this metric does not reflect the reality of play on machines and therefore is unhelpful as an indicator of harm. A better indicator is the actual and very real large losses regularly experienced by significant numbers of individuals. As stated above at the top range there are over 230,000 sessions that resulted in loses in excess of £1,000.

4.10. In paragraph 5.19 the ABB reference research by Lincoln University. The conclusion the ABB have reached is wrong. Decision making was shown to be impaired at higher stakes.

4.11. As the CEBR study shows the economic impact of a stake reduction to £2 has been substantially over-stated by the bookmaking industry. Furthermore, taking into account a wider impact assessment there are wider benefits associated with stake reduction and which are more beneficial to the more vulnerable sections of the community. It should also be noted that any money not spent on Category B2 machines will be spent somewhere and therefore there will be no overall adverse impact on UK plc. In fact the CEBR Report suggests there would be a benefit.

4.12. The failure to share the KPMG study upon which the ABB evidence relies is unhelpful. One can only remain suspicious as to the reasons. Wider scrutiny of that report would help DCMS understand whether or not the assumptions and calculations it contains are valid or not, or whether alternative interpretations could be placed upon what it says.

4.13. The impact upon other industries such as horseracing, are therefore also equally difficult to assess and are probably, we would argue, overstated. Nevertheless, if the current system of funding does not work to provide sufficient funds to these sectors post a reduction in the maximum permitted stake on B2s to £2, then the simple answer is to then change the system to provide the appropriate level of funding. Even with a stake reduction to £2 it should be recalled that according to CEBR the impact on the bookmakers' Gross Gaming Yield will be in the order of £350 million on an industry that currently has an annual GGY of around

£3.4 billion[11] excluding the remote betting offer of the same companies.

4.14. For the avoidance of doubt bacta repeats unequivocally that it is not anti-bookmaker. Bacta is only against the Category B2 gaming machines. Furthermore, bacta continues publicly to praise the bookmaking sector for the initiatives that it has introduced on B2 machines. It is happy to do so again. Once the maximum stake has been reduced to £2 at the current speed of play and jackpot levels, we look forward to working with the bookmaking industry to see how these could possibly be extended to other types of digital product in a way that achieves greater impact than currently.

[11] Gambling Commission statistics to March 2017.

5. PLAYER PROTECTION MEASURES ON CATEGORY B MACHINES

5.1. The Consultation Document, paragraph 5.9, very explicitly states that the DCMS has asked the Gambling Commission to provide advice on the costs and benefits of introducing a form of tracked play on B1, B2 and B3 machines. The Gambling Commission has already contacted bacta requesting some help in compiling that advice.

5.2. We will help where we can. However, it is crucially important for Government to recognise that the introduction of any change of this nature has to be undertaken very carefully. Players have historically shown great resistance to being tracked and importantly to any suggestion that they may be being tracked even when they are not. Where tracking has been introduced, for example in Austria, the effect was catastrophic for the sector.

5.3. That is not to say that the industry is against some form of monitoring or play tracking; simply that it needs to be thought through very carefully and trialled widely to ensure it does not have unintended consequences and is genuinely helpful in understanding and tackling gambling related harm in a UK context.

5.4. Bacta commits to working with the Gambling Commission, GambleAware and with other sector trade bodies to explore how best to deliver better information about the use of machines by players. A meeting of trade bodies has already been convened and we have invited the Gambling Commission to co-ordinate on-going discussions.

5.5. It is simply not possible to provide detailed evidence before the conclusion of the consultation period on this subject. We can already identify significant costs associated with some forms of monitoring, for example the use of a card or QR Code. This would require the introduction of readers to machines, and significant changes to software. Many machines will not be adaptable. Data capture, ownership and storage would be an issue not least around data protection. Many machines operate on different (and quite old) platforms (akin to a computer's operating system) and software is written in different computer languages. (This incidentally has inhibited the uptake of Ticket In Ticket Out technology). Given the absence of clarity about what is envisaged it is hard to provide concrete advice let alone a detailed assessment. We can nevertheless progress this conversation with the Gambling Commission and others over coming months through a process of open dialogue.

5.6. It is also important that we introduce and assess the stake reduction on Category B2 machines before any other significant changes are made to other machines. Otherwise we will mask any impact that change will have and thereby lose valuable data and insight on the impact of that change.

5.7. For the avoidance of doubt the Consultation Document refers to Category B1, B2 and B3 machines. Therefore, Category B3A and B4 machines are not considered as part of this exercise. This makes sense as many of these machines are analogue machines and simply would not be adaptable. Secondly, they are by definition found only in clubs. We are unaware of any concerns around machine play specifically in relation to clubs that would necessitate play monitoring in such venues.

5.8. The consultation document makes reference to the introduction of 'hard stops'. Whilst it is not stated precisely what this means it can be inferred that a hard stop would simply prevent a player continuing to play the machines. We make two observations:

5.8.1. A player prevented from continuing to play is far more likely to become violent. The player will believe that the machine has 'stolen' their money and that they are being prevented from winning it back.

5.8.2. A player prevented from playing one machine could simply move to another one which defeats the supposed purpose of the hard stop, presumably to prevent any further play.

6. THE CASE FOR AN UPLIFT IN THE MAXIMUM PERMITTED STAKES AND PRIZES FOR NON-COMPLEX CATEGORY D MACHINES

6.1. Bacta, in its response to the Call for Evidence, demonstrated that there was a compelling case for an increase in stakes and prizes for certain non-complex and non-cash payout Category D machines.[12]

6.2. We will not remake the arguments we made then but in summary we asked for:

6.2.1. The maximum stake on a pusher to be raised to 25p (currently 20p) and the maximum prize to £22 (£20) with a cash prize no greater than £12 (£10). We explained that these would allow the introduction of more closed loop pushers to the market that would payout non-monetary prizes and not cash. In addition, it would allow the ability to add slightly bigger and better prizes to the bed of the current 2p pusher which is one of the backbone products for the sector.

6.2.2. The maximum permitted stake on a crane grab machine to be raised to £2 (£1) and the maximum permitted prize to £75 (£50). We explained that this would allow the few cranes that operate with the maximum stake and prize to offer prizes that customers want to play for in a way that made it commercially possible and attractive to the consumer. Again the backbone product would remain the 20p or three goes for a £1 crane that pays out soft toys. We would again point out that Government proposed the maximum permitted prize on cranes be raised to £60 at the last review of stakes and prizes.

6.2.3. The maximum permitted stake on a non-cash payout machine to be raised to 50p (30p) and the maximum permitted non-monetary prize to be raised to £10 (£8). For the avoidance of doubt this category of machine under the 2005 Gambling Act does not permit any kind of cash payout.

6.3. From conversations with both DCMS and RGSB it has become clear that there has been a misunderstanding about the precise nature of Category D machines. The different types of Category D product should be thought of quite separately.

6.4. We would invite Government to reconsider bacta's request for changes to these machine as per our response to the call for evidence, on the basis that the proposal was not understood and

[12] Please see Appendix B for a full description of these categories of machines.

the evidence quoted was wrong. We would see these changes as on a par with our proposal to increase the maximum stake and prize on prize bingo, a request to which the Government acceded.

6.5. We would also like to highlight the errors in the arguments made in the consultation document about children and young people gambling.

6.6. When it comes to gambling by young people, it is natural for there to be additional concern about potential impacts. The law has therefore made clear distinctions in types of gambling product and what is appropriate and what is not appropriate for young people to play. In the case of Category D non-complex machines it is arguable that it is only the technical definition of gambling that makes them gambling machines. This is not how the population as a whole would see them when compared to machines found in AGCs, LBOs or casinos.

6.7. We are unaware of any credible or widespread public or private concern whatsoever about young people playing Category D machines. They make up the lion's share of a seaside FEC's offer and are enjoyed by millions of holidaymakers every year.

6.8. The Consultation Document refers to a study by David Keatley that shows that there is an association between early gambling participation and problem gambling in adulthood. That study has not been published and therefore cannot be relied upon in this consultation exercise. Existing peer reviewed evidence by Forrest and McHale[13] is quite explicit in finding no correlation between living near a seaside arcades and later problem gambling behaviours.

6.9. It has been said that some problem gamblers associate their problematic gambling behaviour to early exposure to gambling products available to young people. Cafes and fish and chips shops and similar are quoted as venues where this occurred. The 2005 Act now prohibits the siting of machines in these locations.

6.10. The argument that early experience of gambling is reported by problem gamblers does not prove a causal link for the population as a whole. In the same way that problem drinkers will cite early exposure to alcohol, does not prove a causal link for the population. If there was a causal link between early exposure to gambling and later problematic gambling behaviour then there would be a higher occurrence of problem gambling rates amongst those that first gambled at a young age and those that did not. The Forrest and McHale study proves that there is no link between early exposure and later problem gambling. Even so we are unaware if it is cranes, pushers or similar games of chance to

[13] D. Forrest and I. McHale: *Gambling and problem Gambling Among Young Adolescents in Great Britain.* Journal of Gambling Studies 2011.

which those problem gamblers that report early exposure are referring.

6.11. Furthermore, the Consultation Document is simply wrong to state Great Britain is unique in permitting those under the age of 18 to gamble. Machines that we categorise as Category D non-complex machines are widely found in other international jurisdictions.

6.12. The Consultation Document also says that industry has not proposed any strengthening of its player protections and therefore the Government is not minded to take any of the industry's proposals forward. The reason for that is that any measure for additional player protection measures around Category D non-complex/non-cash payout machines would be wholly disproportionate given the absence of evidence or public concern that these machines constitute a problem. As mentioned above these do not in the minds of players constitute gambling. They see the product at the seaside FEC and associate that overwhelmingly with having fun. We see Category D non-complex and non-cash payout machines as providing no greater risk than prize bingo which of course it is itself perfectly legal for those under the age of 18 to play in FECs.

7. CONCLUSION

7.1. As we come to the conclusion of the current review of gaming machine stakes and prizes and social responsibility measures, bacta believes that Government has the opportunity to reset the gambling landscape in a way that both enables operators to innovate and protect consumers. Ensuring this balance within the context of the Gambling Act 2005 will provide for a sustainable industry.

7.2. In so doing the Government must have a clear understanding of the different types of businesses and products that fall within the ambit of the legislation and respond proportionally to the risks they pose and the contribution they make to society.

7.3. In assessing that balance bacta contends that the Government must act to reduce the maximum permitted stake on Category B2 machines to £2.

7.4. Additionally, Government must act to support Britain's seaside economy by providing the ability for seaside Family Entertainment Centres to develop their offer. The stake and prize increases we propose are modest, and do not give rise to any concerns about problem gambling.

7.5. Bacta also has other observations about the questions contained in the Consultation Document. In summary, bacta supports continued dialogue and co-operation with all industry and regulatory stakeholders to bring forward social responsibility initiatives that genuinely help to make the industry the best in the world. Many initiatives are embedded in the different parts of the industry and each sector has a list of initiatives it will be bringing forward. We will introduce messaging on machines and we will work with the Gambling Commission and others to explore if play tracking provides any benefits and if so how it can be introduced. We have already invited the Gambling Commission to call industry parties together to explore how this can be done, the evidence that needs to be adduced and the timescales required to do so. We are also internally working to gather more detailed information to inform the debate.

7.6. It should be noted that industry is more than prepared to work at pace to introduce relevant measures, but to do so without thorough and full consideration could be potentially catastrophic for the industry. The experience of Austria is a case in point. When player tracking was introduced in the country, there was a significant drop in income and a large number of AGCs closed. Furthermore, initial, albeit very rough, estimates of the cost of introducing play tracking into our sector run into multi-millions of pounds. We are working to obtain further evidence on these points.

7.7. Bacta continues to make social responsibility and player protection a key component of the organisation's strategy. We employ three members of staff whose job is to help members and their staff comply with the requirements of the LCCP and to train them in spotting and intervening where players begin to show signs of problematic gambling behaviours. We have recently reorganised the team to enable even greater emphasis to be placed on training. In addition a member of the team has been promoted to the new role of Head of Social Responsibility and Compliance. He is currently rolling out a series of SR initiatives across the industry as well as playing a full role in the messaging and play tracking initiatives.

7.8. We believe the use of debit cards directly on machines will have to be permitted in the future as cash evaporates from society and customers increasingly will not respond to the friction caused by cash in their purchasing journey. Bacta acknowledges the social responsibility challenges associated with such use, but at the same time can see their use as being one of the ways in which machine play can be monitored – something upon which the Consultation Document has requested further information. The industry has come forward with proposals to trial non-direct use of debit cards which will contribute to the debate going forward.

7.9. Bacta would also like to explain its current view on a Statutory Levy.

7.9.1. The gaming machine part of the amusement machine sector we understand contributes roughly 0.1% of its GGY to GambleAware. It also makes contributions to other providers of Research, Education and Treatment. The accusation that the industry does not contribute sufficient funds therefore is erroneous and should not be the basis for change alone.

7.9.2. Furthermore it is important in principle that the RET work that is required is determined in advance and the associated funding to achieve it is set out on a long term basis to allow industry (as well as other stakeholders) to plan for the provision of its share.

7.9.3. Whilst having no principled objection to this funding being achieved via a Statutory Levy, we are not persuaded that the alleged problems with the current voluntary system have been properly addressed.

7.9.4. We would also like to observe that should Government move funding to a Statutory basis then this will require an administrative bureaucracy to support its operation that itself could consume a considerable amount of the money raised from industry for RET.

7.9.5. As a general observation there is a concern that once any levy is enshrined in statute it will be very easy for future Governments to raise the levy as a *de facto* contributor to general taxation. Whilst it can be argued that any legislation introducing a statutory levy would constrain the levy system to RET in gambling, the definition of RET could easily be widened to cover activities that under other circumstances would be funded out of general taxation.

7.9.6. As has been said above it is our understanding that our sector is providing the funding levels required of it. In addition we do not know where industry contributions are being made. We are told GambleAware is not receiving 0.1% but the Gambling Commission, which collects the data in its Annual Returns, is unable to publish details on to where or indeed how much money the industry is contributing to RET in total. This information will help address perceived shortcomings in the current system.

7.10. Bacta would also like to make the observation that the existence of Category B2 machines has resulted in relationships within the gambling industry becoming difficult and unco-operative. Reducing the stake to £2 will finally deal with a situation in a way that is long overdue and as a consequence the gambling industry will be able to return to a more co-operative approach to dealing with principally the player protection measures the Consultation Document has invited us to address.

7.11. Finally, in conclusion we would recommend to Government and the Gambling Commission that a formal review of stakes and prizes on gambling machines is reintroduced on a three-year cycle. This would not preclude consideration of matters outside of that time but it would allow the Gambling Commission, Government, the industry and other stakeholders to plan their work around this cycle. It could also coincide with the RGSB Strategy three-year timescale which it is presumed would be maintained. It would allow stakeholders to identify what additional work needed to be done as part of that review.

APPENDIX B

CATEGORY D GAMING MACHINES

Category D gaming machines are defined by statute using powers granted to the Secretary of State under S.236 of the Gambling Act 2005. The actual definitions are contained in S.2 of the Categories of Gaming Machine (Amendment) Regulations (2009), which amends S.3 of the Categories of Gaming Machine Regulations (2007).

The types of Category D machine described by the Regulations are sub-divided by reference to the nature of the machine and its maximum permitted stake and maximum permitted prize, or by the nature of the game in relation to cranes and pushers. We reproduce the Regulations below. In layman's terms:

- A pusher or penny falls machines allows a player to insert either a 2p, or more rarely, a 10p coin into a slot. The coin rolls down a chute and falls flat onto a moving bed upon which a number of similar coins are located. Through the mechanical movement of the coin bed against a bar the coins are pushed together and towards the front of the machine where the coin bed ends in a cliff over which coins will fall into a payout chute if the inserted coin falls in such a way as to the push the coins ahead of it far enough to do so. Sometime trinkets such as key rings are placed on top of the coins on the moving coin bed and sometimes these will fall into the payout chute. In a so called close loop pusher the player buys tokens to use in the machine and if the tokens fall over the cliff edge the machine will reward the player with a non-monetary prize, further tokens or tickets, cards featuring currently popular cartoon characters (like SpongeBob SquarePants) or collectible cards (like the characters in the Wizard of Oz), depending on the machine. Some non-monetary prizes will be exchanged for a different prize such as a cuddly toy character, at a prize counter.

- A crane typically consists of a glass fronted box in which are located non-monetary prizes – nearly always cuddly toys. A mechanical claw attached to the top of the box can be positioned by a player using levers and dropped in such a way as the claw sits over one of the toys. The machine then automatically closes around the toy which can then be lifted and dropped into a payout chute for collection by the player. The machine combines skill (the position of the claw or grab) and chance (the strength of the claw varies randomly). The definition of crane machine also encompasses other machines that have the same mechanical operation but in a different configuration for example by requiring the player to place a key in a key hole, and the prizes are suspended on a bar or arm which drops the prize into a payout chute (similar to a vending machine).

- A non-cash payout machine is any other type of Category D machine that does not pay out cash but only a non-monetary prize.

Category D machines are located in premises that are either licensed by the Gambling Commission or which have a local authority permit as an Unlicensed Family Entertainment Centre which only provides, amongst other (non-gambling) products, Category D gaming machines. The vast majority of these are at the seaside.

The Gambling Commission makes a further distinction between Category D gaming machines in its Technical Standards between Category D complex machines and Category D non-complex machines. This essentially provides a distinction between mechanical type games such as pushers or cranes (non-complex) and the three reel fruit machine with a maximum permitted stake of 10p and a maximum permitted cash prize of £5 (complex).

Below we provide some pictorial examples of these various types of machines. There are many brands and many variations of these examples, particularly of non-cash payout machines which can be both complex or non-complex, or many cases, skill games which are not regulated by the Gambling Act.

CATEGORY D NON-COMPLEX – CRANES


MASTER
MASTER

CATEGORY D NON-COMPLEX – PUSHERS

CATEGORY D COMPLEX/NON-COMPLEX NON-CASH PAYOUT MACHINES

CATEGORY D COMPLEX FRUIT MACHINES

DEFINITION OF CATEGORY D GAMING MACHINES CONTAINED IN THE 2009 REGULATIONS

Amendment of the 2007 Regulations

2.—(1) The 2007 Regulations are amended as follows.

(2) For regulation 3 substitute—

"**Definition of Category D gaming machine**

3.—(1) Where a machine is a money-prize machine, it is a Category D machine if—

(a) the maximum charge for use is no more than 10 pence; and

(b) the maximum prize value is no more than £5.

(2) Where a machine is a non-money prize machine (other than a crane grab machine), it is a Category D machine if—

(a) the maximum charge for use is no more than 30 pence; and

(b)t he maximum prize value is no more than £8.

(3) Where a machine is a crane grab machine, it is a Category D machine if—

(a) the maximum charge for use is no more than £1; and

(b) the maximum prize value is no more than £50.

(4) Where a machine is a coin pusher or penny fall machine, it is a Category D machine if—

(a) the maximum charge for use is no more than 10 pence; and

(b) the maximum prize value is no more than £15, of which no more than £8 may be a money prize.

(5) In any other case, a machine is a Category D machine if—

(a) the maximum charge for use is no more than 10 pence; and

(b) the maximum prize value is no more than £8, of which no more than £5 may be a money prize.

(6) In this regulation a reference to—

(a) a money prize machine is a reference to a machine in respect of which every prize which can be won as a result of using the machine is a money prize;

(b) a non-money prize machine is a reference to a machine in respect of which every prize which can be won as a result of using the machine is a non-money prize;

(c) a crane grab machine is a reference to a non-money prize machine in respect of which—

(i) every prize which can be won as a result of using the machine consists of an individual physical object (such as a stuffed toy), and

(ii) whether or not a person using the machine wins a prize is determined by the person's success or failure in manipulating a device forming part of the machine so as to separate, and keep separate, one or more physical objects from a group of such objects;

(d) a coin pusher or penny fall machine is a reference to a machine of the kind referred to in regulation 2(3) which is neither a money prize machine nor a non-money prize machine.

(7) Subject to paragraph (8), in this regulation "money prize" means a prize—

(a) in the form of cash or a cheque (or partly in the form of cash and partly in the form of a cheque), or

(b) in the form of a document or object which—

(i) enables the person entitled to it to redeem its value, on the premises where the machine is made available for use, in the form of cash or a cheque (or partly in the form of cash and partly in the form of a cheque), and

(ii) may, but need not, also enable that person to use it to pay for goods or services (including facilities for gambling) available on the premises where the machine is made available for use;

and "non-money prize" is any prize which is not a money prize.

(8) A document or object is not a money prize if it is something which ordinarily is capable of being used for a purpose other than one referred to in paragraph (7)(b).".

(3) In regulation 4—

(a) for "50 pence" substitute "£1";

(b) for "£35" substitute "£50".

APPENDIX C

BACTA'S RESPONSE TO THE DCMS CONSULTATION QUESTIONS

Q1. Do you agree that the maximum stake of £100 on B2 machines (FOBTs) should be reduced?

If yes, what alternative maximum stake for B2 machines (FOBTs) do you support?

The maximum permitted stake on FOBTs should be reduced to £2 for the reason's outlined in bacta's detailed submission to the consultation. A reduction will reduce gambling related harm and correct an anomaly in Britain's gambling legislation. It will level the commercial playing field and reset gambling relations in a way that will allow for greater cooperation amongst stakeholders in the future.

Q2. Do you agree with the government's proposals to maintain the status quo on category B1 gaming machines?

No Comment.

Q3. Do you agree with the government's proposals to maintain the status quo on category B3 gaming machines?

Yes.

Q4. Do you agree with the government's proposals to maintain the status quo on category B3A gaming machines?

Yes.

Q5. Do you agree with the government's proposals to maintain the status quo on category B4 gaming machines?

Yes.

Q6. Do you agree with the government's proposals to maintain the status quo on category C gaming machines?

We believe an uplift in maximum stake and prize is warranted for this category of machine but in light of the comments made in the consultation document we wish to work further with stakeholders to ensure that any concerns about this product are allayed before any increases to stakes and prizes are introduced.

Q7. Do you agree with the government's proposals to maintain the status quo on all category D gaming machines?

No. The consultation document has made a number of incorrect assertions and have relied on unpublished and incomplete evidence. The suggestion that there are gambling related problems associated with cranes and pushers and similar products is simply not true. It is imperative that seaside amusement arcades, which underpin seaside economies up and down the country, are supported. A modest change in stakes and prizes on such machines will help. Our submission provides detailed supporting evidence on this issue as well as correcting the misunderstandings that have seemingly led the DCMS to propose no change.

Q8. Do you agree with the government's proposals to increase the stake and prize for prize gaming, in line with industry proposals?

Yes.

Q9. Do you agree with the government's proposals to maintain the status quo on allocations for casinos, arcades and pubs?

No comment.

Q10. Do you agree with the government's proposals to bar contactless payments as a direct form of payment to gaming machines?

We believe that there is merit in further consideration of this issue. Consumers are increasingly moving away from cash and if other forms of payment for machine entertainment are banned this is effectively sounding the death knell of that product. Whilst there are obvious and acknowledged concerns about the direct use of cards on machines whether contactless or not, their use offers the opportunity for the tracked play the consultation document suggests should be considered as a Social Responsibility measure.

Q.11 Do you support this package of measures to improve player protection measures on gaming machines?

Without detail it is too early to comment on this question but we would support the general sentiment that player protection measures should be continually developed and evaluated. Bacta is currently discussing these issues with the Gambling Commission and RGSB and is ready to move at pace to develop and evaluate helpful initiatives.

Q.12 Do you support this package of measures to improve player protection measures for the online sector?

No comment.

Q.13 Do you support this package of measures to address concerns about gambling advertising?

No comment.

Q14. Do you agree that the Government should consider alternative options, including a mandatory levy, if industry does not provide adequate funding for RET?

It is not at all clear that the current voluntary model is failing, particularly in relation to the amusement machine sector. Given the substantial costs of administering a statutory levy we believe that further consideration should be given to improving existing arrangements before it is actively considered. As a point of principle we believe that GambleAware and RGSB should determine precisely what work it feels is necessary in Research Education and Treatment over a long-term cycle. Once costed this should provide the basis for a voluntary levy, currently 0.1% of GGY.

Q.15 Do you agree with our assessment of the current powers available to local authorities?

No comment.