

# Proposals for changes to Gaming Machines and Social Responsibility Measures

British Beer & Pub Association response  
January 2018



## Executive Summary

- The BBPA's objective is to ensure that Category C amusement machines in pubs remain attractive to the customer and are allowed the flexibility to develop in line with customer expectations in the future. This is to the benefit both of customers who play amusement machines, and the community pubs that offer machines (we estimate there are around 40,000 in the pub sector). They are an important source of income to many community pubs where they provide entertainment and increase dwell time. They are now, as ever, low stake and low prize - but to keep these machines competitive it is essential that they remain attractive to customers. Up rating stake prize levels on a regular basis helps to deliver this. We believe our suggestions set out in this response will deliver our objectives without any impact on social responsibility or problem gambling.
- We do not agree with the decision of DCMS to maintain the status quo with regard to Category C machine stakes and prizes, for the reasons outlined below – including the use of RGSB data as the sole source which we believe gives a misleading impression of Category C machine use in practice.
- Our preferred position is for a stake and prize increase as above. However, if the Government does not proceed on this basis, we are calling urgently for a consultation on the Category C technical standards (and cashless payment) to ensure the pub amusement machine can survive into the future.

## Introduction

The British Beer & Pub Association is the UK's leading organisation representing the brewing and pub sector. Our members account for 90% of the beer sold in the UK and own around half of Britain's 50,000 pubs. The BBPA and its members have made representations on behalf of the pub gaming machine sector via both the Gambling Board of Great Britain triennial review system (pre-2008) and DCMS since the introduction of the Gambling Act 2005. We submitted a full response to the most recent call for evidence in 2016-17.

As part of the call for the evidence, we provided evidence highlighting the continuing evolution of the pub sector and customer demand and behaviour – and how the Government can help the amusement machine offer in pubs reflect this.

The pub plays a vital role in community cohesion and social life in Britain. They remain one of the few places where communities can come together to socialise. The British pub has been part of people's lives for hundreds of years. First and foremost, they are businesses which serve their local communities and contribute much to the social life of each and every community. The pub sector has enormous potential to generate economic growth and create jobs. It can also play an important part in local

regeneration projects, and has been at the heart of the regeneration of many of our key towns and cities over the last fifteen years. A major study undertaken by Oxford Economics in 2017 clearly identifies the significant local impact of brewing and pubs. Pubs are labour intensive businesses and the industry supports almost 900,000 jobs across the country, often providing vital work in small towns and villages. Indeed, 44% of those employed in the sector are aged 16-24 providing a vital route to work and first career-step for many young people.

Across Britain, 30 million people visit Britain's pubs each month, with over 15 million people drinking beer. The income from an increase in prize for Category C machines enables pubs to invest in the business and make an important social resource viable.

The income derived from gaming machines is important to the economics of many pubs, and for some can have a key effect on their viability. The growth in competition from other gambling products over recent years has affected the pub industry's ability to match the level of machine entertainment increasingly demanded by its customers. Pub machines have found it more and more difficult to compete with alternative machine offers on the high street and via interactive media offered by mobile devices and the internet.

We would take this opportunity to stress again that pubs wish to remain a soft gaming environment and have no wish to change the nature of their traditional offering which is purely for ancillary customer amusement. However, the stake and prize level currently on offer in pubs increasingly does not meet the expectations of the consumer. Allowing an increase in stake and prize (which is of course a maximum and pubs may not intend to take this up) would increase the flexibility of the games that could be offered on pub machines. Similarly, simplification of the technical standards and opening up pub machines to new and commonly used payment technology such as cashless payment would allow manufacturers to innovate, especially if the Government is not minded to move forward with a stake and prize increase.

## Consultation Question Responses

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

No. We believe that the increases in stake and prize that we proposed for Category C machines does meet the Government's objective of socially responsible growth, and at the same time does not impact negatively on consumers or local communities. The most recent research by NatCen for the Gambling Commission (November 2017) does not identify pub amusement machines in respect of problem gambling.

In fact, we hope this response continues to demonstrate (as in previous years), that the proposed increases will benefit consumers and local community pubs, by giving consumers increased enjoyment of new and innovative amusements games thereby supporting pubs economically and increasing their viability. This will also result in a positive impact on the manufacture and supply chain for Category C machines.

One of the Government's stated concerns which has influenced the decision not to propose increases for Category C machines, was *'the potential impact on players of*

*another uplift which would give it a comparable maximum stake to B3 gaming machines – but with a lower return to player ratio*'. To clarify, the stake and prize limits we proposed are maximums and would not automatically result in every Category C machine offering the highest stake and prize levels.

We are concerned that the RGSB report appears to be the sole piece of evidence used to justify retaining the status quo for pub machines. We would contest the statement in the executive summary of this report that *'Category C machines already occupy an anomalous position in the hierarchy of machines, when account is taken of the limited extent of supervision'*. As set out in more detail below, pubs are subject to high levels of regulation in a number of areas, and take enforcement of the laws around age restricted products such as alcohol and gaming machines extremely seriously. The RGSB report analysis also, in our opinion, does not reflect actual practice for Category C machines (i.e. the assumption for game time set, and player return ratios).

The Government is also concerned that *'no corresponding changes have been suggested by industry in terms of additional player protection measures'*. As stated in our response, we are not aware of evidence that pub amusement machines contribute to problem gambling that would necessitate additional protections beyond those currently in place. We are very happy to discuss any update needed to our Social Responsibility Code. Indeed, the pub sector and BBPA members continue to voluntarily contribute significant amounts to Gambleaware and its predecessor charities and continue to display responsibility messaging on machines and promotional material where it exists. As technology develops and the sector gradually moves towards video amusement machines and away from the low-tech traditional reel based machines, there will be further opportunities to display social responsibility messaging.

The Government response also notes pubs are *'less regulated environments'* than other premises with machines. We would point out that pubs are already highly regulated environments under various pieces of legislation, and our members ensure that staff are trained in their responsibilities with regard to the legal sale of alcohol (age verification, serving drunks etc.) and other age restricted products that may be on the premises such as gaming machines. There has been no evidence presented to show there are serious problems in the pub sector due to it being *'less regulated'* that would lead to the conclusion that a stake and prize increase should not be considered under these proposals.

The accompanying impact assessment does not set out what the *'potential impact on players'* actually will be if stakes and prizes were increased, or additional evidence base for the rejection of the industry proposals – despite, as the Government acknowledges, evidence and economic impact data regarding the pub machine sector which was provided by the BBPA, BACTA, ALMR and others as requested by DCMS. The BBPA liaised with DCMS officials to provide additional information on the benefits of an increase to community pubs in particular, yet we note that the impact assessment states that maintaining the status quo will result in *'no change in benefit or cost to the industry'*. Our economic analysis, as submitted to the consultation and borne out by evidence from previous years, indicates that if stakes and prizes do not remain in line with reasonable customer expectations and allow manufacturers the flexibility to develop new content and technology, then this will have a negative impact on pub

sector revenue. Our analysis and subsequent proposals are seeking to help mitigate what will otherwise be a continued decline in revenues from machine income over time.

As highlighted in our original response, the vast majority of the pub sector (c.80%) is made up of small businesses, with independent licensees in leased/tenanted and freehold pubs operating on tight margins. To illustrate this, please see a profit and loss account from the 2017 BBPA benchmarking report for tied tenants at figure 1.

## Community wet-led

c. £5k turnover per week

All figures exclusive of VAT

£		
Total drinks sales	4,240	
Total food sales	505	
<b>Total sales</b>	<b>4,744</b>	
Cost of drinks	1,956	
Cost of food	215	
<b>Total cost</b>	<b>2,171</b>	
<b>Gross profit</b>	<b>2,573</b>	<b>54.2%</b> gross profit margin
		<b>% cost to turnover</b>
Wages & salaries	726	15.3%
Rates	139	2.9%
Utilities	224	4.7%
Repairs & renewals	69	1.5%
Insurance	38	0.8%
Marketing/Promotion/Telephone	95	2.0%
Consumables	20	0.4%
Waste Disposal/Cleaning/Hygiene	39	0.8%
Professional fees	66	1.4%
Bank charges	28	0.6%
Equipment hire etc	10	0.2%
Interest on capital	27	0.6%
Pay TV (Sky, BT Sport etc.)	116	2.4%
Other costs	129	2.7%
<b>Total operating costs</b>	<b>1,727</b>	<b>36.4%</b>
<b>Divisible balance</b>	<b>846</b>	<b>17.8%</b>
<b>Gaming machine income</b>	<b>67</b>	

As can be seen from the above, such a pub model is a highly marginal business. The divisible balance includes the rent payable (usually c.50%) leaving the licensee's weekly income as the remainder of this plus the agreed share of machine income. Operating costs are also under huge pressure from recent increases in the national minimum and living wages, mandatory auto-enrolment of pensions for employees, the apprenticeship levy and (for many) business rates rises. Therefore, the income from amusement machines can be vitally important for many pubs and helping ensure the continued viability of a number of community locals. Many licensees have reduced staffing levels due to the current economic conditions. These licensees are working longer hours to plug this gap themselves and keep the business viable. By increasing

the stake to £2 and also giving the option of a £150 prize, new games will be developed for Category C machines which will keep the offer attractive to new and existing customers.

Any additional income generated by a higher stake would be welcomed by tenants as profit could be invested in staff that in turn would help the pub flourish. For managed companies, staffing levels are also increased or decreased dependent on profitability. Machines play an important role in managed pub profitability; protecting and growing machine income will protect and grow jobs in pubs, operators and manufacturers.

An increase in stake and prize will allow manufacturers to develop games offering a greater variety of gaming / entertainment experiences for a customer whose choices have increasing competition from competing leisure offers. An increase will encourage innovation and flexibility of game design increasing consumer choice. £150 would represent the maximum prize and £2 the maximum stake, however operators would be able to offer many smaller prizes and stakes within this limit affording consumer choice as evidenced on other products offering higher prize opportunities – and even more so with the advent of video Category C machines. An increase in stake to £2 and prize to £150 is needed if venues offering Category C products are to have any chance of competing with other offers. This is illustrated by the sharp decline in Category C numbers sold by manufacturers over the last 10 years.

As stated above, Category C machines in pubs are amusements machines - ancillary to the primary purpose of why people visit pubs which is meeting friends, eating and drinking. They help increase dwell time. We are not aware of any evidence that shows amusement machines in pubs are contributing to problem gambling and/or allowing underage play.

In the event of any concerns about social responsibility issues as a result of a stake and prize increase for Category C machines, we maintain that there are now more protections in law than ever before. The Gambling Act 2005 has considerably strengthened the responsibilities on businesses in this respect through the introduction of statutory Gambling Commission Codes of Practice and the minimum age limit on playing Category C machines. BBPA members have led the way in ensuring that underage access to amusement machines in pubs (already a heavily regulated and supervised environment) is restricted – previous advertising of the 2009 and 2014 increase in prize to £70 and £100 prominently featured ‘no under 18s to play’ messaging, in addition to the national helpline number.

The BBPA publishes a code of practice for responsible operation of machines for its members.<sup>1</sup> This covers making staff aware of the law surrounding underage access to amusement machines, having an age verification policy in respect of machines, and highlighting the Gambling Commission code of practice regarding underage play. The code of practice also ensures that amusement machines are sited within the pub so that their use can be supervised, either by staff whose duties include such supervision (including bar or floor staff) or by other means. Pubs operating machines with a permit

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<sup>1</sup> <http://www.beerandpub.com/industry-briefings/bbpa-code-of-practice-on-gaming-machines>

(i.e. more than two machines) are directed towards the Gambling Commission code of practice regarding the siting of machines on alcohol licensed premises.

The BBPA and its membership have traditionally supported and promoted responsible gambling, initially via GamCare and latterly through the more recent arrangements put in place where contributions are collected by the Responsible Gambling Trust (now GambleAware). The Association and members have contributed in proportion to the amount of gambling involved in the sector, and continues to support research, education and treatment into problem gambling. There is no evidence that we are aware of to suggest that an increase of prize for Category C amusement machines would affect problem gambling.

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

Whilst there are less category D machines in pubs than Category C, we would highlight that the response does not set out any evidence as to why a reasonable stake and prize increase (given Cat D stakes/prizes are very low anyway) would impact on harm to young people.

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

No. Currently, Category C gaming machines are by law not allowed to take debit card payments. Previously, this has not been an issue due to the low stake amusement nature of the machine and the fact that pub customers carried cash and coins to play the machine.

However, the rise of cashless payment in the pub sector has meant that less and less people are using (and therefore carrying) cash for food and drink purchases. According to 2016 Barclaycard research, tap and go payments in the pub and bar sector rose by 92% between September 2015 and January 2016 due to the increase in the contactless limit from £20 to £30 in September 2015. The same study found that 8 in 10 consumers used less cash than they did in the same period a year previously.<sup>2</sup> November 2017 research carried out by GGA Peach on behalf of the BBPA found that 56% of regular pub goers expected to have the option of using some form of cashless payment when they visited the pub.

This trend is expected to continue into the future, with less and less customers carrying cash. Therefore, we would ask the Government to reconsider the option of allowing cashless payment for Category C machines in the future.

There is also the issue of the removal of a number ATM machines from pubs (as well as other venues) due to changes in the industry. This could affect the cashflow of some machines.

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<sup>2</sup> <http://www.morningadvertiser.co.uk/Running-your-pub/Technology/Contactless-payments-up-92-since-September>

Cashless payments can provide additional protection to players. This would be in the form of limits that are set on cashless payments, and would be policed automatically by these policies. It would benefit operators by reducing cash collections and overall overhead costs as collections could either be reduced or removed as automatic collections are achieved. Security would be improved as machines are often broken into for the actual cash, and cashless payment would mean less cash in machines, less likelihood for thieves to target pubs for machines which costs the publican, pub company and operators with loss of income and damaged / stolen equipment. Cash flow would improve with cashless payments for all parties involved and monitoring and tracking improvements. Income will only continue to decline if this is not adopted and it needs to be simple to operate not involving additional cost to administer which would make the viability of machines even more difficult. Operators have been hit with minimum wage increases and manufacturing costs due to the introduction of the new £1 coin and £5 and £10 note which without additional income being achieved. Player tracking and trigger points could also be looked at as equipment becomes more technical and advances in digital machines but without money to invest this will not be possible.

**Q.14 Do you agree the Government should consider alternative options including a mandatory levy if industry does not provide adequate funding for RET?**

As highlighted above, the pub sector has voluntarily supported GambleAware and predecessor bodies, and contributed funds for many years – and BBPA is committed to continue encouraging members and other industry stakeholders to do so. BBPA does not believe that a statutory levy would be helpful given the inflexibility of any statutory intervention.

**Q16. Are there any other relevant issues, supported by evidence, that you would like to raise as part of this consultation but that has not been covered by questions 1-15?**

Technical standards

The current technical standards for Category C machines are, in our view, extremely unwieldy and prescriptive for what is an amusement machine – especially when compared to the more flexible and readable standards for other areas such as remote gaming.

To allow machines and games to be developed that are attractive to the customer and allow flexibility for the future, we would ask the Government to consult on a slimming-down and providing rationalisation for the Category C technical standards document, whilst keeping the core protections of the Gambling Commission objectives in place.

Deregulation/ 'red tape'

Pubs have a right to have up to two machines on the premises. The Gambling Act 2005 allows pubs two Category C or D gaming machines as of right. There is a

requirement to register this right and pay £50 and re-register and pay the same sum again every time the (Licensing Act 2003) Premises Licence holder changes. Since having up to two machines is a right under the Act, there is an argument as to why a notification has to be applied and paid for at all. If this is to happen, we believe it should be a one-off cost. The Local Authority is then aware there may be machines on the premises and does not need to be re-notified every time there is a new tenant/licensee (with the impact falling on small businesses as managed companies will not have this issue).

With regard to permits, when completing the application form the licensee must “specify the number and category of gaming machines in respect of which the permit is sought” (paragraph 2(c) of Schedule 13 to the Act). In other words, and as interpreted by some Local Authorities, the licensee must state how many Category C machines he or she requires and how many Category D.

Should the licensee then wish to vary the proportions of the respective machines e.g. change from say, 2 Cat C and 3 Cat D to 3 Cat C and 2 Cat D, he or she has to make an application to vary and pay a fee. This is cumbersome, causes delay and restricts the ability of the licensee to vary his offering to meet customer needs and to try out new machines in one or other categories to get the most popular mix. This will not necessarily be the higher stake and higher pay out machines as this will depend on the nature of the premises. As a solution, we would like to see the guidance/regulations clarified to make clear that local authorities do not need to be consulted about the mix of Category C or D gaming machines. As long as the operator retains up to two machines, we believe that flexibility about their mix should be left to the licensee.

