

# **Proposals for changes to gaming machines and social responsibility**

*A consultation response by the  
Association of Licensed Multiple Retailers*

**January 2018**

### **Executive summary**

Gaming machines in pubs can play an important part in providing income for licensees facing every-increasing operating costs from business rates, employment costs, VAT, beer duty, and many other burdensome factors, both financial and administrative. The ALMR believes that the Government can act to revive gaming machines in pubs, without there being any detrimental impacts on problem gambling but, rather, bringing economic benefits both to pubs and more widely. Our submission sets out and justifies our calls for:

- An upward review of stakes and prizes for Category C machines
- Contactless payments on machines, to collect meaningful player behaviour data from gaming machines, while simultaneously providing a much needed boon to hard pressed licensees
- An increase in the automatic entitlement from two to four machines
- Slashing red tape and fees for venues
- Investigating the use of contactless payment for machines to promote social responsibility
- A review of technical standards to allow for modernisation of sector
- The rejection of proposals for a mandatory levy for RET for pubs.

### **Introduction**

The Association of Licensed Multiple Retailers (ALMR) welcomes the opportunity to comment on the DCMS's consultation on gaming and social responsibility measures.

Disappointingly, the DCMS report, *Proposals for changes to Gaming Machines and Social Responsibility Measures*, omitted or did not reference points made in the ALMR submissions and those of some of our members. It should be noted that the ALMR and their key members feel that their views have not been accurately represented or included in this overall proposal, as such we would request our views outlined below are given key consideration by the DCMS.

As the national trade body representing pubs and bar operators, our members manage the majority of the machine estate in the sector. We are therefore well placed to comment on the proposals. By way of background, between them our 220 member companies operate just over 23,000 outlets – almost all of the managed pub estate in the UK. Members include all the major national pub retail chains, dedicated late night operators, casual dining outlets and coffee shops.

Licensed hospitality is one of the UK's primary economy sectors. It has a turnover of £21 billion, and in the past year its contribution to GDP increased by over 8% – the average GVA each pub makes to its local community is £190k per annum. Around half a million people are employed directly in pubs and bars alone, with jobs in all regions for all ages and all skill

levels. Crucially, the sector provides the first taste of work for many young people and generated 1 in 6 of all new jobs for 18-24 year olds in the last year.

It is, however, an industry made up of small businesses, many of them independently owned and managed. Two-thirds of our members are small independent companies operating 50 outlets or fewer under their own branding, predominantly suburban community outlets. These are valuable social and economic assets – community centres, tourist attractions and significant revenue generators – as well as providing a well-regulated and controlled environment for people to enjoy alcohol responsibly and socially.

With low net profit margins, these businesses face higher than average compliance costs and struggle with ever increasing levels of red tape. This is particular the case with regard to the amusement machine category, where changes in legislation in 2005 have resulted in anomalies and licence complexities and red tape. This was exacerbated as a result of the shift from a duty based system to a gross profits tax in February 2013.

Given this we would like to see the Government's proposed changes relating to amusement machines in the pub sector - which are deemed to be least controversial and to fall outside the scope of general gambling regulation - to be expedited as a matter of priority. The ALMR would like to respond specifically to a number of key questions that have a fundamental impact on their overall business going forward.

### ***Responses to consultation questions***

[Note: there are no responses to questions 1, 2, 3, 4, 5, 8, 11, 12, 13 and 15, as their remit and subject matter are not directly relevant to gaming machines in pubs; we therefore do not add further comment here but would give reference to opinion given in our original evidence submission.]

#### **Question 6: Do you agree with Government proposals to maintain the status quo on category C?**

Our views on this remain those stated in our original consultation response; that there should be a review of the current stakes and prizes levels for Cat C Machines to increase the stake to £2 and jackpots to a maximum of £150. This would represent a proportionately lower increase for prizes, than stakes, i.e. a lower return on stake than at present, effectively a reduction in terms of gambling incentive – a reduction that we would happily see introduced, as the attraction of category C machines is more linked to amusement than gambling motives, which is perhaps why there is not identified link between problem gambling and category C and D machines.

The current stakes are unchanged since 2009, and prize levels since 2014, meaning that gaming incomes have been unable to increase proportionately with rising operator costs. It

is, in our opinion, not justified that while there is no evidential reason to believe that gaming machines in pubs represent problem gambling, the income from gaming machines that can be the vital difference in maintaining the economic viability of many pubs, is allowed to diminish. Indeed, NatCen Social Research's study for the Gambling Commission (*Gambling Behaviour in Great Britain in 2015*<sup>1</sup>, August 2017) identified numerous areas of problem gambling, and gaming in pubs warranted no mention; pub machine gaming has no evidential history of contributing towards problem gambling.

Furthermore, s.3.22 of the consultation appears to take as fact from the Responsible Gambling Responsibility Strategy (RGSB) pertaining to data based on spin speeds that are that are alien to the reality of player experiences, taking the physical possibility of spin speed, but paying no regard to the experiential actuality of how players engage and react to the in-game circumstances that make the machines attractive.

The ability to increase Cat C stakes and prizes, coupled with the use of new digital technology, would allow enhancement of a player's experience, make games more attractive and allow pubs to compete in what at present is an ever-decreasing Category C market.

Even though there is no evidence to show category C machines in pubs are responsible for any increase in problem gambling, pubs have been supportive of, and remain committed to social responsibility measures to ensure that machines do not contribute towards problem gambling.

The Government response states (s3.22) that pubs are "less regulated environments". There is no comparator against which this assertion is made but, nevertheless, this is simply not the case: pubs are highly regulated environments, where age restrictions are strictly adhered to, and procedures are in place to provide protection measures against minors gambling on gaming machines. The sector has a strong record of implementation and regulation in this regard and this ought to be recognised with an increase in stakes and prizes, not punished without good reason or evidence.

There are industry codes – such as that of the Gambling Commission's code – setting out responsible oversight of gaming machines, which are promoted by the ALMR and closely observed. Machine locations and staff training ensure that gaming is closely monitored, and customer signage is widely used to state age restrictions and the illegality and consequences of breaches. Helpline numbers are also widely displayed.

#### **Question 7: Do you agree with Government proposals to maintain the status quo on category D?**

The ALMR response to this question is in essence the same as the answer to question 6, although here there is the added element of these machines being used by minors.

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<sup>1</sup> <http://www.gamblingcommission.gov.uk/PDF/survey-data/Gambling-behaviour-in-Great-Britain-2015.pdf>

There is no evidence to suggest that craning for a teddy bear or similar prize leads to problem gambling; were there to be such evidence, the Government would have acted some time ago. As referenced in our response to question 6, a recent study on UK gaming behaviours, commissioned by the Gambling Commission, did not identify pub gaming machines as being a source of problem gambling<sup>2</sup>.

The consultation document states that Great Britain “is the only jurisdiction internationally to permit gambling for under 18s”. This statement in itself is true if only if one accepts the fact that Category D machines do not constitute gambling. The USA, Japan and Spain, to name but three of many, are countries where minors can use crane amusement machines.

Category D machines are widely - and rightly - not regarded by their players or their parents and carers as gambling, but as a fun hand-eye coordination games. These machines are virtually identical in nature to those on phones, tablets and computers that are a significant mainstay of minors’ leisure and amusement activities in any case. There is no justified reason for penalising category D machines - and in doing so jeopardising a revenue stream of licensees – when such diversions are available to minors ubiquitously elsewhere.

Rather, category D machines can bring enjoyment and respite for parents and children alike, making the pub the sort of family friendly environment that is more widespread nowadays than ever before in the UK, and is a contributor to the proliferation of safer, regulated and supervised venues which have themselves accompanied a general decline in alcohol consumption, benefiting the Government’s wider health objectives.

As with category C machines, this is an area in which player experience and pub income could be enhanced by opening up technological innovation. This would have wider economic benefits, through both pubs and machine manufacturers. Furthermore, the boon would largely benefit those pubs that are in the majority in being small businesses, support for which is a key Government commitment. Indeed, pubs of all sizes currently face a multitude of ever-increasing costs, and are operating in a climate of increasingly tight margins; gaming machines are one of the few chinks of light for hard-pressed pub operators, as they provide clear profit. Additionally, higher stakes and prizes would act as an incentive to machine manufacturers and tech developers, to devise and develop more attractive and engaging machine offers.

**Question 9: Do you agree with the government’s proposals to maintain the status quo on allocations for casinos, arcades and pubs?**

The importance of gaming machines to pubs, and their potential role in helping to maintain viability of pubs struggling against a tide of rising costs, is the basis of our request that the Government re-considers increasing automatic entitlement to category C or D gaming machines from two to four in pubs.

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<sup>2</sup> Ibid. [www.gamblingcommission.gov.uk/PDF/survey-data/Gambling-behaviour-in-Great-Britain-2015.pdf](http://www.gamblingcommission.gov.uk/PDF/survey-data/Gambling-behaviour-in-Great-Britain-2015.pdf)

The average Cat C density across the members of the ALMR is 2.7 machines per site, so granting this request would not represent a massive shift in gaming but would provide a much-needed revenue and profit stream to hardworking pub operators, who more often than not are running small businesses.

The automatic entitlement to 2 Cat C machines we feel is now out of date based on the permitted numbers that exist across other categories such as B3 and B2 machines. As stated previously, machine gaming in pubs is not a source of problem gambling, and pubs nevertheless are active in employing measures and practises to ensure that problem gambling does not develop, so the decision to increase allocation is without risk, provides benefit and could be easily taken.

Such a move might also be used in tandem with measures that would help to fulfil Government objectives to cut red tape. At present local authorities, publicans and in-house legal teams of pub companies spend a vast amount of time and money in the application process for additional Cat C machines. It costs £50 to register the taking up of the right to house one or two machines in a pub, and to re-register them every time the licensee changes; this should be a one-off cost, to allow the local authority to know that machines are in use, but transfer to new licensees ought to be cost- and bureaucracy-free. If a licensee wishes to have three or more gaming machines in their premises, a Licensed Premises Gaming Machine Permit is currently £150 and then an annual fee of £50 is payable within 30 days of the grant of the permit and every year upon the anniversary of the grant.

In addition, there is a cost and bureaucratic burden should a licensee wish to vary the ratio of Cat C and Cat D machines, even though these machines pose no risk of contributing to problem gambling. This imposes an administrative burden, a delay in ability to use and benefit financially from the machines and an inability for licensees to easily vary their gaming offer in order to discover which mix works best for their clientele. We believe that as long as a local authority knows how many machines are in use, their category is not relevant and ought not to carry a cost and bureaucratic imposition for licensees. In the context of these asks, we again draw your attention to the lack of evidence that gambling problems related to category C machines exist. There is no compelling reason not to rid local authorities and pub operators of unjustifiable bureaucracy.

**Question 10: Do you agree with the Government's proposals to bar contactless payments as a direct form of payment to gaming machines?**

No - rather than barring contactless payment methods, we believe that they can be key to delivering protection measures, in order to maintain that there is no problem gambling in pubs. Furthermore, the consequences of other commercial developments, outside of the influence of pub operators, are set to further diminish the volume of cash in pubs.

At the end of January 2018, members of Link, the UK's biggest cash machine network, will vote on a proposal to reduce the amount it charges card issuers to allow customers to use

the machines. It is widely considered likely that the vote will result in further widespread ATM closures, mainly in pubs and shops. This will considerably reduce the volume of cash within pubs, which is obviously key to the current need for coins and notes for gaming machines. This will represent yet another revenue pressure on pubs from outside factors beyond our control. Some of our larger operator members have already witnessed the removal of 100% - all ATMs - from their venues. Some of those are reporting that they cannot get another supplier who is willing to install even in the most profitable positions. This reduction in the cash availability does not just affect pubs – in rural areas, the ATMs in pubs may be the only way of getting cash in a village, and so the effect can be felt much more widely.

More than half of pub-goers go to the pub expecting to be able to pay by contactless card. The increase in the contactless payment ceiling from £20 to £30 saw contactless payments in pubs and bars rise by more than 90% over the period of a year, according to Barclaycard research. As retailers, it is only fair that pubs are allowed the same progression in their sales methods as those of other retailers. Due to the rapid shift from cash to card payments, there is less coinage in the average pub-goers pocket, meaning that there are more barriers to customers wanting to play amusement machines in pubs (eg the higher likelihood of having to queue and ask for change at the bar).

Yet those existing limits on contactless payments could be employed to monitor and limit overall player spend, to the benefit of anyone with an existing gambling problem developed via other gambling means, while also helping to reduce the burden of cash collections for pub managers.

Furthermore, the reduction in cash deposits in machines would reduce the incentive for machine break-ins. As cash in the machines are an attraction to potential burglaries, this may also have a trickle-down effect in reducing pub burglaries overall. One major machine operator has shared figures with us that show almost 1,000 incidents of break-ins (during working and out of hours periods) in 2017 alone. Similarly, while there is very little evidence that gaming machines are used for money laundering, contactless payment would virtually eradicate the potential for any such activities.

Gaming data would more easily be collected and analysed, as there would be a record of how much each player spends, as opposed to cash which cannot be attributed to any particular player and therefore cannot paint a picture of player behaviour.

Each time a new coin or note is introduced, yet further are incurred to alter machines accordingly – costs which, on top of the many commercial challenges facing pub operators, are contributing to pubs closing. The alarming truth is that, as society becomes ever more accepting of and reliant upon contactless payment, without the ability to receive contactless payments, gaming machines will dwindle to nought. As there is no evidence to suggest that gaming machines in pubs contribute towards engendering problem gambling, the only outcome would be a loss for pub operators, many of whom already struggle to stay afloat.

The ability to use contactless payments would also reduce the costs and administrative burden of cash collection and, in a people-facing service industry, would represent a productivity boost in a market where the implementation of robots and some technologies is less implementable than in some other industries.

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

No, we disagree with this proposal.

The ALMR promotes the work of GambleAware and other programmes to tackle problem gambling, for ethical and moral reasons, rather than any sense of duty, as there is no link between problem gambling and machines in pubs. Our members pay voluntarily contributions to such schemes, as well as giving strong public support and promotion, in order to safeguard against a problem from emerging.

Should a mandatory levy be introduced, we strongly believe that it ought to pertain to those businesses linked with problem gambling, and not unfairly imposed on those that are not. A mandatory levy would raise no more from our sector, diminish the goodwill that exists under the current system of voluntary contributions, and be an unfair and unjustified cost burden.

The pub trade has an incredibly proud record of charitable collections and work, and we would regret any diminishing of the compunction to continue that work that could result from an imposition of donations. Pubs and their customers raise more than £100,000,000 each year through the PubAid initiative alone – yet more is raised independently of that scheme. Money funds countless charitable and worthy activities including those that provide assistance to people overcoming addictions such as gambling and alcohol abuse, as well as to countless other worthy causes. Voluntary donation is very much in the culture and ethos of the pub sector and we would not want to see a mandatory levy jeopardising a continuation of that culture.

**Question 16: 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?**

Although touched upon in previous answers, one way of reviving the gaming industry in pubs while simultaneously boosting the machine manufacturing trade, would be to review and unshackle amusement machines from the constraints of the current technical standards. These standards were devised before the proliferation of many of the newer and potentially harmful methods of gambling, yet still exist and represent a barrier for amusement machine modernisation and enhanced attractiveness for players. Cat C and D machines can stand unused in pubs while customers gamble large amounts of money away on their mobile

phones; allowing gaming machines to develop more attractive and exciting offers would help in providing alternative gaming options with lower spends.

The ALMR believes that the Government should consult how technical standards might become more streamlined, while still safeguarding protections for machine users.

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**For further information on this response, please contact:**

