

Gaming machines and social responsibility measures

RPC rating: **fit for purpose**

Description of proposal

This measure principally reduces the maximum stake on B2 gambling machines (otherwise known as fixed odd betting terminals). This category of gambling machines have the highest maximum stake. The Department argues that government intervention is needed to strike the right balance between socially responsible growth of the gambling industry, and the protection of consumers and wider communities. The ultimate policy aim is to reduce gambling related harm. This measure follows other legislation which takes a behavioural approach to addressing problem gambling.

The Department's October 2017 consultation document outlined the limitations of self-regulation, and its continued concerns relating to gambling related harm from B2 gaming machines in particular. The Department notes consistently high rates of problem gamblers among machine players in betting shops, the high proportion of gross expenditure on these machines which is attributable to problem gamblers, and the concentration of betting shops in areas of high deprivation.

The high-staking nature of B2 machines, which allow a maximum stake of £100, can lead to significant losses in a short space of time. Evidence submitted to the Department by organisations including the Gambling Commission and Gamble Aware indicate that problem gamblers disproportionately gamble at higher stakes and are more frequent users of the maximum stake. The Department, therefore, identifies B2 gaming machines as having a greater potential for generating gambling-related harm than that of other products. The current maximum stake on B1 type machines is £5, and the current maximum stake for both B3 and B4 machines is £2.

At the consultation stage the Department put forward a number of options proposing different maximum stakes for B2 machines. Noting Gambling Commission advice, the present discrepancy between the current maximum stake on all other accessible gaming machines on the high street with B2 machines, and industry data showing that the volume of high-level session losses would be significantly reduced at a much lower stake, the Government now propose a reduction from £100 to £2 in the maximum stake for B2 gaming machines.

The Government intend to maintain the status quo on all other gaming machines, with the exception of prize gaming, for which it intends to increase the maximum gaming stake from £1 to £2, and the maximum prize from £70 to £100. The Department states that this uplift to the stake and prize limits for prize gaming is in keeping with the objective of the policy because activities associated with prize gaming are low risk. Nevertheless, the Department intends to ask the Gambling Commission to monitor any potential risks that arise as an outcome of these changes.

Impacts of proposal

Costs

Business

Gambling Commission statistics show that as of March 2017 there were 33,611 B2 gaming machines. 191 are located in casinos, whilst the remainder are located in betting shops. There are approximately 8,677 betting premises in the UK.

The Gambling Commission's most recent industry statistics show that B2 machines have a gross gambling yield (GGY) of approximately £1.8 billion, although the Department notes that this figure is likely to be an overstatement because 30 per cent of this can be attributable to B3 content which is accessed on B2 machines.

The Department estimates that this measure will have an annual cost to business of £540 million, primarily affecting the betting sector, but with possible further impacts on gaming machine manufacturers and supply chain.

The main costs to business are as follows:

Reduction in overall GGY. The largest cost imposed on business by this measure results from the reduction in the maximum stake. The Department expects that this reduction will lead to a reduction in overall GGY from B2 machines, and have a corresponding impact on industry GGY. The Department's central estimate is that the new cap will result in a £980 million loss per annum to the former, but that the overall net impact on the industry, offset by displacement to other forms of gambling, will be £540 million per annum.

To calculate the impact on industry GGY the Department considers the GGY lost directly from imposing the stake cap, both through reduced GGY at the lower stake cap, and through people no longer taking part in any gambling activity altogether as

a result of the new stake cap. This loss to industry GGY is then offset by recaptured GGY from displacement to other forms of gambling such as over the counter products, B3 machines and online play.

The Department's central assumptions concerning uptake of the lower stake are informed by a report by KPMG on behalf of the Association of British Bookmakers. It has tested these assumptions with sector specialists from the Gambling Commission. The Department also considered two further alternative analyses, received during the consultation stage. Compared to the KPMG report, they indicated that there would be a greater level of displacement to other forms of gambling, particularly to substitutes such as online play, as a result of the new maximum stake. In light of this information the Department has reduced further its assumptions regarding the number of bets that would be placed on B2 machines after introduction of the lower maximum stake.

The Department acknowledges the uncertainty involved in accounting for player response to a maximum stake reduction, and notes that bets placed at the will affect the estimate for displacement. The Department differentiates player behaviour based upon how much more (in £10 'bands') than the proposed £2 cap, B2 machine users currently gamble. Those currently gambling the three or more bands over the proposed new cap are expected to be least likely to take up the lower stake (40 per cent). Those currently gambling closest to the proposed £2 cap are expected to be the most likely (68 per cent) to take up the lower stake.

The Department anticipates that GGY losses might be mitigated, to a limited extent, by players choosing to gamble at lower stakes for a longer period. Its central estimate that sessions will last on average 28 per cent longer, is derived from gaming machine data provided to the department to inform the evaluation of gambling regulations in 2016. The Department notes that this may be an overestimate, because an increase in session duration resulting from a stake reduction on B2 machines may reduce the availability of machines at peak times. No estimate for the scale of this potential impact is provided by the Department.

The Department estimates the level of attrition (that is, the number of people who will no longer take part in any gambling activity as a result of the new stake cap on B2 machines), at 10 per cent. This estimate is informed by the KPMG report and has been tested with industry. The Department notes, however, that there is an inherent uncertainty in any estimate of behavioural change and so has conducted scenario-based sensitivity analysis.

The Department then identifies displacement as a dependent variable, which is calculated allowing for lower stakes (with session increase) on B2 gaming machines and attrition. What remains is the proportion of gambling activity which is displaced into spending on other forms of gambling, and is therefore recouped GGY for the betting industry. Again, the Department calculates displacement rates for three groups – those betting highest above the proposed maximum stake cap (3 bands above the stake cap), to those closest to it (1 band above). Central estimates for displacement of the former are 50 per cent, 40 per cent for those gambling two bands above the stake cap, and 20 per cent for those gambling one band above.

The Department recognises that displacement to other forms of gambling might include significant substitution to other gambling products or outside betting shops. The Department notes that this could have significant effects on competition in the gaming industry.

Transition costs. Businesses operating B2 gaming machines will incur one-off IT costs, training costs and marketing costs. During consultation the Department did not receive any publishable data regarding potential transitional costs for industry.

The Department therefore uses ‘not dissimilar’ regulatory changes to B2 gaming machines which were implemented by The Gaming Machine (Circumstances of Use) (Amendment) Regulations 2015, as a proxy. These costs comprised one-off IT costs of between £0.4 and £1.0 million, training costs of between £0.7 and £1.0 million, and marketing costs of between £1.0 and £3.4 million. On this basis, the Department’s central estimate is that this one-off cost to business will be approximately £3.8 million.

Individuals

Disbenefit from restricted choice. The Department recognises that any restriction of non-problem gamblers’ ability to stake at the level they wish to, may lead to a loss of utility derived from gambling. Individuals may also be restricted in their choice to gamble by lack of availability of B2 machines, if session duration increases as a consequence of the introduction of a £2 maximum stake.

Benefits

Society

The ultimate policy aim is to reduce gambling related harm. The Department references a recent study by the Institute for Public Policy Research (IPPR) into the consequences and costs of gambling related harm to society, and a subsequent

report produced by the Centre for Economics and Business Research (CEBR), which provided an estimate that the population of B2 gamblers could be imposing a cost of £1.5 billion on themselves, their families and their wider social networks. The Department recognises, however, the limitations in the available data of both reports, and that it is unable to replicate the analysis, or to critique or test all of the assumptions that underpin the calculations and outputs. It has not been possible, therefore, for the Department to monetise the social benefits of this policy.

Government

The Department argues, based on these reports, that the costs to government of gambling-related harm span health, welfare and employment, housing, and criminal justice services. The CEBR report suggested that potential reductions in gambling related harm from introducing a £2 maximum stake on B2 gaming machines, might be between £430 million and £1.3 billion per year.

Quality of submission

As previously submitted for RPC scrutiny, the impact assessment (IA) was not considered fit for purpose. Following the RPC's initial review, the Department submitted a revised IA which is now considered to be fit for purpose.

Issue addressed following the RPC's initial review

1. *Small and micro business assessment.* The IA, as initially submitted, provided only very limited analysis of the impact on small businesses, particularly considering that two of the five small businesses that responded to the consultation said that they would have to close stores. The Department also argued that the gambling market would 'adjust effectively' to the measure, and that an exemption or other mitigation measures for small businesses would limit the policy's ability to deliver the proposed benefits. It did not present the reasoning and evidence underpinning these assertions clearly.

Following the RPC's initial review, the Department has provided information from the Gambling Commission, which indicates that the number of small and micro businesses affected by the change amounts to approximately 1.3 per cent of the sector, rather than the 13 per cent stated in the IA as initially submitted; this substantially reduces the estimated scale of impact of the policy on small and micro businesses. Additionally, the Department now

provides estimate quantified impacts for small and micro businesses of each of the appraised options. Furthermore, the Department now explains clearly why exemptions for small and micro businesses are not considered appropriate and provides some limited evidence in support of its argument. Similarly, the Department provides a clearer and better-supported explanation as to why various potential measures to mitigate the impact of the policy on small and micro businesses have not been taken forward.

Whilst there is a large amount of uncertainty in the data, the impact assessment provides an appropriate and proportionate estimate of the costs to business of the policy.

Given that the policy is to set a stake somewhere below £20, the RPC found in its initial review that the IA would be improved by a more detailed consideration of stakes between £20 and £2. The RPC notes that the Department now includes some limited exploration of stake caps for B2 machines which are between the £20 and £2 options (p. 22).

As indicated in the RPCs initial review, the analysis would benefit from the following improvements:

- *Assumptions concerning behavioural changes.* The benefits of the impact assessment rely on estimated changes in the behaviour of problem gamblers as a result of the lower maximum stakes. The impact assessment would benefit from stronger evidence on what behavioural changes the policy will cause, and what level of benefits this will generate. However, this weakness of the analysis is recognised in the impact assessment, and the RPC recognises that gathering evidence to predict this sort of behaviour is significantly challenging. The RPC notes the Department's commitment to working closely with the Gambling Commission to develop a monitoring and evaluation strategy, as an important first step to assessing the effectiveness of the policy.

The RPC also proposes that the Department considers the potential impact of electronic, notes, and coins payment methods on staking behaviour.

- *Lack of analysis concerning proposed changes to prize gaming.* The impact assessment's preferred option includes proposals to increase some stakes from £1 to £2 and to increase prizes to £100, but provides very limited analysis of the potential impact of these proposals. The RPC welcomes the inclusion, within the revised IA, of both an explanation of the reason for the change, and the Department's provision for the Gambling Commission to monitor any potential risks that arise from the change. The RPC also accepts

the Department's assertion that it has very limited data to support any impact analysis.

- *Transition costs.* The assessment of transition costs is limited as it only addresses the costs to major operators. However, the Department has demonstrated that it has made efforts to gather improved data to inform transition costs and has been unable to improve upon the existing figures. The RPC recommends that the Department monitor the transition costs of the policy in order to gather evidence on the cost to industry of any future policies in similar areas.
- *Differentiating loss from revenue transfer.* The impact assessment uses the loss in gross gambling yield due to the regulation to calculate the total net present value of the policy. However, this loss in revenue is in principle a transfer to consumers and not a loss to society.

The Department notes correctly that there will be a utility loss to consumers, particularly to non-problem gamblers. However, the value of this loss will be the consumer surplus of the market rather than the total value of the market as represented by the GGY. As it stands the impact assessment assumes that the consumer surplus loss is equal to the gross gambling yield, which may be an overestimate. Nevertheless, the RPC recognises that it is technically challenging to develop an accurate estimate of the consumer surplus, and that the Department is using this approach as a second-best method to ensure it represents the utility loss to consumers.

Departmental assessment

Equivalent annual net direct cost to business (EANDCB)	£450 million
Business net present value	-£4660 million
Overall net present value	-£4660 million

RPC assessment

Classification	To be determined once the framework rules for the current parliament are set
Small and micro business assessment	Sufficient



Anthony Browne, Chairman