Title:	Impact Assessment (IA)
Gambling Act 2005: Category B3 Gaming Machines **Lead department or agency:** Department for Culture, Media and Sport **Other departments or agencies:** Gambling Commission	**IA No:** DCMS007 **Date: 09**/05/2011 **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Secondary legislation **Contact for enquiries:** Alistair Boon 020 7211 6486

Summary: Intervention and Options

What is the problem under consideration? Why is government intervention necessary?

The amusement and bingo industries have come under increasing economic pressure since 2007, with around 300 adult gaming centres (AGCs) and 91 bingo clubs reported by them as closing in this period. British gaming machine manufacturers have also been affected. These sectors argue that a range of factors affecting trading conditions have been exacerbated by the regulatory framework introduced by the Gambling Act 2005. The government is persuaded that the situation facing these industries is sufficiently grave to justify considering whether a small increase in the stake limit for category B3 gaming machines (a significant source of income for AGCs and bingo clubs) and a recalibration of B3 machine entitlements for AGC and bingo clubs might be appropriate.

What are the policy objectives and the intended effects?

The government wants to give AGCs and bingo clubs more operational flexibility and freedom to take commercial decisions to prevent further closures and job losses. Allowing greater freedoms for AGC and bingo operators should also boost the gaming machine manufacturing and supply sectors through increases in their order book. The government aims to bring in these changes without undermining the public protection objectives central to the Gambling Act.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

(1) Do nothing; (2) Increase the maximum stake limit for category B3 gaming machines; (3) Permit a proportionate increase of the number of B3 machines in AGCs and bingo clubs to 20% of the total number of machines in such premises; (4) For AGCs and bingo clubs permit one category B3 gaming machine per 170 square feet (16 square metres) of licensed area floor space; (5) A combination of option 2 with option 3); (6) A combination of option 2 with option 4).

Following a 12 week consultation the government has decided that OPTION 5 is its preferred option. This will deliver the widest benefits to manufacturers and operators without prejudicing public protection objectives. It should also stimulate category C and D as well as B3 gaming machine markets and be more likely to deliver benefits to smaller premises as well as larger premises without imposing any addtional regulatory burdens on businesses.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** 5/2014 **What is the basis for this review?** PIR. **If applicable, set sunset clause date:** Month/Year	
Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?	Yes

Ministerial Sign-off For final proposal stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister: John Penrose Date: 6 June 2011

Summary: Analysis and Evidence

Policy Option 1

Description:

Preferred option: An increase to the maximum stake for B3 gaming machines combined with a proportionate increase in the number of B3s in AGCs and bingo clubs based on machine numbers

Price Base Year 2009	PV Base Year 2009	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -£29m	**High:** £210m	**Best Estimate: £86m**

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£53.2m	5	£14.1m	**£168.8m**
High	£82.9m		£14.1m	**£197.1m**
Best Estimate	£68m		£14.1m	**£182.9m**

Description and scale of key monetised costs by 'main affected groups'

Costs are likely to be incurred by AGC and bingo operators looking to invest in new machines or upgrade kits to take advantage of the proposals in order to refresh their gaming machine offer. It is likely new B3s would replace category C machines. While businesses should not incur any additional running costs they might face an increased tax burden through installing higher category machines and face a drop in revenue from lower category machines.

Other key non-monetised costs by 'main affected groups'

As operators potentially merge previously split premises so licensing authorities could see a drop in income from fees;

These proposals could lead to potential social costs in terms of the effect on different income groups and levels of problem gambling in Great Britain. In the government's assessment such costs would be minimal as the regulatory framework in place is robust enough to mitigate such risks.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	£22.9m	5	£17.7m	**£168.1m**
High	£50.3m		£39m	**£369.8m**
Best Estimate	£36.6m		£28.4m	**£268.9m**

Description and scale of key monetised benefits by 'main affected groups'

In 2009/10 gross gaming yield (GGY) from gaming machines in AGC and bingo businesses totalled £598m, with £137m (23%) from B3s. These proposals could benefit operators by 10% to 22% uplift in GGY through a refreshed machine offer based around new games designed to reflect a new £2 stake limit and an injection of up to 3,000 new B3s into the market (based on Gambling Commission estimates).

Other key non-monetised benefits by 'main affected groups'

Manufacturing output: Should increase as operators seek to refresh their B3 offer;

Operators: Reduce the incentives on operators to split premises to offer more B3 machines (would also result in less applications to licensing authorities to split premises and vary licences. It would also mean operators paying for one premsies licence rather than two or more.

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5

Given the current economic climate it is assumed that the overall number of gaming machines across AGC and bingo clubs will not increase. The low estimate for net benefit reflects a key risk that operators might find the expected revenue increase from these proposals are not sufficient to cover the costs of acquiring new gaming machines and refreshing their overall machine offer. These proposals might address other factors facing the amusement and bingo industries such as changing consumer preferences, the development of wider leisure and media offerings in recent years and increased competition across the gambling industry as a whole.

Direct impact on business (Equivalent Annual) £m):			In scope of OIOO?	Measure qualifies as
Costs: £18.3m	**Benefits:** £26.9m	**Net:** £8.6m	Yes	OUT

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			Great Britain		
From what date will the policy be implemented?			30/06/2011		
Which organisation(s) will enforce the policy?			Gambling Commission and licensing authorities		
What is the annual change in enforcement cost (£m)?			None		
Does enforcement comply with Hampton principles?			Yes		
Does implementation go beyond minimum EU requirements?			No		
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:** N/A	**Non-traded:** N/A	
Does the proposal have an impact on competition?			Yes		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			**Costs:** N/A	**Benefits:** N/A	
Distribution of annual cost (%) by organisation size (excl. Transition) (Constant Price)	**Micro** N/A	**< 20** N/A	**Small** N/A	**Medium** N/A	**Large** N/A
Are any of these organisations exempt?	Yes/No	No	No	No	No

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on…?	**Impact**	**Page ref within IA**
Statutory equality duties[1] Statutory Equality Duties Impact Test guidance	No	
Economic impacts		
Competition Competition Assessment Impact Test guidance	Yes	29
Small firms Small Firms Impact Test guidance	Yes	31
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	No	
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	Yes	32
Human rights Human Rights Impact Test guidance	No	
Justice system Justice Impact Test guidance	No	
Rural proofing Rural Proofing Impact Test guidance	No	
Sustainable development Sustainable Development Impact Test guidance	No	

[1] Public bodies including Whitehall departments are required to consider the impact of their policies and measures on race, disability and gender. It is intended to extend this consideration requirement under the Equality Act 2010 to cover age, sexual orientation, religion or belief and gender reassignment from April 2011 (to Great Britain only). The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

References

Include the links to relevant legislation and publications, such as public impact assessments of earlier stages (e.g. Consultation, Final, Enactment) and those of the matching IN or OUTs measures.

No.	Legislation or publication
1	Gambling Act 2005 *Twww.opsi.gov.uk/**ACT**S/**act**s**2005**/ukpga_**2005**0019_en_1*
2	The Categories of Gaming Machine Regulations (SI 2007/2158) http://www.legislation.gov.uk/search?title=&year=2007&number=2158&type=all
3	The Categories of Gaming Machine Regulations (SI 2009/1502) http://www.legislation.gov.uk/search?title=&year=2009&number=1502&type=all
4	Gaming Machines in Bingo Premises Order 2009 (SI 2009/324) http://www.legislation.gov.uk/uksi/2009/324/contents/made
5	Gambling Commission annual reports and industry statistics http://www.gamblingcommission.gov.uk/gh-about_us/annual_report_and_accounts.aspx
6	British Gambling Prevalence Survey 1999 and 2007 http://www.gamblingcommission.gov.uk/research__consultations/research/bgps.aspx

+ Add another row

Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

Annual profile of monetised costs and benefits* - (£m) constant prices

	Y_0	Y_1	Y_2	Y_3	Y_4	Y_5	Y_6	Y_7	Y_8	Y_9
Transition costs	£27m	£22.9m	£13.5m	£2.4m	£2.4m	0	0	0	0	0
Annual recurring cost	0	£8.4m	£13.9m	£17m	£17m	£17m	£17m	£17m	£17m	£17m
Total annual costs	£27m	£31.3m	£27.4m	£19.4m	£19.4m	£17m	£17m	£17m	£17m	£17m
Transition benefits	£13.2m	£9.9m	£7.7m	£2.9m	£2.9m	0	0	0	0	0
Annual recurring benefits	0	£13.2m	£23.1m	£30.8m	£33.7m	£36.6m	£36.6m	£36.6m	£36.6m	£36.6m
Total annual benefits	£13.2m	£23.1m	£30.8m	£33.7m	£36.6m	£36.6m	£36.6m	£36.6m	£36.6m	£36.6m

* For non-monetised benefits please see summary pages and main evidence base section

Microsoft Office
Excel Worksheet

Evidence Base (for summary sheets)

Issue

1. The Consultation Stage Impact Assessment (IA) published on 2 November 2010 explained the background and rationale for government intervention in this matter. A copy of the IA can be found at http://www.culture.gov.uk/consultations/7437.aspx

In December 2010 the Gambling Commission published its 2009/10 industry statistics (http://www.gamblingcommission.gov.uk/gh-about_us/annual_report_and_accounts.aspx). In February 2011 it published the results of the Gambling Prevalence Survey 2010 (http://www.gamblingcommission.gov.uk/research__consultations/research/bgps/bgps_2010.aspx).

British Gambling Prevalence Survey 2010

2. Overall, 73% of the adult population (aged 16 and over) participated in some form of gambling in the past year. This equates to around 35.5 million adults and represents a return to rates observed in 1999 (72%) and an increase from the rate observed in 2007 (68%).

3. There was a small but significant decrease in the popularity of gaming machines (excluding category B2 machines) from 14% in 2007 and 1999 to 13% in 2010.

Gambling Commission Industry Statistics 2009/10

4. As at 31 March 2010 there were 144,160 gaming machines publicly available in gambling premises licensed by the Gambling Commission; that is casinos, AGCs, licensed betting offices, bingo clubs and licence family entertainment centres.

Number of gaming machines in Great Britain

2005/06	2006/07	2007/08	2008/09	2009/10
235,000*	234,000*	261,000*	248,000*	144,160**

Source: Gambling Commission annual reports and industry statistics 2005/6 to 2009/10.
*BACTA estimates quoted in Gambling Commission annual reports and industry statistics 2005/6 to 2008/9 which include gaming machines located in pubs, clubs, working men's clubs or FECs that don't have adult areas
**Actual figures obtained from regulatory returns – does not include machines located in pubs, clubs, working men's clubs or FECs that don't have adult areas as these are not regulated by the Gambling Commission

Of these 144,160 gaming machines 11,828 were category B3 gaming machines.

Gaming machines publicly available as at 31 March 2010 (by category)

	A	B1	B2	B3	B4	C	D
2009/10	0	2,713**	32,112**	11,828**	508**	51,192**	46,201**
2008/09	0	2,500*	27,500*	11,800*	15,000*	121,000*	71,000*

Source: Gambling Commission Industry Statistics 2008/9 and 2009/10.
*BACTA estimates quoted in Gambling Commission annual reports and industry statistics 2008/9 which include gaming machines located in pubs, clubs, working men's clubs or FECs that don't have adult areas
**Actual figures obtained from regulatory returns – does not include machines located in pubs, clubs, working men's clubs or FECs that don't have adult areas as these are not regulated by the Gambling Commission

Background

5. The public consultation closed on 25 January 2011. Responses from the amusement and bingo industries tended to reiterate their arguments as set out in the Consultation Stage IA that the ongoing downturn across both industries was due to four main factors:

- The introduction of the ban on smoking in enclosed public spaces in July 2007, which both sectors argue has had a disproportionate effect on gambling premises;
- Difficult trading conditions arising from the economic downturn over this period;
- Increased competition from licensed betting offices which are able to offer category B2 gaming machines (previously referred to as Fixed Odds Betting Terminals) which the amusement and bingo industries argue have drawn away many customers from AGCs and bingo clubs (although there is no direct evidence for this);

- The implementation of the Gambling Act in September 2007, which the amusement and bingo industries argue has imposed increased administrative and cost burdens on many businesses and taken away their flexibility to respond to economic and market challenges;

6. The government accepts these arguments but only to a certain extent. They are not wholly the problem. There are other factors that could have equally influenced the fortunes of these industries, for example changing consumer preferences, the development of wider leisure and media offerings in recent years and increased competition across the gambling industry as a whole. However, it does accept that the Gambling Act potentially restricts the operational flexibility and freedom of certain sectors to innovate and therefore remains persuaded that the situation facing the amusement and bingo industries is sufficiently grave to justify a reconsideration of stake limits and entitlements for B3 gaming machines.

7. It should be noted that the data provided by the Gambling Commission's 2009/10 industry statistics does not corroborate the picture presented by the amusement and bingo industries, although it does not contradict it either. Further work is required with the gambling industry as a whole to identify and collect more comprehensive data in order to properly understand the industry's current state. In the meantime the government has worked closely with the Gambling Commission, the industry's national regulator, to make the best estimates possible based on available data.

8. Employment across the AGC and manufacturing sectors does appear to have decreased since 2008/09. However, it is hard to draw any conclusions at present. For example overall numbers of employees in AGCs (FTE) is up while the reduction in AGC operating licences might reflect consolidation rather than contraction. It is also hard to draw any conclusions with regards to employment in the manufacturing and supply sector without supporting data regarding output, which is not currently available):

AGC Employees

	2008/09	**2009/10**	**% change**
Number of licence holders	632	612	-3%
Number of employees (FTE)	13,133	13,296	1%
Number of employees (headcount)	21,184	18,792	-11%
Number of casual workers (minimum)	1,135	853	-25%
Number of casual workers (maximum)	3,076	1,737	-44%

Source: Gambling Commission Industry Statistics 2009/10

Gaming machine manufacturer and supplier employees

	2008/09	**2009/10**	**% change**
Number of employees (FTE)	1,993	1,921	-4%
Number of employees (headcount)	2,025	1,955	-3%

Source: Gambling Commission Industry Statistics 2009/10

9. Employment appears to have decreased across the bingo sector since 2008/09:

Bingo Employees

	2008/09	**2009/10**	**% change**
Number of employees (FTE)	12,242	11,872	-3%
Number of employees (headcount)	17,332	16,922	-2%

Source: Gambling Commission Industry Statistics 2009/10

10. This decline is reflected in the latest figures for gross gaming sales for bingo:

1 April to 31 March	**Bingo: Gross gaming sales £million**
2004/05	1,783
2005/06	1,826
2006/07	1,820
2007/08	1,620
2008/09	1,428

2009/10	1,359

Source: Gambling Commission Industry Statistics 2008/09 and 2009/10

11. The overall number of bingo premises has increased from 2008/09 but there has been a decline in the number of bingo clubs across some of the larger operators. It is not clear though what factors might have influenced these closures.

Bingo Clubs

Organisation	Total premises at 31 March 2009	Total premises at 31 March 2010	% change
Buckingham Bingo Ltd	11	10	-9%
Carlton Clubs plc	14	14	0%
Gala Coral Group	158	146	-8%
Rank Group – Mecca Bingo Ltd	102	103	1%
Top Ten Bingo	36	24	-33%
Independent/small operators/converted AGCs/holiday parks/working men's clubs	307	459	
Total	641	756	

Source: Gambling Commission Industry Statistics 2009/10

12. In light of this data the government still believes that the rationale for intervention outlined in paragraphs 21 – 29 in the Consultation Stage IA still applies and wishes to press ahead with bringing forward measures to help AGCs and bingo clubs. To summarise:

- *Jobs:* AGCs and bingo clubs make an important contribution to many local economies, often forming an integral part of the tourism offer in many seaside towns and providing significant numbers of local jobs, not just in terms of individual premises but also with supporting businesses covering supply and maintenance of gaming machines. Bingo clubs also provide a valuable social amenity for many local communities, especially for older and retired women.
- *Gambling Act 2005*: As many aspects of gaming machines are regulated through the statutory framework put in place by the Gambling Act central government has some influence over the product mix, quantity of product available and product pricing of AGCs and bingo clubs. As a result these businesses have less scope than those in unregulated industries to increase prices to customers in order to cover increases in costs (although it should be noted that there is a wide variation in profitability across the AGC and bingo industries which suggests that other factors such as how businesses are run, location and investment in new products also come into play here).
- *Split premises:* Economic pressures have seen many AGC operators artificially splitting their premises and paying for two separate premises licenses in order to offer a higher number of more profitable B3 gaming machines. This is a perverse consequence of the current limits on machine numbers which is not conducive to the effective regulation of gambling and has led to increased economic and administrative burdens for operators and regulators alike;
- Choice: Maintaining the commercial viability of lower risk gambling premises such as AGCs and bingo clubs will ensure customers are continued to be offered a wider choice of different gambling environments with different levels and types of gambling.

13. The Consultation Stage IA outlined six options being considered by the government:

i) Do nothing i.e. maintain the current stake limit of £1 for category B3 gaming machines and current premises entitlements for AGCs and bingo clubs;

ii) Increase the maximum stake limit for category B3 gaming machines from £1 to £2;

iii) Permit a proportionate increase in the number of category B3 gaming machines in AGCs and bingo clubs to 20% of total number of machines in such premises;

iv) For AGCs and bingo clubs permit one category B3 gaming machine per 170 square feet (16 square metres) of licensed area floor space;

v) An increase to the maximum stake for category B3 gaming machines combined with a proportionate increase in the number of B3 machines in AGCs and bingo clubs based on machine numbers (option ii combined with option iii);

vi) An increase to the maximum stake for category B3 gaming machines combined with a proportionate increase in the number of B3 machines in AGCs and bingo clubs based on licensed area floor space (option ii combined with option iv);

14. A public consultation ran from 2 November 2010 to 25 January 2011. Ninety two responses were received with the majority of responses coming from the gambling industry. Nine responses were received from local government organisations and three from faith groups. A summary of the responses is attached at Annex 2. The key points raised were:

- The amusement and bingo industries supported an increase in the maximum stake limit to £2 and a recalibration of B3 entitlements, with the majority of industry responses favouring Option 5;
- There was a general view from the amusement industry that a proportionate increase based on floor-space would be complicated and impose an administrative burden on operators and regulators. This was less of an issue with the bingo industry (it should be noted that this view is not shared by the Gambling Commission following discussion with operators);
- Clarity would be required as to exactly what types of machines would count towards any calculation of B3 entitlement;
- The AGC sector argued for a minimum entitlement of eight B3 machines per premises to run in tandem with the 20% option in order to benefit smaller AGC premises and remove the current disparity between AGC and bingo clubs;
- Local authorities argued that the government should consider whether an upper limit on B3 entitlements was required to prevent proliferation;
- The wider gambling industry, most notably the betting and casino sectors, argued that government should also commit to a further review of stake and prize limits and premises entitlements for category B1 and B2 machines and re-introduce triennial reviews of stake and prize limits for all categories of gaming machine;
- The faith groups argued that the *status quo* should be retained with further research required before any consideration should be given by government to any relaxation of the regulatory framework.

15. The government has reviewed the responses to the consultation and decided that option 5 is its preferred option in line with the reasons set out below:

Option	**Government response:**	**Reason**
1	Reject	Not a sustainable approach – whilst there would be no additional risk to public protection objectives it is likely AGC and bingo businesses would continue to close at a significant rate; Continuing job losses across amusement and bingo industries would have knock-on effect to gaming machine manufacture, supply and maintenance sector, plus a wider impact on local communities along the lines discussed in the Consultation Stage IA; Economic pressure on operators to artificially split premises would continue posing an ongoing risk to the licensing objectives of the Gambling Act.
2	Reject	An increase in the B3 stake limit on its own would provide some benefits to AGC/bingo operators and machine manufacturers by allowing the development of new games and formats to appeal to customers but it would be limited in scale and in the government's view unlikely to arrest the current decline; A £2 maximum stake limit would encourage new product design and offer some stimulation to the B3 market but any positive impact would be offset by continuing restrictions on operators in making commercial decisions regarding product mix and overall gaming machine offer; Economic pressure on operators to artificially split premises would continue.
3	Reject	This option could make up to 3,000 more profitable B3 machines available to customers. This would offer some benefits to operators and manufacturers but the lack of development of new game formats to attract customer interest would limit such benefits and might not be enough to arrest the current pattern of decline; It would also stimulate demand in other parts of the gaming machine market, for example in providing for an increased number of B3 machines, an operator would have to source a corresponding number of machines of other types. Retention of the current £1 stake limit for B3s will not encourage manufacturers to develop new products, which in turn will impact on operators' decisions to refresh

		their product mix. It might not be economically viable for smaller and medium sized operators to offer a higher ratio of B3 machines if customers do not continue to play them.
4	Reject	This option would bring some benefits to operators and manufacturers by allowing businesses to offer more B3 machines to customers but any benefit would be constrained by the lack of impetus on manufacturers to develop new and interesting game formats; Responses to the consultation from AGC operators and licensing authorities expressed concern that this option would be too burdensome in terms of implementation and monitoring compliance (a view not shared by the Gambling Commission); The government is concerned about the extent to which smaller bingo clubs and AGCs might actually benefit from such an approach;
5	Prefer	An increase in the maximum stake limit combined with a more flexible B3 entitlement is, in the government's view, more likely to provide the level of economic benefit being sought by the amusement and bingo industries, including manufacturers and suppliers; A £2 stake limit would encourage manufacturers to design new products while operators would receive a greater degree of freedom to make commercial decisions regarding their gaming machine offer to customers, thus encouraging them to refresh their product mix; This combination should help to reduce the pressure on operators to artificially split premises in order to boost the numbers of B3s they can offer customers; The option would be supported across the amusement and bingo industries; This approach would be underpinned by allowing all existing premises to retain their allowance of four or eight category B3 machines (depending on whether an AGC or bingo premises) in order to ensure no existing premises were disadvantaged.
6	Reject	As with option 4, concerns remain about the potential benefits that this option would bring to smaller operators.

16. The government believes that option 5 offers the best approach to achieve the policy objectives set out in the consultation document and Consultation Stage IA. It would:

- Allow AGCs and bingo clubs a greater degree of freedom in making commercial decisions affecting the operation of their businesses within the regulatory framework currently in place
- Permit these greater freedoms without undermining public protection objectives of the Gambling Act 2005;
- Achieve a significant level of benefits for the amusement and bingo industries but not to the detriment of other types of gambling businesses and without imposing any additional compulsory costs or regulatory burden across these sectors;
- Remove the pressure on AGC and bingo operators to artificially split their premises in order to offer more B3 machines;
- By allowing all existing premises to retain their allowance of four or eight category B3 machines (depending on whether an AGC or bingo premises) as outlined in the consultation document ensure no existing AGC or bingo club is disadvantaged by any new proposals;

£2 maximum stake limit

17. There was support across the amusement and bingo industries for a maximum stake limit of £2. No alternative limits were proposed. This would mean the categories of gaming machine as defined by the Gambling Act would change to:

Machine category	Maximum stake	Maximum prize
A	Unlimited	Unlimited
B1	£2	£4,000
B2	£100 (in multiples of £10)	£500
B3	***£2***	***£500***
B3A	£1	£500
B4	£1	£250
C	£1	£70
D non-money prize (other than crane grab machine	30p	£8
D non-money prize (crane grab machine)	£1	£50
D money prize	10p	£5
D combined money and non-money prize (other than coin pusher or penny falls machines)	10p	£8 (of which no more than £5 may be a money prize)
D combined money and non-money prize (coin pusher or penny falls machine)	10p	£15 (of which no more than £8 may be a money prize)

18. To recap, this proposal would essentially reintroduce the £2 stake associated with the 'section 16' and 'section 21' machines that were popular with players prior to their removal by the Gambling Act (these machines were re-categorised under the Act as B3 machines with a £1 maximum stake, £500 maximum prize and with limits on the numbers of machines per premises).

19. Within the context of the Gambling Act this increase would follow on from the previous stake increases for category C gaming machines and prize gaming in 2009. In these cases the stake was increased from 50p to £1. The B3 proposal is in line with these increases. It will also provide a meaningful differential between the stake on category B3A lottery machines and category C and B4 machines which should also help marketers to better establish a clear differential to promote between lower category and B3 games,

20. The basis for the increase to £2 was outlined in the Consultation Stage IA. The government did consider other options but chose not to take them forward for consultation on the grounds that £2 was the only realistic option that could potentially deliver the level of relief being sort by the amusement and bingo industries. The responses to the public consultation did not suggest any need to revisit this decision.

21. The review of stake limits for category C gaming machines undertaken by the government in 2008 to 2009 demonstrated that stake limits outside of a £1 multiple are considered problematic by the amusement industry and gaming machine manufacturers, for example market research conducted by BACTA during the review showed that stake limits outside of multiples of £1 were not attractive to customers. Players predominately use £1 coins or low denomination notes to play gaming machines, therefore any stake requiring the use of an additional lower denomination coin would leave a residual amount in a machine, requiring additional money to be inserted before any residual was used up. In the government's opinion this could encourage players to spend more than they wished. Discussion with the amusement industry at the time also suggested that the trend for game design was increasingly towards multi-stake, multi-line machines. These have proved popular with players and the government notes that a stake limit outside of £1 multiples would make game design for multi-stake, multi-line games more difficult.

22. It should also be noted that section 13(3)b of the Gambling Act 2005 (Circumstances of Use) Regulations 2007 (made under section 240 of the Gambling Act) make it a requirement that a player must have the opportunity to collect the whole value of the prize. Many gaming machines are now fitted

with coin hoppers that accept £1 coins only and thus will only pay prizes in round £1 multiples. Therefore, any stake outside multiples of £1 would mean games could not operate with round £1 prizes. As a result manufactures and operators would be required to fit new hoppers to machines which accepted lower value coins. This would increase production and operation costs unnecessarily.

23. Taking these factors into account, the government believes that a £2 maximum stake for B3 machines would bring the level of benefit being sought by the amusement and bingo industries and allow manufacturers to innovate and refresh game design. The government hopes that this will also result in the development of games that offer better value to customers, for example delivering jackpots at more frequent intervals.

Minimum Entitlements

24. The government has considered the argument put forward by the amusement industry in response to the consultation that AGCs should receive a minimum entitlement of eight B3 machines per premises to run in tandem with a proportionate increase based on total numbers of machines. The industry believes such an approach would benefit smaller premises by removing the current disparity between AGC and bingo clubs.

25. Following discussion with the Gambling Commission the government has decided not to support this proposal. One of the main policy objectives of moving to a 20% B3 entitlement is to benefit operators by allowing access to greater numbers of £2 stake machines in proportion to the amount of gambling on the premises. It is hoped that such a move will also stimulate demand in other parts of the gaming machine market, for example in providing for an increased number of B3 machines, an operator would have to source a corresponding number of machines of other types. However, there is an equally important regulatory rationale underpinning the recalibration of B3 entitlements; that is to reduce the economic pressures on operators to split premises artificially and ensure the number of higher stake machines remains diluted among lower stake alternatives.

26. Increasing the minimum entitlement in AGCs to eight would completely undermine this regulatory rationale. An AGC would have to offer at least 40 gaming machines before the 20% rule was triggered and the structure of the amusement industry is such that a significant proportion of AGCs would be entitled to offer numbers of B3s significantly in excess of the 20% rate. The Gambling Commission noted that for many operators it might remain more cost effective to continue to split premises in order to offer several tranches of the minimum entitlement (rather than offer a corresponding number of less profitable machines). To take an extreme example, a perverse consequence of pursuing such an approach would be that it would be possible for an operator to split a premises five ways in order to offer 40 B3 machines, whereas an operator offering 40 machines in a single premises would be restricted to making available only eight B3 machines.

27. The government recognises that the existing minimum entitlements for AGCs and bingo premises of four and eight B3 machines respectively does to some extent create the pressures referred to above that induce operators to split their premises artificially. However, although it is not proposed at this stage propose to remove the minimum entitlement for existing premises, increasing it to eight for AGCs would increase the risk of perverse consequences. Further detail is set out in the table below:

Total number of gaming machines per AGC/bingo club	**Total number of B3s based on 20% of the total number of gaming machines only**	**Proportion of B3 gaming machines based on minimum entitlement of 8 B3 machines**
10	2	8 = 80%
20	4	8 = 40%
30	6	8 = 26%
40	8	8 = 20%

28. The government is aware of the recent policy announcement regarding the exemption of micro-businesses and start-ups from new domestic legislation for three years. With regards to micro-businesses, as outlined at paragraph 16 (and in more detail in the Consultation Stage Impact Assessment) there are already provisions in place to protect existing AGCs or bingo premises that might be classed as such. An analysis of local authority premises data and regulatory returns held by the Gambling Commission suggest that some 65% of AGC operators and 22% of bingo operators currently could be classified as micro-businesses, with only 30% of existing AGC and bingo premises actually at risk of being negatively affected by a new B3 entitlement of 20%.

29. With regards to potential start-ups across the AGC and bingo sectors over the next three years, discussions with the Gambling Commission suggest there would be only a relatively low number. There were only 33 applications for an AGC operating licence during 2009/10 within the Commission's lowest fee band. This is the band that is most likely to include licence applications from AGC or bingo operators with small premises containing low numbers of gaming machines and thus more likely to be negatively affected by the proposed 20% entitlement. There were only 27 similar applications for bingo operating licences over the same period. The government estimates that there could be around 30% of these applications possibly at risk of not having enough machines to trigger the 20% ratio.

30. Should it be considered appropriate to include these proposals in the moratorium then applying an exemption (for example by ensuring that start-ups would be entitled to at least current entitlements for B3 machines) would only have a negligible impact on the projected benefits of these proposed measures over 10 years. Such a level of start-ups would mean, if anything, a slight increase in benefits to AGC and bingo businesses within the ranges estimated in this Impact Assessment.

Capping Entitlements

31. Responses from local government organisations argued for an upper limit to be applied to the number of B3s premises could offer, especially in the case of large bingo clubs. Particular concerns were raised about operators potentially 'stockpiling' lower category machines solely to boost their B3 entitlement and bingo premises being able to offer large numbers of B3s on the basis of handheld terminals capable of offering gaming machine products.

32. After consulting with the Gambling Commission the government has decided against introducing a cap on the numbers of B3s in individual premises. There is no evidence that the availability of £2/£500 machines in unlimited numbers prior to the implementation of the Gambling Act adversely affected the levels of problem gambling in Great Britain and the Gambling Commission advise that proceeding with a more flexible B3 entitlement without a cap on numbers is unlikely to adversely impact on the licensing objectives of the Gambling Act. In addition it is the government's view that an upper limit could provide an incentive to operators to split premises if there is an economic case for more B3 machines than the limit might allow.

Costs and Benefits

Costs

Option 5: Summary of Costs and Benefits

Costs (Present Value) (over 10 years)			Benefits (Present Value) (over 10 years)			Net Benefit (Present Value) (over 10 years)		
Low	**High**	**Best Estimate**	**Low**	**High**	**Best Estimate**	**Low**	**High**	**Best Estimate**
£168.8m	£197.1m	£182.9m	£168.1m	£369.8m	£268.9m	£-29m	£210m	£86m

33. The quality of data provided by the amusement and bingo industries was highlighted as a concern in the Consultation Stage IA. Following discussion with both sectors during the public consultation it is now clear this is a more long term problem that will require further work with the gambling industry as a whole to resolve. In the meantime the Gambling Commission has continued to refine and develop the data collected through regulatory returns and from licensing authorities. It published its Industry Statistics for 2009/10 in December 2010 and the government has utilised this work to further develop the cost/benefit analysis. However, it should still be noted that there is only a limited amount of information that can be ascertained from the regulatory returns.

Costs: Do Nothing

34. It is a commercial decision for operators as to whether and when they invest in new gaming machines. The normal life cycle of gaming machines will vary across different types of premises. And advice from the Gambling Commission suggests that the majority of the AGC B3 gaming machine market now consists of digital or video products. These tend to stay on site for longer periods than older equipment, with the life cycle of particular products often dictated by the size of a business. Larger operators tend to devalue machines over a four to five year period while small and medium sized businesses tend to operate machines in excess of five years, often up to eight years depending on reliability and availability of spares (although some medium sized operators are likely to refresh their

gaming machine offer more quickly depending on their location and demand). It is reasonable to assume similar factors would apply to the bingo industry.

35. There is not enough detail to fully analyze the impact of this business cycle on manufacturers and operators but what data is available suggests that without government intervention the industry could continue to decline. For example:

- The number of gaming machines available to the public fell from 2007/08 to 2008/09;
- The number of B3 gaming machines fell by 1.7% from 2007/08 to 2008/09 and has remained static since;
- Employment in the manufacturing and supply sector has dropped by 3% from 2008/09 to 2009/10.

Costs: Option 5 (Operators)

36. The government has revised its estimates on the costs to businesses based on responses to the consultation and discussions with the Gambling Commission. The costs are based on two factors:

- The cost to businesses of upgrading or replacing their B3 machines in order to take advantage of new game formats developed as a result of a £2 stake limit;
- The costs to businesses of investing in new B3 machines to take advantage of more flexible B3 entitlements.

37. These costs are not compulsory on AGCs or bingo clubs. Neither would there be any compulsory costs on gaming machine manufacturers or suppliers. It would remain a commercial decision for operators as to whether they invested in new equipment.

38. It has been possible to estimate in broad terms the numbers of B3 machines that might be replaced by operators as a result of these measures. However, there is insufficient data available from the amusement and bingo industries to assess the distribution of annual costs by organisation size. Much will depend on an individual business's access to capital expenditure but the government has found nothing to suggest that any particular size of business would be unduly disadvantaged.

Annual profile of monetised costs to AGC and bingo operators as a result of Option 5 (best estimate) (constant price)(£M):

	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Total
Increase in B3 stake limit to £2 (replacing machines)											
Type of replacement	Upgraded/ greened & new machines	Upgraded/ greened & new machines	New	New	New	New	New	New	New	New	-
Number of B3s replaced by operators across both sectors (%)	2,950 & 1,180 (25% & 10%)	1,770 & 1,180 (15% & 10%)	2,360 (20%)	1,180 (10%)	1,180 (10%)	-	-	-	-	-	-
Cost per machine	£2,000 & £6,000	£2,000 & £6,000	£6,000	£6,000	£6,000	-	-	-	-	-	-
Total	**£13m**	**£10.6m**	**£14.2m**	**£7.1m**	**£7.1m**	**-**	**-**	**-**	**-**	**-**	**£52m**
Additional machines as a result of increased B3 entitlements											
Number of new machines made available to customers (% of total number of new machines made available)	1,200 (40%)	1,050 (35%)	750 (25%)	-	-	-	-	-	-	-	-
Cost per machine	£6,000	£6,000	£6,000	-	-	-	-	-	-	-	-
Total	**£7.2m**	**£6.3m**	**£4.5m**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**£18m**
Loss of revenue from category C machines replaced by B3s (AGCs)	£3.4m	£3m	£2.1m	-	-	-	-	-	-	-	**£8.5m**
Loss of revenue from category C machines replaced by B3s (bingo)	£1.6m	£1.4m	£1m	-	-	-	-	-	-	-	**£3.9m**
Accumulated costs - loss of revenue from cat Cs replaced by B3s (AGCs)	-	£3.4m	£6.4m	£8.6m	£8.6m	£8.6m	£8.6m	£8.6m	£8.6m	£8.6m	**£69.7m**
Accumulated costs - loss of revenue from category C machines replaced by B3s (bingo)	-	£1.6m	£2.9m	£3.9m	£3.9m	£3.9m	£3.9m	£3.9m	£3.9m	£3.9m	**£32m**
Additional AMLD paid by AGC and bingo operators after replacing cat C with B3 machines	£1.8m	£1.6m	£1.1m	-	-	-	-	-	-	-	**£4.5m**
Accumulated costs - additional AMLD paid by AGC and bingo operators	-	£3.4m	£4.5m	£4.5m	£4.5m	£4.5m	£4.5m	£4.5m	£4.5m	£4.5m	**£39.4m**
Total cost to businesses	**£27m**	**£31.2m**	**£27.3m**	**£19.3m**	**£19.3m**	**£17m**	**£17m**	**£17m**	**£17m**	**£17m**	**£209m**

Assumptions

	Low	High	Best estimate
Estimated number of B3s currently located in AGCs and bingo clubs	N/A	N/A	11,800
Estimated number of new B3s brought onto the market as a result of increased B3 entitlements to AGCs and bingo clubs	N/A	N/A	3,000
Cost to operator of upgrade kit or greened machines for video machine	£1,000	£3,000	£2,000
Cost to operator of new machine (video/digital)	£5,000	£7,000	£6,000

£2 stake: Non-compulsory Costs to Business

39. As outlined in the Consultation Stage IA it is possible to provide only a rough approximation of the costs that might be incurred by operators should they chose to upgrade or replace their gaming machine offer. These costs would be dependent on factors such as the type of gaming machine in question, manufacturers' costs, contracts with suppliers and whether the machine in question is a terminal (which would require a software download) or a physical cabinet offering a single game. There are two options open to operators, to either invest in new gaming machines or purchase kits from suppliers and manufactures to upgrade existing machines. The costs used here are based on Gambling Commission estimates for digital/video products on the basis that these now make up the majority of the B3 market:

Description of range of estimated costs:

Upgrade kit for video machine	£1,000 - £3,000
New machine (video)	£5,000 - £7,000

Source: Gambling Commission

40. With regards to the number of B3 machines located in AGCs and bingo clubs, the cost estimates used in the Consultation Stage IA were based on BACTA's 2008/09 estimate of 11,800 B3 machines (as quoted in the Gambling Commission's 2008/09 Industry Statistics). The Commission's 2009/10 statistics (published in December 2010) show a very similar level of machines (11,828) and it has therefore been decided to continue to use the 11,800 figure as a basis for costs. It has also been assumed for the purposes of this IA that all B3s are located in AGCs and bingo clubs (it is possible a very small number could be located in other venues such as casino or licensed betting offices) with 77% located in AGCs and 23% in bingo clubs (derived from analysis of the Gambling Commission's Industry Statistics 2009/10).

41. In the absence of further data from the industry the government has continued to assume that operators will look to replace all B3s in order to take advantage of a new £2 stake limit. It has not be possible to ascertain from the industry how many machines might be replaced or over what period but based on discussion with the Gambling Commission the transition period has been reassessed:

- 40% of existing B3 machines will be either upgraded or replaced with greened machines within the first two years; a further 20% will be replaced with entirely new machines: Both small and larger operators are likely to take a cautious approach to replacing existing B3 machines and wait until new B3 game formats and developed and commercially tested to assess popularity with customers and provide assurances as to potential increases in cash box takings. It has therefore been assumed that smaller operators will retain a number of £1/£500 B3 machines but will upgrade or replace where it is commercially advantageous to do so. It has therefore been assumed that the full allocation of additional machines will not be taken up in the first year since operators are likely to first ascertain which machines are performing well and which sites have sufficient demand to warrant additional investment. It is possible that the remaining B3s will remain unchanged for the first two years in lower performing premises, with investment in new machines likely to fall over later years as operators gain access to capital, assess and respond to customer demand and assess performance of new machines/games developed by manufacturers.
- The remaining 40% of existing B3s will be replaced with new machines over years 2 and 3: Informal discussion by the Gambling Commission with the amusement industry would suggest there remains a significant number of converted section 16 machines still in operation in the AGC sector, perhaps 40% of existing B3 machines. This would mean that the only option open to operators is to invest in

new or “greened” machines. However, given the current economic climate it is reasonable to assume that many operators will not have access to the level of capital expenditure required. Such machines tend to remain in operation for between five to eight years normally so it has been assumed that operators are unlikely to start replacing these types of machines until three years down the line. It has also been assumed that the purchase of new machines will be spread over a number of years as operators seek to establish capital and assess the best performing machines as they are developed by manufacturers

- *Bingo clubs:* There is no equivalent information available for the bingo sector so the same assumptions as per AGCs have been applied.

Increased B3 entitlements: Non-compulsory Costs to Business

42. As outlined in the Consultation Stage IA no compulsory costs would be imposed on AGCs, bingo clubs, gaming machine manufacturers or suppliers. It would be a commercial decision for operators as to whether they invested in new gaming machines should there be an increase in the number of B3 machines permitted to be offered by AGCs and bingo clubs. However, it is reasonable to assume that the majority of operators would invest in new products in order to benefit from new entitlements in the ways discussed above.

43. The Consultation Stage IA outlined how this approach would result in an increase in the number of B3s in circulation. Based on an analysis of the Gambling Commission’s regulatory returns for 2009 it was suggested that, should the overall numbers of machines in AGCs and bingo clubs remain the same, there could be around 3,000 additional category B3 gaming machines made available for use (on the hypothetical basis that those machines would replace existing other categories of gaming machines), with around 90% in the AGC sector. This assumption has been revised. It is still thought that around 3,000 new machines will be injected into the market but, based on the Gambling Commission’s 2009/10 industry statistics some 77% will be located in AGCs.

44. The estimate of 3,000 additional B3 machines is based on the available data (the Gambling Commission’s regulatory returns) and represents a best estimate. The number could vary along with the effect of these proposals on the overall number of machines made available as a range of options would be open to operators with regards to updating and refreshing their product offer. A significant factor would be tax implications arising from the current Amusement Machine Licence Duty (AMLD) system which is based around a fixed cost per annum depending on the category of gaming machine in question. HM Treasury announced in December 2010 that ALMD was to be replaced by a system based on a gross profit tax from 2012 onwards. They are currently consulting with the British gambling industry as a whole as to how the new framework should be implemented and the level the new duty should be set at. Until more detail is available it is not possible to refine this figure any further.

45. It has not be possible to ascertain from the industry how many new machines might be situated in AGCs or bingo clubs or over what period but based on discussion with the Gambling Commission the transition period has been reassessed in line with the costs outlined above:

- It is likely that AGC and bingo operators will expand their B3 offer cautiously as it will take time to assess customer demand, best product mix and assess the popularity of new formats as they are tested and refined by manufacturers.
- The current economic climate means that many operators will have limited capital expenditure available to purchase new machines. It has therefore been assumed that 75% of any new machines will be purchased over the first two years, with the rest coming in during the third year.

Running Costs

46. In the government’s opinion AGC and bingo operators are unlikely to incur any significant additional running costs through these proposals. Where businesses choose to replace B3 machines in order to take advantage of the new stake limit then these are likely to be simply replaced on a like-for-like basis. It is possible that additional labour costs could be incurred through the installation of new machines but these would be negligible. Costs are also likely to be minimised as gaming machine technology moves away from traditional reel machines and towards video/digital content that can be downloaded directly from a central server. This is already becoming common place in bingo clubs. Other running costs such as utilities would remain unchanged

47. The benefit calculations are based on an additional 3,000 category B3 gaming machines being made available for use by AGC and bingo operators on the hypothetical basis that these would replace

existing other categories of gaming machines. There is no data available from the amusement or bingo industries to suggest whether operators would seek to replace any particular types of machines but discussion with the Gambling Commission suggests that they would be most likely to replace category C machines. If this were the case then it is again unlikely additional running costs would be incurred.

48. There is no data available from either the amusement or bingo industries to suggest whether or not these proposals might have an effect on the overall number of gaming machines that are made available to customers in AGCs and bingo clubs. This has made it impossible for the government or Gambling Commission to model different types of scenarios.

49. The government recognises that it is possible the overall numbers of gaming machines could increase. For example it is possible that larger AGC and bingo premises could reconfigure their premises to create more space in which to offer additional machines in order to boost B3 offer. It is also possible that as gaming machine technology develops so machine cabinets might get smaller, for example as seen with the move to handheld units in bingo clubs and the increasing use of video/digital technology.

50. In the government's opinion it is unlikely that the overall number of gaming machines made available in AGCs and bingo clubs will change by any significant degree. While it is hard to draw firm conclusions in the absence of data from both industries, discussion with the Gambling Commission suggests the likelihood of any substantial growth across these sectors as a result of these proposals is low. AGC and bingo operators are likely to already have their gaming machine offer configured to best utilise available floor-space in order to meet customer demand. At the same time the current economic climate means it is reasonable to assume that many operators will not have access to the level of capital expenditure required to purchase additional machines beyond their existing offer. The government considers it more likely that the overall number of gaming machines will remain constant while the product mix of premises will change.

51. The government has also considered whether there would be any additional costs to businesses from the disposal of old gaming machines as they are replaced. Discussions with the Gambling Commission suggest such costs would be negligible, forming part of an AGC's or bingo club's normal business process. Old gaming machines are likely to be to be sold on second hand (for which a licence from the Gambling Commission would be required at a minimal cost), part exchanged with suppliers for new machines or sold for spare parts. The government has decided it's therefore not necessary to cover such costs in this instance.

Loss of Revenue from Category C Gaming Machines

52. The Consultation IA outlined the basis on which potential revenue increases to the industry had been estimated. These were drawn from an analysis of Gross Gaming Yield (GGY) – that is the amount retained by gambling operators after payment of winnings but before deduction of costs of the operation - obtained from the Gambling Commission's 2009 regulatory returns. As discussed above, the benefit calculations are based on an additional 3,000 category B3 gaming machines being made available for use by AGC and bingo operators on the hypothetical basis that these would replace existing other categories of gaming machines, most likely category C.

53. The government recognises that where AGC and bingo operators replace category C gaming machines they will also loose the revenue from these machines. This will to some extent offset the revenue operators might expect from installing B3 machines and has consequently been included in the calculations as a potential cost to businesses. It also acts as a proxy measure for revenue that could be lost from lower category machines if customers shift away from these in favour of the new B3 offer. The average GGY per reported category C gaming machine has been derived from the Gambling Commission's regulatory returns and is as follows:

	AGC	**Bingo**
Reported Sum GGY per Reported Category C Machine (average)	£3,700	£5,700

Additional Costs: Taxation

54. Under the current taxation system, where AGC or bingo operators might choose to replace category C machines with B3s they will incur additional Amusement Machine Licence Duty (AMLD) costs. Current AMLD levels are set at:

Category C (12 months)	**Category B3 (12 months)**
£905	£2,405

55. HM Treasury announced in September 2010 that the AMLD system would be replaced by a new system based on a gross profits tax, to be known as Machine Games Duty (MGD). This will be charged as a percentage of dutiable income but no decision has been made yet regarding the level of duty. This will be made as part of the Budget process and is due announced as part of Finance Bill 2012.

56. As a result, any increase in AMLD costs to operators will only apply to, at most, the first two years of the period covered by this IA. It is reasonable to assume, however, that any projected increase in revenue resulting from an operator upgrading a category C gaming machine to a B3 would incur an additional tax liability under a gross profit tax system. Therefore, in the absence of information about potential future MGD rates, the government has decided to include additional AMLD costs across 10 years in its calculations as a proxy for any future increased tax liability faced by AGC and bingo operators that might result from these proposals.

Social Costs

57. The government has also taken into account the potential social costs connected to an increase in the maximum stake level and machine numbers, and in particular the potential risks to young people and the vulnerable from the harmful effects of problem gambling. These are discussed in more detail below at paragraphs 67 to 84 and at Annex 5: Health and Well Being Assessment.

Costs: Option 5 (Manufacturers)

58. As no data was submitted by the amusement industry in relation to the manufacturing and supply sector during the consultation it has not been possible to calculate potential benefits to these businesses. Given that this proposal would imply an increase in demand for manufacturers' output, the overall effect on manufacturers is expected to be positive.

Benefits

Benefits: Do nothing

59. The amusement and bingo industries claim that overall revenue is in decline. For example:

- Revenues across the amusement industry were down 36% overall with revenue across AGCs down 23%;
- In 2008, total net revenue for the bingo industry was £704.7m, a drop of 14.2% on the previous year;

60. This is not contradicted by the Gambling Commission's most recent industry statistics (2009/10). For example:

- Gross gaming yield for AGCs dropped from £397.4m in 2008/09 to £384m in 2009/10;
- Gross gaming sales across the bingo industry have fallen from £1428m in 2008/09 to £1359 m in 2009/10;
- Employment in the bingo industry has declined by 2% since 2008/09.

61. The government believes it is reasonable to assume that this trend will continue unless there is intervention along the lines described.

Benefits: Option 5 (Operators)

Annual profile of monetised benefits to AGC and bingo operators as a result of Option 5 (best estimate)(constant price) (£M):

	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Total
Increase in B3 stake limit to £2 (increases to revenue)											
Number of B3s replaced by operators across both sectors (AGCs/bingo)	4,130 (3,180/ 950)	2,950 (2,272/ 678)	2,360 (1,817/ 543)	1,180 (909/ 271)	1,180 (909/ 271)	-	-	-	-	-	**-**
Benefit of 16% increase in GGY from B3s- AGCs	£7.6m	£5.5m	£4.4m	£2.2m	£2.2m	-	-	-	-	-	**£21.9m**
Benefit of 16% increase in GGY from B3s- bingo	£2.6m	£1.8m	£1.5m	£0.7m	£0.7m	-	-	-	-	-	**£7.3m**
Accumulated benefits – AGCs	0	£7.6m	£13.1m	£17.4m	£19.6m	£21.8m	£21.8m	£21.8m	£21.8m	£21.8m	**£166.8m**
Accumulated benefits – bingo	0	£2.6m	£4.4m	£5.9m	£6.6m	£7.4m	£7.4m	£7.4m	£7.4m	£7.4m	**£56.5m**
Total	**£10.2m**	**£17.5m**	**£23.4m**	**£26.3m**	**£29.2m**	**£29.2m**	**£29.2m**	**£29.2m**	**£29.2m**	**£29.2m**	**£252.6m**
Additional machines as a result of increased B3 entitlements (increases in revenue)											
Number of new machines made available to customers (AGCs/bingo)	1,200 (924/276)	1,050 (809/241)	750 (578/172)	-	-	-	-	-	-	-	**-**
Benefit of 16% increase in GGY from new B3s- AGCs	£2.2m	£1.9m	£1.4m	-	-	-	-	-	-	-	**£5.5m**
Benefit of 16% increase in GGY from new B3s- bingo	£0.8m	£0.7m	£0.5m	-	-	-	-	-	-	-	**£2m**
Accumulated benefits – AGCs	0	£2.2m	£4.2m	£5.5m	£5.5m	£5.5m	£5.5m	£5.5m	£5.5m	£5.5m	**£44.9m**
Accumulated benefits – bingo	0	£0.8m	£1.4m	£1.9m	£1.9m	£1.9m	£1.9m	£1.9m	£1.9m	£1.9m	**£15.5m**
Total	**£3m**	**£5.6m**	**£7.5m**	**£7.4m**	**£7.4m**	**£7.4m**	**£7.4m**	**£7.4m**	**£7.4m**	**£7.4m**	**£69.7m**
Total benefit to businesses	**£13.2m**	**£23.1m**	**£30.8m**	**£33.7m**	**£36.6m**	**£36.6m**	**£36.6m**	**£36.6m**	**£36.6m**	**£36.6m**	**£320.4m**

Assumptions

	Low	High	Best estimate
Estimated number of B3s currently located in AGCs and bingo clubs	N/A	N/A	11,800
Estimated number of new B3s brought onto the market as a result of increased B3 entitlements to AGCs and bingo clubs	N/A	N/A	3,000
Current GGY per reported B3 machine - AGCs	N/A	N/A	£15,000
Current GGY per reported B3 machine – bingo club	N/A	N/A	£17,000
Estimated increase in GGY per reported B3 machine (16%) – AGC	N/A	N/A	£17,400
Estimated increase in GGY per reported B3 machine (16%) – bingo club	N/A	N/A	£19,720

£2 stake: Benefits to businesses

62. Data submitted by BACTA prior to the public consultation suggested that a new stake and prize ratio for category B3 gaming machines produced by a £2 stake (with price of play options available to the player) would mean that the average stake on such a machine would increase to approximately £1.60. BACTA have estimated that the net effect of this would be for revenue to operators from B3 gaming machines would increase by 22%. The government has some doubts about this figure, which more likely reflects BACTA's estimate of the decrease in revenue they argue was sustained by AGCs as a result of the factors outlined at paragraph 12. This does not necessarily reflect a realistic projection of increases in revenue. The Gambling Commission has noted that any revenue increase could be as low as 10%. As no further data was submitted by the amusement or bingo industries during the consultation the government has decided to calculate the benefits based on a range from 10% as the lowest estimate to 22% as the highest, with the best estimate placed at 16%. The same assumptions will also continue to be applied to the bingo industry.

63. It was also suggested by BACTA category C revenues could increase as the differentiation between category C and B3 gaming machines became clearer to customers. They estimated that category C machine revenue would increase by approximately 20% following implementation of a new pricing structure. As no evidence on this was presented by the AGC sector during the public consultation to back up this assertion it has been decided not to include any estimate of monetised benefits in the benefit calculation for this IA.

64. The Consultation IA outlined the basis on which potential revenue increases to the industry had been estimated. These were drawn from an analysis of Gross Gaming Yield (GGY) – that is the amount retained by gambling operators after payment of winnings but before deduction of costs of the operation - obtained from the Gambling Commission's 2009 regulatory returns. The Commission has since refined these figures. The average GGY per reported category C gaming machine is also included for comparison in order to demonstrate how much more revenue is generated by category C gaming machines.

	AGC	Bingo
Reported Sum GGY per Reported B3 Machine (average)	£15,000	£17,000
Reported Sum GGY per Reported Category C Machine (average)	£3,700	£5,700

Manufacturers

65. As no data was submitted by the amusement industry in relation to the manufacturing and supply sector during the consultation it has not been possible to calculate potential benefits to these businesses. Given that this proposal would imply an increase in demand for manufacturers' output, the overall effect on manufacturers is expected to be positive.

Increased B3 entitlements: Benefits to business

66. It is estimated there are around 11,800 category B3 gaming machine available for use in Great Britain. Implementing this option would mean an increase in the number of B3 machines. Data from regulatory returns collected by the Gambling Commission suggest that should the overall number of gaming machines in AGCs and bingo clubs remain the same then there could be in the region of 3,000

additional category B3 gaming machines permitted (on the hypothetical basis that those machines would replace existing other categories of gaming machines) with around 77% available in the AGC sector. This would generate greater revenue for AGC and bingo clubs which has been estimated on the basis of the GGY figures outlined under the approach regarding an increased stake limit of £2.

Risks

Distributional Impact

67. There is a risk that these proposals could have a disproportionate effect on different groups in terms of the scale or attractiveness of gambling in general and in specific relation to gaming machines.

68. There is very little data available on which to base a full analysis but the British Gambling Prevalence Survey 2010 (published in February 2011 at http://www.gamblingcommission.gov.uk/research__consultations/research/bgps/bgps_2010.aspx) does examine differences in gambling participation by a number of socio-demographic and socio-economic characteristics including ethnicity, income and employment. (It should be noted that the definition of 'slot machine' used in the survey covers not just gaming machines in AGCs and bingo clubs but all other gambling venues as well, including for example casinos, pubs and clubs).

Extract: Table 3.7 Participation in gambling activities within the past year, by personal income (British Gambling Prevalence Survey 2010, page 47)

	Personal income					
Type of gambling activity	1st (lowest) %	2nd %	3rd %	4th %	5th (Highest) %	Total %
Slot machines*	14	11	15	14	12	13

* Includes gaming machines from all types of gambling premises

69. There is no particular trend in evidence here. While it is difficult to draw conclusions the data does not suggest that people in lower income groups are any more likely to be affected than those in higher income groups.

Extract: Table 3.6 Participation in gambling activities within the past year, by economic activity (British Gambling Prevalence Survey 2010, page 45)

	Economic activity							
Type of gambling activity	Paid work (higher) %	Un-employed %	Long-term disability %	Looking after family/home %	Retired %	Full-time education	Other	Total %
Slot machines*	16	23	11	12	3	17	14	13

* Includes gaming machines from all types of gambling premises

70. There is a concern over results regarding results by economic activity, where the percentage of unemployed who have played gaming machines in the past year is significantly higher than other activities. However, this pattern is not unique to gaming machines and is common across other gambling activities, for example bingo, fixed odds betting terminals, dog races and sports betting (Table 3.6 at http://www.gamblingcommission.gov.uk/research__consultations/research/bgps/bgps_2010.aspx refers).

Extract: Table 3.3 Participation in gambling activities in the past year, by ethnic group (British Gambling Prevalence Survey 2010, page 41)

	Ethnic group				
Type of gambling activity	White/white British %	Asian/Asian British %	Black/Black British %	Other	Total %
Slot machines*	14	5	7	6	13

* Includes gaming machines from all types of gambling premises

71. The prevalence for playing gaming machines is higher among respondents whose ethnic group was white/white British. This is the case across most gambling activities (Table 3.3 at http://www.gamblingcommission.gov.uk/research__consultations/research/bgps/bgps_2010.aspx refers).

72. Overall, the 2010 Survey showed a small but significant decrease in the popularity of gaming machines (excluding category B2 machines), from 14% in 2007 and 1999 to 13% in 2010. Viewed in this context the government feels that the proposals, on balance, should not have a disproportionate effect on different groups in terms of the scale or attractiveness of gambling in general and specifically in relation to gaming machines. However, the government does note that the lack of wider research and data makes it difficult to draw any firm conclusions.

Problem gambling

73. The other key area of risk to consider with regards to this policy is the effect of any increase in stake and increase in numbers for category B3 gaming machines on the public protection objectives of the Gambling Act, in particular the protection of young people and the vulnerable from the harmful effects of problem gambling.

74. The government recognises that there are widespread concerns about problem gambling and in particular the effect changes to the regulatory framework surrounding gaming machines might have on levels of problem gambling in Britain. There are a number of risks that have been identified with the proposals under consideration:

- Doubling the stake for popular category B3 gaming machines combined with increased chances to hit jackpots could encourage more vulnerable persons to gamble more frequently and with more money. This could prejudice public protection objectives;
- The options discussed above could see up to an estimated 3,000 additional category B3 gaming machines being made available to the public, presenting more opportunities for AGC and bingo customers to play for higher prizes. Such an increase could pose a threat to public protection objectives and in particular the protection of vulnerable from the harm;
- The approaches discussed in the options above could lead to an increase in the total number of gaming machines being made available to the general public. There is a risk that more category C or D gaming machines could be purchased by operators simply to allow more category B3 machines rather than because they were genuinely expected to be used;
- AGC and bingo operators may be less inclined to make low risk category D gaming machines available for use, resulting in customers having a less varied gambling offer to choose from;
- Any increase in levels of problem gambling in Britain that might result from this policy could disproportionately affect poorer families.

Government Response

Licensing Objectives

75. The Gambling Act 2005 is underpinned by three licensing objectives. These are:

- To prevent gambling from being a source of crime and disorder, being associated with crime or disorder or being used to support crime;
- To ensure that gambling is conducted in a fair and open way; and
- To protect children and other vulnerable persons from being harmed or exploited by gambling.

76. These public protection objectives are paramount and are central to the government's approach towards all aspects of gambling policy. The government believes that the preferred policy option outlined in this document do not prejudice these objectives.

Levels of Problem Gambling

77. Since the publication of the Consultation Stage Impact Assessment the Gambling Commission published the results of the Gambling Prevalence Survey 2010. This showed that:

- Gambling participation had increased significantly since the previous survey in 2007 – up from 48% to 56% (excluding the National Lottery).
- On one measure the 2010 Survey showed an increase in the rate of problem gambling in the adult population (0.9%, up from 0.6% using the DSM-IV screen). Although there is no statistically significant increase on the other measure used in the survey, the Gambling Commission advises that there has probably been a small increase, but it is not possible to tell whether this is a trend.

- The rate of problem gambling amongst gamblers has not changed significantly.
- Problem gamblers tend to gamble on several different activities and do so often (a finding first elucidated through secondary analysis of the 2007 Survey).
- There was a small but significant decrease in the popularity of gaming machines (excluding category B2 machines) from 14% in 2007 to 13% in 2010.

78. However, the Prevalence Survey cannot be used to indicate causality nor is it possible to conclude if certain activities lead to problem gambling. It remains extremely difficult to ascertain whether certain social groups or particular genders might be susceptible to problem gambling. Research is inconclusive. For example, research by the Gambling Commission suggested that individuals who were male, single, had a lower level of qualifications, lower incomes and whose parents had gambled were more likely to report gambling problems. However, more generally, any individual regardless of gender, marital status, education and family background was deemed to be at risk from problem gambling if they participate in gambling activities on a frequent basis (Gambling Commission October 2008, British gambling prevalence survey: secondary analysis – gambling participation and problem gambling http://www.gamblingcommission.gov.uk/research__consultations/research/bgps/bgps_2007/bgps_2007_related_research/bgps_2ndry_gam_part__prob_gam.aspx).

79. It also remains very difficult to establish any direct correlation between level of income and problem gambling. For example research by the Gambling Commission in March 2009 suggested that income was significantly associated with gambling prevalence and area deprivation was significantly associated with frequency and volume of gambling, with those living in the most deprived areas gambling more often than those in less deprived areas. However, this does not indicate any direct links with problem gambling nor does it conclude the types of gambling activity those people engage in (Gambling Commission, March 2009: The role of social factors in gambling: evidence from BGPS 2007 http://www.gamblingcommission.gov.uk/research__consultations/research/bgps/bgps_2007/bgps_2007_related_research/bgps_social_factors.aspx)

Regulation

80. Stake limits and premises' entitlements for category B3 gaming machine should not be viewed in isolation but rather as part of a wider framework of regulation introduced by the Gambling Act. Many of these measures are in place to mitigate potential harm that could arise from gambling.

81. AGCs will continue to be non-accessible to people under the age of 18, while stringent controls regarding entry by under-18s to areas in bingo clubs offering gaming machines are already in operation via the mandatory conditions attached to premises licences. Protections for consumers are secured through operating licences, which are issued by the Gambling Commission and are required by all those who manufacture, supply, install, maintain, adapt or repair gaming machines. This system is underpinned by the Commission's Licence Conditions and Code of Practice, which all operators in receipt of an operating licence from the Commission must adhere to (see http://www.gamblingcommission.gov.uk/publications_guidance__advic/lccp.aspx). Alongside this licensing authorities are responsible for licensing all gambling premises in their area as well as issuing a range of permits to authorise other gambling facilities. This system ensures that specific provisions in relation to, for example, underage gambling and problem gambling through rigorous requirements in respect of supervision, access, staff training and self-exclusion are in place. In addition all gaming machines made available for public use in Britain must conform to a comprehensive set of technical standards which govern fundamental elements of gaming machine play such as speed of play and the linking of games i.e. those features that could lead to repetitive and excessive play.

Consideration

82. The increase in problem gambling shown by the 2010 Survey is a cause for concern but Great Britain continues to have relatively low levels of problem gamblers compared to other jurisdictions. At the same time there has been a significant drop in the popularity of gaming machines. The government continues to believe that the rationale for intervention outlined in paragraphs 21 – 29 in the Consultation Stage IA still applies. The government continues to believe that the risks posed to the licensing objectives of the Gambling Act by these options are minimal as the regulatory framework currently in place is robust enough to mitigate them.

Further Research

- Research undertaken to date has been largely inconclusive about the potential links between the generic features of gaming machines, including those affected by these proposals, and levels of problem gambling in Britain. Research undertaken during 2008 and 2009 by the Gambling Commission considered possible links and made the following key points:
- The range of stakes and prizes on British gaming machines was relatively low by international comparison;
- The existing body of international research did not provide a sufficient basis on which to evaluate the likely impact of any changes to stake and prize limits;
- When looking at potential harm factors from machines, the size of stakes and prizes should not be looked at on their own, but in conjunction with a range of other factors, including gaming machine characteristics, the environment in which they're situated and the personal motivations of players.

83. The Commission recommended further research, including improving player education and information (pre-commitment) to help inform decisions about gambling, the impact of certain machine structural features and impact of the availability of cash machines on gambling premises. These recommendations are now being taken forward under the auspices of the Responsible Gambling Strategy Board (http://www.rgsb.org.uk/) and Responsible Gambling Fund (http://www.rgfund.org.uk/) .

84. The Gambling Commission's research can be accessed at http://www.gamblingcommission.gov.uk/research__consultations/research/research_programme/gaming_machines_research_progr.aspx

Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added where the Specific Impact Tests yield information relevant to an overall understanding of policy options.

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. If the policy is subject to a sunset clause, the review should be carried out sufficiently early that any renewal or amendment to legislation can be enacted before the expiry date. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

Basis of the review: [The basis of the review could be statutory (forming part of the legislation), i.e. a sunset clause or a duty to review , or there could be a political commitment to review (PIR)]; Implementation of any new policy will be monitored regularly by officials from the Department for Culture, Media and Sport and the Gambling Commission as part of their regulatory responsibilities.
Review objective: [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?] To undertake a proportionate check that any new regulations operate as expected and without undermining the public protection objectives outlined in the Gambling Act 2005.
Review approach and rationale: [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach] The implementation of any new policy is subjected to regular monitoring and review as part of the normal course of business of government. the process will be underpinned by advice from the Gambling Commission, licensing authorities as well as views from industry bodies and other interested parties.
Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured] Work will be undertaken during the third year of the transition period to establish baseline principles in line with the issues set out in this Impact Assessment.
Success criteria: [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives] Assessment against the policy objectives set out at paragraph XX.
Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection systematic collection of monitoring information for future policy review] Complaince against the regulatory framework set up by the Gambling Act 2005 is monitored by the Gambling Commission and licensing authorities.
Reasons for not planning a review: [If there is no plan to do a PIR please provide reasons here] N/A

Annex 2: Category B3 Gaming Machines: Summary of Consultation Responses

Type of respondent	Number of responses
Industry	54*
Private individuals	20
Trade associations	8
Local Authorities	6
Local government organisation	1
Faith groups	3
Total	**92**

*Responses based on a standard wording that expressed support for BACTA's formal response

The Consultation Document outlined six options being considered by the government:

- Do nothing i.e. maintain the current stake limit of £1 for category B3 gaming machines and current premises entitlements for AGCs and bingo clubs;
- Increase the maximum stake limit for category B3 gaming machines from £1 to £2;
- Permit a proportionate increase in the number of category B3 gaming machines in AGCs and bingo clubs to 20% of total number of machines in such premises;
- For AGCs and bingo clubs permit one category B3 gaming machine per 170 square feet (16 square metres) of licensed area floor space;
- An increase to the maximum stake for category B3 gaming machines combined with a proportionate increase in the number of B3 machines in AGCs and bingo clubs based on machine numbers (option ii combined with option iii);
- An increase to the maximum stake for category B3 gaming machines combined with a proportionate increase in the number of B3 machines in AGCs and bingo clubs based on licensed area floor space (option ii combined with option iv);

Summary of main points:

- The industry supported an increase in the maximum stake limit to £2 and a recalibration of B3 entitlements, with the majority of responses favouring Option 5;
- There was a general view from the industry that a proportionate increase based on floor-space would be complicated and impose an administrative burden on operators and regulators;
- This view was not shared by the Gambling Commission, who felt that in terms of regulatory policy a floor-space solution was a more attractive option than one based on machine numbers and could be implemented in a way to remove much of the complication;
- Clarity would be required as to exactly what types of machines would count towards any calculation of B3 entitlement;
- The AGC sector argued for a minimum entitlement of eight B3 machines per premises to run in tandem with the 20% option in order to benefit smaller AGC premises and remove the current disparity between AGC and bingo clubs;
- Local authorities argued that the government should consider whether an upper limit on B3 entitlements was required to prevent proliferation;
- The wider gambling industry, most notably the betting and casino sectors, argued that government should also commit to a further review of stake and prize limits and premises entitlements for category B1 and B2 machines and re-introduce triennial reviews of stake and prize limits for all categories of gaming machine.

QUESTION 1: Do you agree with the government's proposals for adjusting stake limits to £2 on category B3 gaming machines?

Agree	85
Disagree	5
Neither Agree / Nor Disagree	0
No Response	2

QUESTION 2: Will it provide sufficient benefits (consistent with the licensing objectives of the Gambling Act) to AGCs and bingo clubs, as well as machine manufacturers and suppliers, to outweigh any potential risks?

Agree	68
Disagree	4
Neither Agree / Nor Disagree	0
No Response	20

QUESTION 3: Are there any other options that should be considered?

- Government should review stake and prize limits and entitlements for all types of category B machines and establish an independent review mechanism based on the old triennial review;
- AGC's should be entitled to parity with betting offices in terms of B2s;
- The maximum prize limit for B3s should also be reviewed;
- The government should give more consideration to retaining the *status quo* as the default option.

QUESTION 4: Is it appropriate that existing premises should be allowed to retain their current entitlement to machines, even if they would not be permitted that number of machines under the revised arrangements?

Agree	66
Disagree	5
Neither Agree / Nor Disagree	3
No Response	18

QUESTION 5: Is the approach taken in Option 3, permitting 20% of the total number of machines in an AGC or bingo premises to be at category B3, feasible?

Agree	68
Disagree	4
Neither Agree / Nor Disagree	1
No Response	19

QUESTION 6: Do you have any comments on the approach proposed in Option 3?

- Technological progress and changing consumer tastes will mean an increasing reliance on small hand held machines across the amusement and bingo industries. In addition cabinet style machines are likely to diminish in size as cashless technology and server based video games replace cumbersome reels and coin mechanisms;
- AGCs should be allowed to operate at least the same minimum number of B3s as permitted in bingo premises, therefore a minimum entitlement of 8 B3s for all AGC and bingo premises should be introduced to underpin any proportionate increase;
- Concern that any proportionate increase could encourage operators to offer more machines overall in order to maximise their B3 entitlement, leading to the creation of 'gaming machine sheds';
- Gaming machines should be defined in regulations, including factors such as whether machines have to be in use and available for play in order to be taken into account when calculating a premises' machine entitlement.

QUESTION 7: Is the approach taken in Option 4, relating the number of machines to the floor space in the premises, feasible?

Agree	13
Disagree	61
Neither Agree / Nor Disagree	1
No Response	17

QUESTION 8: Do you have any comments on the approach proposed in Option 4?

- The option is unnecessarily complication for smaller businesses;
- Restrictions based on floor space would mean this option would have a serious commercial impact on smaller AGC businesses;
- This option offers less potential grey areas compared to the 20% option as it it requires no consideration of what does or doesn't constitute a machine, either now or in the future - gaming space is definitive as part of the premises licensing process and would be simple for regulators;
- It might be more appropriate for bingo clubs and AGCs to have different entitlements or methods of calculating entitlements.

QUESTION 9: If Option 4 was implemented, one machine should be permitted for how many square metres of floor space in an AGC or bingo club? Why have you proposed this figure?

- A single figure would not be appropriate to cover both AGC and bingo operations. A typical AGC is around 1,000 to 1500 ft^2 with 50 machines, while a typical bingo club is around 20,000 to 30,000 $ft^{2;}$
- AGCs are also more uniform, being generally situated in premises similar to shop units, while bingo clubs can vary in size from a few thousand ft^2 to about 65,000 ft^2.

QUESTION 10: Should the figure for bingo clubs and AGCs differ? If so, how and why?

Agree	8
Disagree	63
Neither Agree / Nor Disagree	1
No Response	20

QUESTION 11: Is the approach taken in Option 5, combining an increase in the maximum stake for B3 machines with permitting 20% of the total number of machines in an AGC or bingo premises to be at category B3, feasible?

Agree	22
Disagree	7
No Response	63

QUESTION 12: Is the approach taken in Option 6, combining an increase in the maximum stake for B3 machines with permitting a proportionate increase in the number of B3s in AGC or bingo premises based on licensed area floor space, feasible?

Agree	21
Disagree	7
Neither Agree / Nor Disagree	0
No Response	64

QUESTION 13: Which of the six options outlined in chapter 3 would your favour, and why?

Option 1	3
Option 2	3
Option 3	1
Option 4	0
Option 5	64
Option 6	1
Favours either option 5 or 6	3
Favours none of the options	3
No response	14

QUESTION 14: Are there any other potential options you feel that the government should consider, and why?

- Concern that the approach to the issues raised by the amusement and bingo industries had been misdirected and should be focused instead on restricting the danger of problem gambling by removing B2 machines from the high street;
- The government should undertake further research before considering any relaxation of the

regulatory framework.

Annex 3: Competition Assessment

Current Market

The majority of category B3 gaming machines in Britain are situated in adult gaming centres (AGCs) and bingo premises:

- **AGCs**: There are over 600 licensed AGC operators in Britain employing around 19,000 people as well as up to 1,700 casual (seasonal) workers (Gambling Commission Industry Statistics 2009/10). Premises vary in size from small family businesses to large multi-site operations. AGCs are located in towns and cities as well as in many seaside resorts where they are often a key part of a local tourist offer for example often situated on piers. They are permitted under the Gambling Act to offer a maximum of four category B3 machines
- **Bingo:** As at 31 March 2010 there were 756 licensed bingo premises operating in Great Britain, of which 496 were bingo clubs (as opposed to converted AGCs, holiday clubs or working men's clubs licensed to offer bingo). The bingo sector employs nearly 17,000 people (Gambling Commission Industry Statistics 2009/10). Bingo clubs are entitled to offer up to eight category B3 gaming machines to customers. Unlike AGCs these machines are usually offered to customers as an ancillary activity, with most machines played by customers during breaks between mainstage bingo games.

The key competition for AGCs and (to a lesser intent) bingo clubs are licensed betting offices (LBOs), which are exclusively permitted to offer up to four category B2 gaming machines, previously referred to as Fixed Odds Betting Terminals (FOBTs). As at 31 March 2010 there were 8,822 LBOs offering approximately 32,000 B2s (Gambling Commission Industry Statistics 2009/10)

The most important influence on this market in recent years was the implementation of the Gambling Act on 1 September 2007 which introduced a new set of regulatory controls over all aspects of the gambling industry in Britain. Two key factors relevant to this policy analysis are:

- Prior to the introduction of the Gambling Act, technological advancements saw the introduction of what were referred to as FOBTs into high street betting offices and the introduction of near identical machines into AGCs and bingo clubs (referred to as 'section 16' and 'section 21' machines by operators in reference to the Lotteries and Amusement Act 1976). These machines exploited loopholes in the legislation in order to offer payouts of up to £500 with a maximum £2 stake. They proved popular with AGC and bingo customers but were essentially unregulated in terms of machine numbers, location, access and stake and prize limits. The legality of these machines was far from clear. This issue was resolved through the Gambling Act, which removed these machines and replaced them with four category B3 machines per premises (increased to eight for bingo clubs only in 2009). Operators argue that the removal of the section 16/21 machines and the introduction of restrictions to machine numbers and stake and prize limits has prevented the industry from countering increasing costs and developing new products to maintain its customer base.
- At the same time there has been a rapid growth in the popularity of B2 machines. These are available to betting shops (four per premises) and have become a significant source of income for high street bookmakers, helping to compensate for a decline in traditional betting activity. Operators of AGCs and bingo clubs argue that the popularity of B2 machines has seen their best customers migrating to betting offices. As a result they are lobbying for a fairer playing field and parity with the betting offices.

There is no information available on the gaming machine manufacturing or supply sector at present.

Analysis

Does this policy:

Directly limit the number or range of suppliers? (E.g. will it award exclusive rights to a supplier or create closed procurement or licensing programmes?)
No

Indirectly limit the number or range of suppliers? (E.g. will it raise costs to smaller entrants relative to larger existing suppliers?)
No

Limit the ability of suppliers to compete? (E.g. will it reduce the channels suppliers can use or geographic area they can operate in?)
No

Reduce suppliers' incentives to compete vigorously? (E.g. will it encourage or enable the exchange of information on prices, costs, sales or outputs between supplier?)
No

Consideration

The government believes the situation facing the amusement and bingo industries in Britain is grave enough to justify considering whether a small increase in the maximum stake for category B3 gaming machines and a readjustment of machine entitlements for AGC and bingo premises might be appropriate, but without jeopardising the principal priority of the Gambling Act to protect the public. Without such intervention there is a risk that further AGCs and bingo clubs will close, impacting negatively on local economies through job losses and on wider communities through the loss of community amenities such as bingo clubs.

As many aspects of gaming machines are regulated through the statutory framework put in place by the Gambling Act central government therefore has some influence over the product mix, quantity of product available and product pricing of AGCs and bingo clubs. As a result these businesses, unlike those in other unregulated industries, have less scope to increase prices to customers in order to cover increases in costs (although it should be noted that there is a wide variation in profitability across the AGC and bingo industries which suggests that other factors such as how businesses are run, location and investment in new products also come into play here).

Therefore, the policy options discussed in this Impact Assessment are intended to explore the ways in which AGCs and bingo clubs might be allowed a greater degree of operational flexibility within the current regulatory framework in order to allow them a greater degree of freedom in making commercial decisions. In practice this should allow AGCs and bingo clubs to become more competitive with LBOs in order to stabilize their respective customer bases.

There is a risk that other sectors could be negatively affected by these proposals, particularly if AGCs and bingo clubs draw customers away from other types of gambling venue rather than maximize income from existing customers. The most likely to be affected are family entertainment centres (although it should be noted these are not permitted to offer category b machines) and LBOs.

The government has considered this risk and assessed its likelihood and impact as low. There are two reasons for this rating:

- Split premises: Since the implementation of the Gambling Act many AGC and bingo operators have opted to split what were hitherto one single premises into two or more premises, thereby increasing the number of machines authorised within the same floor space.
- Betting: LBOs are permitted to offer category B2 machines, which are hugely popular with customers. Under the Gambling Act these types of premises are also entitled to offer category B3 gaming machines if they so wished to.

Annex 4: Small Firms Impact Test

i) Does the proposal affect small business, their customers or competitors?

Yes: AGCs and bingo clubs vary in size from small family businesses to large multi-site operations. No information is available about the gaming machine manufacturing sector but small businesses will be affected by this policy.

ii) Would a more flexible approach, or possibly exemptions, be appropriate for firms with fewer than 20 employees?

Yes: A key risk of implementing option 5 is that some existing premises could see their B3 gaming machine allowance decrease from the current maximum of four in AGCs and eight in bingo clubs, depending on the size of the venue and the number of gaming machines the operators are able to install. Such premises could potentially become commercially unviable.

Therefore, the government proposes that option 5 is underpinned by allowing all existing premises to retain their current allowance of four category B3 gaming machines, even if the new arrangements would normally mean that their allowance would decrease.

The government is also considering whether it would be appropriate to include AGC and bingo micro-businesses and start-ups in the moratorium from new domestic regulation announced in March 2011. The potential impact is explained at paragraphs 21 – 23 in the evidence base.

iii) Is there potential to fully or partially exempt small business (those with fewer than 50 employees)?

No: Exemption would be counter-productive as these policy options are intended to benefit all businesses across the amusement and bingo industries. They aim to provide all businesses within these sectors with more operational flexibility in relation to the regulatory framework in order to allow operators a greater degree of freedom in making commercial decisions affecting the operation of their businesses.

iv) Does the impact fall more heavily on small businesses (those with up to 50 employees) than large businesses?

No: Measures will be put in place to ensure this policy benefits all of the amusement and bingo industries and any potential negative impacts on smaller businesses are mitigated (see ii) above).

Annex 5: Health and Well Being Assessment

Potential Health Impacts

Gambling has not been traditionally viewed as a public health matter, although there are significant social and health costs associated with problem gambling. For example, personal costs can include irritability, extreme moodiness, problems with personal relationships, absenteeism from work, family neglect and bankruptcy. It also brings with it the risk of other medical consequences, for example stress-related physical illness. Research by the Gambling Commission suggests that while health status was not associated with gambling, there was significant association between health and problem gamblers, with the problem gambling rate being over three times higher among those in poor health compared to those in good health. Research has also demonstrated that gambling, cigarette smoking and alcohol consumption are co-related behaviours, with cigarette and alcohol consumption often associated with problem gambling (Gambling Commission, March 2009: Gambling, alcohol consumption, cigarette smoking and health: findings from BGPS 2007).

However, the research is far from clear about whether direct correlations exist between gambling in its various forms and poor health. Similarly, research to date is unclear about what causal links might exist between different types of gambling and problem gambling. In the case of gaming machines there is no general agreement in the available research about how much gaming machines might cause gamblers to become problem gamblers.

Gambling Commission research does highlight evidence that suggests some associations between gaming machines and problem gambling in that machine players appear most likely to contact national telephone help lines. Evidence also suggests that while gaming machines appear to appeal to many gamblers, they seemed to be particularly attractive to those at risk of, or with a gambling problem. Compared to non-problem gamblers, problem gamblers tended to play on gaming machines more frequently, and spent more time and money on them (source: Gambling Commission, December 2008: Impact of high-stake high-prize gaming machines on problem gambling).

Within this context the government has considered the potential health impacts that might arise from the options discussed in this document:

- **Potential increases in levels of problem gambling in Britain:** A greater stake and a greater number of popular category B3 gaming machines could encourage vulnerable persons to gamble more frequently and more money. For example the options discussed above could see up to 3,000 additional category B3 gaming machines being made available to the public, presenting more opportunities for AGC and bingo customers to play for higher prizes.
- **Potential impacts on poverty:** Concerns have been raised that any increase in levels of problem gambling in Britain that could potentially arise as a result of the policy options discussed here could disproportionately affect poorer families.
- **Potential impacts on well being (exposure to stress):** The government believes that if it doesn't intervene in this area there is a risk that further AGCs, bingo clubs, manufacturing and supply businesses will close leading to further job losses. This would impact on individuals and wider communities, both in terms of the economic impact (for example the loss of employment opportunities in seaside towns) and community amenities such as bingo clubs which have a social function, particularly for older people.

Consideration

The level of problem gambling in Britain remains relatively low at 0.9% (Gambling Commission, 2010 British Gambling Prevalence Survey). Therefore, for the vast majority of people in Britain gambling is leisure activity which presents no threat to their well being. The level of problem gambling has remained unchanged since 1999 and is lower than USA, South Africa and Australia. Although the Survey cannot be used to indicate causality, it did show that problem gamblers typically participated in a range of gambling activities. It is not possible to conclude from the survey if certain activities led to problem gambling.

Therefore, the rationale for government intervention in this area and its considerations around potential social and economic impacts must balance public protection with the need to support these industries and the benefits they bring to communities.

Assessment

Problem Gambling

There is no general agreement in the available research about how much higher stake, higher prize gaming machines such as B3s might cause gamblers to become problem gamblers. While there is evidence to suggest that there are associations between gaming machines and problem gambling there is no evidence establishing any direct correlation. As discussed at paragraphs 106 to 108 in the Consultation Stage Impact Assessment the Gambling Commission has recommended further research into this area which is being taken forward by the responsible Gambling Strategy Board and the Responsible Gambling Fund.

The government recognises that an argument could be made that the work being undertaken by the responsible Gambling Strategy Board and the Responsible Gambling Fund should be finalised to inform any future regulatory changes in this area. However, it will take some time for this work to produce any results. In the meantime the government remains of the view that the situation facing the amusement and bingo industries in Britain is sufficiently grave to justify considering whether a small increase in the maximum stake for category B3 gaming machines and a recalibration of B3 entitlements for AGC and bingo premises might be appropriate in order to prevent further negative impacts on local economies and wider communities.

The government remains assured that the risks of these measures to those who might be vulnerable to problem gambling are minimal. A range of stringent regulatory measures are already in place to mitigate potential harm. These are discussed in more detail at paragraph 103 of the Consultation Stage Impact Assessment and are enforced through the Gambling Commission and licensing authorities. The government has also taken into account the Commission's view that the availability and popularity of machines with similar stake and prize levels under the old regulatory regime did not appear to have impacted on problem gambling levels. This is discussed at paragraph 104 of the previous Impact Assessment

Poverty

As discussed in paragraphs 100 to 101 in the Consultation Stage Impact Assessment the lack of conclusive research makes it extremely difficult to ascertain whether certain social groups or particular genders might be susceptible to problem gambling or indeed whether any direct correlation might exist between level of income and problem gambling. On this basis the government believes that risk to poorer families in Britain from any potential increase in levels of problem gambling is minimal.

Well being

The government's rationale for intervention in this area is to protect jobs and community amenities:

AGCs make an important contribution to many local economies, employing nearly 20,000 people as well over 3,000 casual (seasonal) workers (Gambling Commission Industry Statistics 2008/9). Many AGCs are situated in seaside towns and often play an important part in the visitor offer, being recognised as an established element of the traditional experience of the British seaside.

Research indicates that for many people going to bingo clubs is often the primary and sometimes only leisure pursuit they engage in outside of their home. While money is a key trigger to begin playing and remains an important motivation, the drive to play bingo regularly appears to be largely orientated around a need for social interaction and belonging, with a bingo club not only acting as a venue for a bingo game, but also enabling a unique social support network for members. In particular there is a strong belief that bingo aids wellbeing of the older generation, and it is perceived by members and experts alike that, for the older 60+ audience especially, there are few alternatives that aid mental agility to such a great extent (Henley Centre, August 2007: Unlucky for Some: The Social Impact of Bingo Club Closures).