

Summary: Intervention & Options

Department /Agency:

Department for Culture,
Media and Sport

Title:

Impact Assessment for The Draft Categories of Gaming
Machine (Amendment) Regulations 2009 and
The Draft Gambling Act 2005 (Limits on Prize Gaming)
Regulations 2009

Stage: Draft SI consultation

Version: 1

Date: 16 December 2008

Related Publications:

Available to view or download at:

<http://www>.

Contact for enquiries: Alistair Boon DCMS

Telephone: 020 7211 6486

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

There are an estimated 1,615 operators active in the UK's gaming machine industry (covering machine manufacturers, suppliers and operators), with an estimated 261,000 gaming machines in use (categories B – D). 26% of these machines are located within family entertainment centres (such as seaside arcades), while a further 32.5% are located in pubs and clubs.

It has become evident that many operators across the gambling industry are finding trading conditions very difficult in the present economic climate - in particular amusement arcades, where closures primarily affect seaside towns and there have already been significant job losses:

- Arcade revenue is down 21%, with 136 reported closures since July 2007, resulting in 853 jobs lost;
- Manufacturing output of gaming machines down 55% since 2005;
- More than 280 jobs lost in manufacturing since June 2007.

Section 236(4) of the Gambling Act 2005 provides that regulations made by the Secretary of State for Culture, Media and Sport to define the different categories of gaming machine can include monetary limits on stakes and prizes applying to the different types of machine. The Categories of Gaming Machine Regulations 2007 (SI 2007/2158) were the first use of these powers, and set stake and prize limits on gaming machines which are currently in force.

What are the policy objectives and the intended effects?

In order to give the industry certainty and to enable it to plan properly, Gerry Sutcliffe MP, the Minister with responsibility for gambling, announced on 25 June 2008 that principally in order to provide economic assistance to family entertainment centres (such as seaside arcades) and to pubs and clubs, DCMS would bring forward a review of Gaming Machine Stakes and Prizes planned for 2009 to 2008, in respect of low-stake, low-prize Category C and D machines only. To coincide with his announcement the Minister and Department wrote to a range of stakeholders inviting them to suggest what stake and prize levels should apply to Category C and D gaming machines until 2012 (the date of the next review). Based on the responses that were received Ministers accepted that a modest increase in stake and/or prize levels was appropriate to assist the gambling industry during this period of difficult trading conditions, whilst posing minimal risks to the licensing objectives in terms of protecting children and vulnerable adults from harm caused by gambling.

What policy options have been considered? Please justify any preferred option.

Government's initial favoured approach was to increase the maximum stake for Category C machines from 50p to 60p, and the maximum prize from £35 to £60. The industry provided strong evidence as to why this would not work:

- It would be very difficult for manufacturers to design workable machines;
- It would entail players putting at least two coins in the slot, or being unable to retrieve the 40p residue from a pound – neither option would be attractive;
- BACTA market research indicated that, for these reasons, there would not be a sufficient number of players to warrant a large number of machines to be ordered from manufacturers. They would therefore benefit neither manufacturers nor operators to the extent that government hoped.

In response to the evidence, Government has decided that a more appropriate way forward to assist the seaside arcade and pub sectors would be to increase proposed revised limits and agree to a £1 stake, £70 prize limit for category C machines. This would bring a number of benefits:

- It would keep the present stake to prize ratio (being simply double the present limits of 50p and £35);
- The £1 stake would be a maximum only: most players are expected to bet considerably less, depending on the number of "lines" which they bet on (on average 67p is bet on B3 machines, which have a maximum £1 stake);
- The Gambling Commission have advised that a £1 stake would not pose any significant threat to licensing objectives or increase problem gambling, provided appropriate controls are put in place.

For category D machines, government's proposals remain unchanged from those outlined in the first consultation:

- No change to money prize machines;
- Increase the maximum stake and the maximum prize value for non-money prize machines to 50p and £30 respectively (would apply to 'crane grabs' only);
- Maximum stake of mixed cash prize/non-cash prize machines to remain unchanged, but the prize value for 'penny falls' or 'coin pushers' to increase to £15 (of which a maximum of £8 could be cash)

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

One year after implementation.

Ministerial Sign-off For SELECT STAGE Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:

..... Date:

Summary: Analysis & Evidence

Policy Option: Consult on draft SIs

Description: Draft SIs to increase stake and prize limits for category C and D gaming machines, such as those found in family entertainment centres, pubs and clubs

COSTS	ANNUAL COSTS		<p>Description and scale of key monetised costs by 'main affected groups':</p> <p>Data is not available at present to calculate transition costs to the industry. However, the government's proposals are for maximum stake and prize only. The Orders will not impose any increased costs on the industry, as family entertainment centres, pubs and clubs would not be obliged to alter existing machines to conform to new stake and prize levels.</p> <p>In terms of reinvigorating the market, data from the gambling industry suggests that in the first year of implementation some 20% of machines are likely to be replaced with new stake and prize machines. Any increased costs associated with developing or acquiring new machines – initial outlay, Amusement Machine Licence Duty, running costs and VAT – would be more than offset over time by increased revenue.</p>
	One-off (Transition)	Yrs	
	£ Not yet known		
	Average Annual Cost (excluding one-off)		
	£ Not yet known	Total Cost (PV)	£ Not yet known

Other **key non-monetised costs** by 'main affected groups' None.

BENEFITS	ANNUAL BENEFITS		<p>Description and scale of key monetised benefits by 'main affected groups'</p> <p>Only partial data is available to government at present:</p> <p>Research carried out by the gambling industry shows that a revised stake and prize limit of 60p/£60 would increase industry revenue by £3.2%, while a revised limit of £1/£70 would increase revenue by 20%.</p> <p>In terms of manufacturing it is estimated that a revised limit of £1/£70 would result in the following volume output for UK manufacturers: 2009 – 45,000 units; 2010 - 40,000 units; 2011 – 30,000 units.</p> <p>An increase of 20% in industry revenue would result in an additional £27m raised in VAT.</p>
	One-off	Yrs	
	£ Not yet known		
	Average Annual Benefit (excluding one-off)		
	£ Not yet known	Total Benefit (PV)	£ Not yet known

Other **key non-monetised benefits** by 'main affected groups'
Primarily, protection of jobs within seaside arcades and manufacturing.

Key Assumptions/Sensitivities/Risks

Some groups with concerns about problem gambling may argue that the proposed increase could increase the risk of problem gambling. We take this risk seriously, but believe that it will be mitigated by very stringent regulations and Gambling Commission technical standards and codes of practice governing the use of machines, all of which have been developed to protect the consumer. We will continue to monitor the position through the Gambling Commission's three-yearly prevalence study.

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £
What is the geographic coverage of the policy/option?			Great Britain
On what date will the policy be implemented?			1st quarter 2009/10
Which organisation(s) will enforce the policy?			Arcades, pubs and clubs

What is the total annual cost of enforcement for these organisations?		£		
Does enforcement comply with Hampton principles?		Yes		
Will implementation go beyond minimum EU requirements?		Yes		
What is the value of the proposed offsetting measure per year?		£ n/a		
What is the value of changes in greenhouse gas emissions?		£ n/a		
Will the proposal have a significant impact on competition?		No		
Annual cost (£-£) per organisation (excluding one-off)	Micro none	Small none	Medium none	Large none
Are any of these organisations exempt?	No	No	No	No
Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)		
Increase of £	Decrease of £	Net Impact	£ Zero	

Key:

Annual costs and benefits: Constant Prices

(Net) Present Value

Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

On 25 June 2008 Gerry Sutcliffe MP, the Minister with responsibility for gambling, announced that principally in order to provide economic assistance to family entertainment centres (such as seaside arcades) and to pubs and clubs, the Department would bring forward a review of Gaming Machine Stakes and Prizes planned for 2009 to this year, in respect of low-stake, low-prize Category C and D machines only. A review of Category B machines will follow in 2009, and all categories will be reviewed again in 2012.

The Minister and officials wrote on 25 June to a range of trade bodies and organisations with an interest in problem gambling to invite them to submit their suggestions for appropriate revised stake and prize limits. Following the end of this initial phase of consultation, and on the basis of suggestions received, the Department formed a view on what revised stake and prize limits would be appropriate and proportionate. These formed the basis of a Consultation Document which was issued in late August 2008. This consultation was entitled "The Gambling Act 2005 (Variation of Monetary Limits for Gaming Machines) Order 2008".

The consultation document suggested a range of options for what stake and prize limits should apply until 2012. For Category C machines, these were:

- 50p/£35 (no change)
- 50p/£50
- 60p/£60
- £1/£70
- £1/100

The consultation document also presented arguments in favour of the Government's favoured options, which were:

Category C machines

- Increase the stake limit to 60p and the prize limit to £60

Category D machines

- No change to money prize machines;
- Increase the maximum stake and the maximum prize value for non-money prize machines to 50p and £30 respectively (would apply to 'crane grabs' only);
- Maximum stake of mixed cash prize/non-cash prize machines to remain unchanged, but the prize value for 'penny falls' or 'coin pushers' to increase to £15 (of which a maximum of £8 could be cash)

The consultation closed on 31 October 2008. The majority of respondents welcomed the government's decision to bring forward the review in order to provide economic assistance to certain areas of the. However, a large majority of the consultation responses did not support the Government's proposals. In particular, trade bodies made persuasive representations supported by market research (commissioned by BACTA and undertaken by Brand Driver) in their responses and in subsequent meetings, in favour of the higher limits referred to in the August 2008 consultation.

Category C

Operators and trade bodies were highly critical of the proposed 60p/£60 limit, arguing that it would not provide adequate tangible benefits to family entertainment centres, pubs or clubs. The principle reason for this is that machines with these limits would not be attractive to players:

- It would entail them putting at least two coins in the slot, or being unable to retrieve the 40p residue from a pound – neither option would be attractive;

- Moving away from the present stake to prize ratio (1:70) would also deter players.

They also felt that these levels would not generate adequate new business for machine manufacturers and suppliers. As well as being unattractive to players, the limits would be too low to provide an incentive for manufacturers to develop new machines and for operators to replace legacy machines.

The clear majority of responses argued instead for a minimum stake of £1 and a maximum prize of £70 in order to re-invigorate the market. Many picked up on the point made by the Gambling Commission and included in the consultation document that a £1 stake would not pose any significant threat to licensing objectives or increase problem gambling provided appropriate controls were put in place.

Category D

Around half of those who responded felt that the Government's proposals for adjustments to stake and prize limits on Category D machines would provide the appropriate level of increase, consistent with the licensing objectives. However, there were some important dissenters, including the principal trade bodies for family entertainment centres. Whilst agreeing to the Government's proposals in relation to cash Category D machines (fruit machines) and mixed machines (penny falls/coin pushers), and accepting that increases should apply only to crane grabs among non-cash machines and to penny falls among mixed machines, these bodies argued for a £1 stake and £50 prize value for crane grabs. Bingo clubs also disagreed with the proposals, arguing that they did not give operators the scope to develop new products.

Prize gaming

Organisations representing the bingo industry commented on the Government's proposals for prize gaming. They did not support the linking of prize gaming limits to those applying to Category C machines. They argued instead that a greater increase would be a harmless way of assisting bingo halls and other areas of the industry by giving operators the scope to develop new products and become more competitive.

The Government's new proposals

The Department has revised its view of what would constitute appropriate levels of increase for Category C and D gaming machines. These are set out below.

Category C

On the basis of the representations made by trade associations the Department now accepts that in relation to Category C machines a £1 stake limit and £70 prize limit would bring a number of benefits and is the best way forward:

- BACTA market research suggests that increases on this scale would make machines much more attractive to players than the 60p/£60 option (for instance by retaining the present stake to prize ratio, the proposed limits being simply double the present limits);
- This would therefore have a more beneficial impact across operators and manufacturers;
- A 60p game might be unfair to players. With players predominately use a £1 coin and low denomination notes to play, a 60p game would leave a residual amount, requiring multiples of £3 to be inserted before the residual is used up. This could encourage players to spend more than they wished. A £1 stake would be one way of preventing this problem.
- By not alienating players interested in multi-stake and multi-prize machines, the measure would not tempt operators of soft gambling environments to split existing premises in order to gain an increasingly high proportion of Category B machines;
- The availability of higher prize machines is more likely to encourage operators to replace legacy machines with new ones, invigorating the manufacturing market and providing a range of appealing games as an alternative to Category B machines.
- The £1 stake would be a maximum only: the increasing development of multi-stake, multi-line machines means that customers are likely to stake significantly less on each spin (for Category B3 machines, with a maximum £1 stake, the average staked in 67p); The Gambling Commission as the Government's statutory adviser on gambling issues has advised that £1/£70 would not give rise to concerns in terms of the Gambling Act objectives, i.e. it does not pose a significant risk of creating increased problem gambling or criminal behaviours;

- The Commission is presently consulting on amendments to its technical standards which, by limiting the speed of play and the potential rate of loss through repeat features, will minimise machines' potential addictiveness.

Category D

In relation to Category D machines, the Government accepts that for crane grabs only, stake and prize value limits higher than the 50p and £30 levels initially proposed would enable operators to offer more attractive prize items (such as Playstation and X Box games, mobile phones and iPod Shuffles). Tastes have grown more sophisticated over the last decade and allowing seaside arcades to offer prizes such as this would go a long way to addressing the difficult economic position in which they presently find themselves. The Department now feels that limits of £1 and £50 are appropriate.

Raising the limit to £1 would not be a price increase in the conventional sense. Operators would continue to offer a range of stakes and prizes, 10p stake/ £1 prize upwards, with the average likely to be a 33p stake or less. The Department accepts that this would give operators the opportunity to offer the degree of choice that customers expect.

The Government did not, during the August-November consultation period receive any further representations specifically relating to penny fall machines that would warrant it to change its view on these as described in the previous consultation. It therefore maintains its proposal that whilst the maximum stake for these machines remain at 10 pence, the maximum prize should be increased from £8 (of which no more than £5 can be a money prize) to £15 (of which £8 can be a money prize).

Prize gaming

The Department has heeded the views of certain trade bodies, but does not feel a sufficient case has been made for the Government to reconsider the position it took on this issue in the August 2008 consultation. Therefore, the Department proposes to equalise stake and prize limits in both Adult Gaming Centres, Family Entertainment Centres and other venues permitted to offer prize gaming with those for Category C machines, i.e. the maximum participation fee would be £1, and the maximum cash prize would be £70 in both types of arcade.

Results of the specific impact tests are set out below.

Competition assessment

In line with OFT guidance we have considered whether the new proposal would directly or indirectly limit the number or range of suppliers, and we have concluded that it would not. Indeed, the measure is intended to help ensure that arcades, pubs and clubs remain open so that existing levels of competition are at least maintained. The proposal is also designed to help halt decline in machine manufacture and increase suppliers' incentives to compete vigorously.

Small Firms

The measure would therefore have no adverse impact on small firms.

Legal Aid

No impact.

Sustainable Development

No impact.

Carbon Assessment

There is little available data about the carbon footprint of an individual gaming machine, and the Department would welcome any such data that the industry is able to provide. It is likely that many arcades, pubs and clubs will choose to substitute new machines reconfigured for the increased stakes and prizes. It is unlikely that this relatively modest increase in the number of machines will have a significant impact on carbon emissions.

Other Environment

No impact.

Health Impact Assessment

We have considered the health and well-being screening assessments in line with current DoH guidance and have concluded that a full health impact assessment will not be required. The proposed measure is unlikely to have a significant health impact, either on the whole population, a major sub group of the population, or in terms of severity of impact.

That said, one of the principal objectives of the Gambling Act 2005 is the prevention of harm from problem gambling and, as with all forms of gambling, the government takes the risks associated with gaming machines very seriously. Problem gambling exists and has links to wider health determinants, and there is some evidence to show that high-stake, high-prize gaming machines such as category B3s are attractive to problem gamblers. However, there are a number of factors which make it less likely that the current proposal would have a significant adverse impact:

- These machines are already available in arcades, pubs and clubs, and higher stake, higher prize machines are available in other gambling premises e.g. casinos and betting shops;
- A range of measures are in place, through regulations and Gambling Commission technical standards, licence conditions and codes of practice, to protect vulnerable customers;
- We will monitor the impact of the new machines carefully through the triennial Gambling Prevalence Study and wider research into problem gambling.

Race Equality

No impact.

Disability Equality

No impact.

Gender Equality

No impact.

Human Rights

The provisions of the Order are compatible with the European Convention on Human Rights.

Rural Proofing

Pubs and clubs in rural areas would be able to benefit from the measure in the same way as their urban counterparts.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	✓	
Small Firms Impact Test	✓	
Legal Aid	✓	
Sustainable Development	✓	
Carbon Assessment	✓	
Other Environment	✓	
Health Impact Assessment	✓	
Race Equality	✓	
Disability Equality	✓	
Gender Equality	✓	
Human Rights	✓	
Rural Proofing	✓	

ALL RESULTS IN EVIDENCE BASE SECTION. (No annexes)