

Title: Gambling Act 2005: Triennial Review of Stake and Prize Limits IA No: DCMS0054 Lead department or agency: Department for Culture, Media and Sport Other departments or agencies: N/A	<h2 style="margin: 0;">Impact Assessment (IA)</h2> Date: 18/09/2013 <hr/> Stage: Final <hr/> Source of intervention: Domestic <hr/> Type of measure: Secondary legislation <hr/> Contact for enquiries: richard.orpin@culture.gsi.gov.uk 020 7211 6371
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Summary: Intervention and Options

RPC Opinion: GREEN

Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Two-Out? Measure qualifies as
£99m	£99m	£-34m	Yes Out

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

The Government is committed to creating the conditions for growth by stimulating investment and ensuring the regulatory burden on business is the minimum needed to ensure adequate public protection. In response to concerns from the British gambling industry that some of its sectors are continuing to struggle in the current economic climate, the Government is acting to establish a more coherent and systematic approach to reviewing the regulatory controls on the maximum stake and prize limits permitted for gaming machines covered by the Gambling Act 2005. The vehicle for this change is the reintroduction of a triennial review.

What are the policy objectives and the intended effects?

Implement an approach to stake and prize regulation that will:

1. Consider the relativities between different categories of gaming machine to ensure balanced competition across the gambling industry.
2. Help to create the conditions to encourage the growth and development of the gaming machine market in order to support economic recovery and create jobs.
3. To do so only to an extent consistent with player protection and minimisation of gambling related harm.

What policy options have been considered, including any alternatives to regulation?

The Government consulted on four packages of options:

- Package 1 – Do nothing and retain current stake and prize limits. This option is rejected because it does not create the conditions for growth.
- Package 2 – Uplift of stake and prize limits to take account of inflation since 2007. This option is rejected because overall it does not create sufficient conditions for growth.
- Package 3 – Industry proposals for stake and prize limit obtained in a pre-consultation process. This option is rejected because it does not meet the objective of balanced competition within the market or offer sufficient assurances on public protection.
- Package 4 (Final Government Proposal) – The preferred option for each category of gaming machine. This option has been developed further in light of responses to the consultation and in order to meet the objective of achieving balanced competition while minimising gambling related harm.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** 01/2016

Does implementation go beyond minimum EU requirements?	N/A				
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro Yes	< 20 Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)	Traded: N/A			Non-traded: d:	

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: 18/09/2013

Summary: Analysis & Evidence

Final Government Proposal

FULL ECONOMIC ASSESSMENT

Price Base Year 2009	PV Base Year 2013	Time Period Years 3	Net Benefit (Present Value (PV)) (£m)		
			Low: 49	High: 166	Best Estimate: 99

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	39	3	0	38
High	48		0	46
Best Estimate	44		0	42

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

There are direct costs associated with the policy option. Given it is likely that the gambling industry will take advantage of more liberal market conditions, investment will be needed to realise potential demand. This is recognised as a direct cost that accrues to retail businesses. This estimate is based on industry and Gambling Commission data and is equal to £42m in present value terms over the appraisal period, which is an equivalent annual net cost of £15m.

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

The social impacts of potential increased gambling have been considered qualitatively, but have not been quantified or monetised. Increased consumption could potentially lead to increased levels of problem gambling, but an independent opinion from the Responsible Gambling Strategy Board states there is no clear consensus on causal pathways or magnitude of potential impact. It is therefore currently not methodologically possible to quantify or monetise this impact in a robust or meaningful way. Further work is to be undertaken by the Gambling Commission, and the Responsible Gambling Strategy Board in the years ahead.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	3	30	87
High	0		74	213
Best Estimate	0		49	141

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

There are direct benefits associated with the policy option; the proposed legislation is permissive rather than compulsory. Given it is likely that the gambling industry will take advantage of more liberal market conditions, revenue increases for retailers are expected. This estimate is based on industry and Gambling Commission data and is equal to £139m in present value terms over the appraisal period, which is an equivalent annual net benefit to business of £48m.

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

Increased investment in gaming machines by retailers (as described in the costs section) will be a revenue benefit to games manufactures. The size of this revenue benefit will be equal to costs incurred (amounting to £42m in present value terms in the best estimate), but it has not been included in the benefits summary because associated costs of production could not be quantified. These supply chain benefits are classed as indirect because they occur only as a second round result of the change in industry revenue potential.

Key assumptions/sensitivities/risks

Discount rate (%)

3.50%

There are a number of weaknesses in the data that is available to construct the analysis; the most important issues are highlighted here with more detail provided in the evidence base. The mechanism for realising benefits is not clear and there is weak assurance around industry information. Industry statistics used in the calculations have limitations. Although the risk of increased problem gambling has been qualitatively assessed and considered throughout policy development, quantitative measuring of problem gambling presents serious analytical difficulties. However the current review provides an opportunity to measure the impact of changes going forward to inform future triennial reviews.

BUSINESS ASSESSMENT

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: £15m	Benefits: £49m	Net: £-34m	Yes	Out

Evidence Base

Introduction

1. According to the British Gambling Prevalence Survey 2010 published by the Gambling Commission (2010) 73% (35.5 million) of the adult population in Great Britain participate in some sort of gambling activity. The gambling industry is a significant contributor to the UK economy: the Gambling Commission estimates that for the fiscal year 2011/2012 it had a market size of £5.2bn in GGY (Gross Gambling Yield) terms and directly employs over 109,000 people (Gambling Commission Industry Statistics 2009 to 2012).
2. The industry is broken down into different sectors, each offering a different mix of gambling products across a range of premises. These sectors can be broken down into the following categories:
 - Betting (including on-course e.g. racing tracks and off-course e.g. betting shops);
 - Bingo;
 - Casinos;
 - Arcades;
 - Gaming machine manufacture and supply;
 - Lotteries (but excluding the National Lottery);
 - Remote gambling.
3. Gambling is also permitted in premises holding an on-premises alcohol licence (most commonly pubs) and members clubs (e.g. working men's clubs, political clubs, and commercial clubs).
4. All commercial gambling in Great Britain (with the exception of spread betting and the National Lottery) is regulated through the Gambling Act 2005 (the Gambling Act), including gaming machines and all types of venues licensed to offer gaming machines. Under the Act these machines are defined by categories depending on the maximum stake and prize available:

Table 1: Machine categories and existing stake and prize limits

Machine category	Maximum stake	Maximum prize
A	Unlimited	Unlimited
B1	£2	£4,000
B2	£100	£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)

Gaming Machine Market in Great Britain

5. The main source of data on the British gaming machine market comes from the Gambling Commission's Industry Statistics. As shown in Table 2, there has been a significant decrease in the average number of machines operating across all sectors from 2009/2010 to 2011/2012, from

158,322 to 140,516. This decrease appears to have been most noticeable for the categories B4 and C which have seen decreases of 37% and 27% respectively.

Table 2: Gaming machine numbers across all gambling sectors

Machine category	Average number of machines		
	Apr 2009 - Mar 2010	Apr 2010 - Mar 2011	Apr 2011 - Mar 2012
B1	2,499	2,540	2,656
B2	33,222	32,922	33,345
B3	14,990	14,844	13,482
B4	522	453	286
C	56,793	52,253	38,371
D	50,296	52,724	52,376
Grand total	158,322	155,736	140,516

Source: Gambling Commission Industry Statistics 2009 – 2012

6. The Gambling Commission does not license pubs, clubs, working men's clubs or family entertainment centres operating under a local authority permit, so they do not collect data for those businesses. The table above does not, therefore, represent activity in those sectors. There's no accurate data held by these sectors covering the number of machines available for use, but some estimates are available from the British Amusement Catering Trade Association (BACTA) and the British Beer and Pub Association (BBPA):

Table 3: Estimate of number of machines in venues not licenced by the Gambling Commission

Premises	Estimated number of machines
Pubs	55,000
Unlicensed FECs	41,000
Clubs	27,000
Travelling fairs	2,000
Total	125,000

7. The split of machines by category within these premises is estimated at: 64,000 category C, 43,000 category D, 3,000 category B3A and 15,000 category B4.
8. Gaming machines are an important source of revenue for the betting, bingo, casino, arcade, pub and club sectors. Revenue across the industry is measured as gross gaming yield (GGY); that is the amount retained by operators after the payment of winnings but before the deduction of the costs of the operation. The Gambling Commission's industry statistics give GGY for gambling industry sectors, but equivalent data is not available for pubs and clubs.

Table 4: Gross Gambling Yield (British Industry Total)

Sector	2009/10 £m		2010/11 £m		2011/12 £m	
	GGY (total)	GGY (gaming machines)	GGY (total)	GGY (gaming machines)	GGY (total)	GGY (gaming machines)
Arcades	456.68	456.68 (100%)	392.07	392.07 (100%)	351.86	351.86 (100%)
Betting	2,817.84	1,185.85 (42%)	2,953.87	1,305.32 (44%)	3,002.02	1,447.31 (48%)
Bingo	629.35	209.40 (33%)	625.51	224.12 (36%)	634.79	230.37 (36%)
Casinos	753.11	117.57 (16%)	796.48	118.83 (15%)	868.18	128.99 (15%)

Analysis of the Gaming Machine Market

9. The gambling industry argues that since the implementation of the Gambling Act in 2007, gambling venues across its different sectors have suffered from economic decline which it believes is the result of a combination of factors: the ban on smoking in public places introduced in 2007; the general economic downturn and the increased regulatory costs of the Gambling Act. It also argues that this decline has contributed to the economic decline being experienced by the gaming machine manufacture and supply sectors.
10. Data from the Gambling Commission's industry statistics (compiled from regulatory returns submitted by operators to the Commission) suggests a more nuanced picture with some areas of the industry performing better than others. At the same time it also suggests some areas are facing serious economic challenges (note: all figures below are source from the Gambling Commission's Industry Statistics 2009 – 2012 unless stated otherwise):

Arcades

11. The available data suggests a market that has been in decline for a number of years:

Table 5: Adult Gaming Centre market performance

	Apr 2009 - Mar 2010	Apr 2010 - Mar 2011	Apr 2011 - Mar 2012
Average number of employees	14,860	15,860	8,768 ¹
Gross Gambling Yield Total	£379.27m	£315.30m	£275.48m
Average number of gaming machines and terminals (total)	70,438	63,754	42,666

Table 6: Family Entertainment Centre market performance

	Apr 2009 - Mar 2010	Apr 2010 - Mar 2011	Apr 2011 - Mar 2012
Average number of employees	3,430	2,909	2,395
Gross Gambling Yield Total	£77.41m	£76.77m	£76.38m
Average number of gaming machines and terminals (total)	32,073	30,827	28,566

12. Data provided by BACTA (the main trade body representing operators, manufacturers and suppliers in the arcade sector) supports this. According to their figures:
- The arcade sector as a whole has seen an average 21% reduction in revenues since 2007;
 - More than 290 arcades have closed since 2009/10 with a loss of more than 900 jobs.

Betting

13. Available data suggests this sector has recently experienced some small percentage growth:

Table 7: Betting market performance

	Apr 2009 - Mar 2010	Apr 2010 - Mar 2011	Apr 2011 - Mar 2012
Average number of employees	57,319	54,129	54,449
Gross Gambling Yield Total (gaming machines only)	£2,817.84m (£1,185.85m)	£2,953.87m (£1,305.32m)	£3,002.02m (£1,447.31m)
Average number of gaming machines and terminals (total)	35,186	34,671	35,852

14. The main trade body in this sector, the Association of British Bookmakers (ABB) acknowledge the importance of gaming machines to the economic viability of betting shops. According to them, the percentage contribution of machine income to average betting shop profits was 39.9% in 2008 and rose to 49.4% in 2011.

¹ The decrease in arcades employee numbers is in part due to the clarification given to motorway service area operators on the classification of staff directly associated with gambling activities. For previous years, some motorway service area operators had reported all staff on site as AGC employees even if they had no contact with the AGC.

15. This increase appears to have compensated for a decline in revenues elsewhere. Gambling Commission figures show that the turnover from off-course betting fell by 4% from 2009/10 to 2010/11 and by 10% since 2008/09, while GGY increased by 1% from 2009/10 to 2010/11 but has fallen by 11% overall since 2008/09.

Bingo

16. Available data suggests this sector has faced some difficult trading conditions in recent years which have sent it into decline:

Table 8: Bingo market performance

	Apr 2009 - Mar 2010	Apr 2010 - Mar 2011	Apr 2011 - Mar 2012
Average number of employees	17,242	17,741	15,328
Gross Gambling Yield total (gaming machines only)	£629.35m (£209.40m)	£625.51m (£224.12m)	£634.79m (£230.37m)
Average number of gaming machines and terminals (total)	18,086	23,908	30,707

17. This general pattern is confirmed by the Bingo Association. They point out that although the number of bingo premises licences has increased from 657 in 2006 to 695 in 2011, the number of actual functioning bingo club premises has declined to 464 in that period. Data from them shows that:
- Since 2005 137 bingo clubs closed;
 - Between 2005 and 2010 net revenues declined by 27% and total industry profits dropped by 51% over the same period;
 - Machine revenue dropped by 19% from 2005 to 2010;
 - Between 2005 and 2010 there was a loss of over 4,000 jobs.

Casinos

18. On the face of it the casino sector appears to have remained relatively stable since 2008/09:

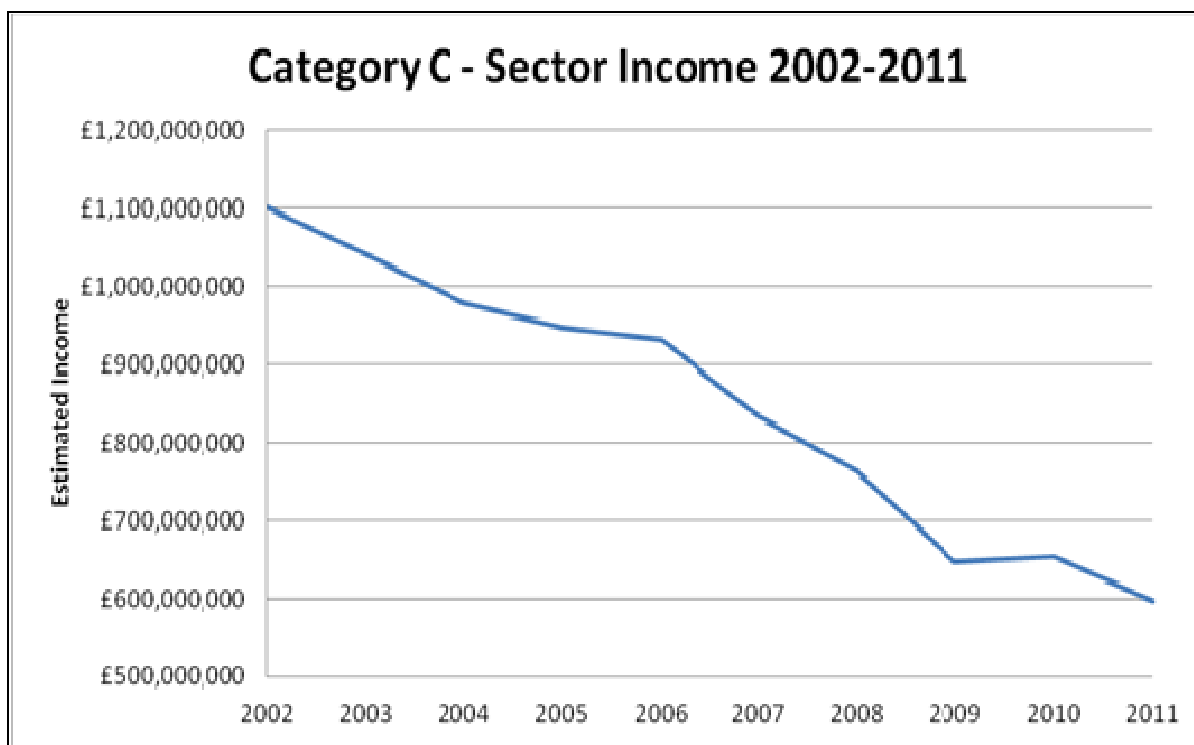
Table 9: Casino market performance

	Apr 2009 - Mar 2010	Apr 2010 - Mar 2011	Apr 2011 - Mar 2012
Average number of employees	13,295	13,389	14,173
Gross Gambling Yield total (gaming machines only)	£753.11m (£117.57m)	£796.48m (£118.83m)	£868.18m (£128.99m)
Average number of gaming machines and terminals (total)	2,541	2,575	2,723

19. This stability however has not translated into growth. The National Casino Industry Forum (NCIF), the largest trade body in the sector argue that the regulatory changes introduced through the Gambling Act have limited the capacity of casinos to innovate their product and absorb cost increases. They argue that the need to control costs in the face of the current economic climate and restrictions placed on their industry by the Gambling Act has seen capital investment decline sharply from 2007, with capital expenditure at the end of 2009 standing at less than half the level it was in 2004. In addition, the number of people employed by the industry has fallen by 10% over the same period.

Pubs

20. According to data supplied by the BBPA, income from gaming machines across the sector has declined dramatically since 2002:



Source: BBPA

21. This decline to some extent reflects the steady decline in pub numbers over the same period:

Table 10: change in number of public houses

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total number of pubs in the UK	60,100	59,400	59,000	58,600	58,200	56,791	54,818	53,466	52,000
Number lost per week	12	13	8	8	8	27	38	26	28

Source: BBPA

Members Clubs and Commercial Clubs

22. Prior to the consultation no data was available on this sector. The Government sought to resolve this through the public consultation, but no new economic evidence was received. However, the Government did acquire evidence of the social responsibility provisions enforced by members' clubs in relation to gaming machines, which it has considered as part of the review.

Manufacturing and supply

23. The challenges faced by individual sectors have had a marked effect on gaming machine manufacturing and supply businesses. According to the Gambling Commission the total number of machines in the regulated industry has reduced by 10% between 2009/10 to 2010/11: the AGC sector counts for a significant proportion of this, with the number of machines falling by 17% in that period. Machine numbers in FECs and bingo premises have declined over same period while in the casino sector numbers have remained flat. In tables 11 and 12 below, changes to the number of employees in gaming machine and software manufacturers are presented using regulatory returns gathered by the Gambling Commission for the most recent years for which data is available.

Table 11: Gaming machine and software manufacturer employees

	Apr 2008 - Mar 2009	Apr 2009 - Mar 2010	Apr 2010 - Mar 2011
Average number of employees	1,662	2,005	1,800

Table 12: Gaming machine supplier employees

	Apr 2008 - Mar 2009	Apr 2009 - Mar 2010	Apr 2010 - Mar 2011
Average number of employees	8,205	6,673	6,159

Rationale for Intervention

Context

24. Analysis suggests that the likely trend across the gambling industry is for capital expenditure on gaming machine to mirror overall sector performance which will in turn influence the annual sales value for any given category of machine. Based on current figures, it appears that if this trend continues the sales value for all categories of gaming machine, other than B1 and B2, is likely to continue on a negative path, which will in turn reduce investment by the manufacturers in product and the cycle will continue:
- Category B1: The injection of new machines into the market is low, but this is as expected due to the relatively small market size;
 - Category B2: Despite the relative success in the betting sector, the injection of new B2 machines into the market is low. This is due to such machines being terminal based products, where content would be updated through software downloads but physical units would normally only be replaced every 4 to 5 years.
 - Category B3: These are one of the main sources of volume sales for manufacturers; sales have declined, mirroring the decline being seen in the arcade and bingo sectors;
 - Category B3A/B4: These markets are too small to make any impact on overall trends across the various gambling sectors;
 - Category C: Another main source of volume sales for manufacturers; it is thought that the sales of new machines is likely to have increased in 2009/10 as a result of increases to the stake and prize limits for category C machines implemented in June 2009. Sales are still below their 2008/09 levels however;
 - Category D: This market is too small to make any impact on overall trends across the various gambling sectors;
25. It should also be noted that the increasing use of downloadable server and/or terminal based technology appears to be gaining in popularity with operators and in particular the betting and bingo sectors. This is likely to have significant impact on new physical machine sales which are seeing a downward trend whereas the volume of game software content is increasing. If this trend continues then it is likely to result in further contraction of the traditional manufacturing sector but would see increase in content providers.

Objectives

26. It is a priority for Government to create the conditions for growth in leisure institutions, including the gambling industry, by stripping away unnecessary red tape and stimulating private sector investment. The measures discussed here are therefore designed to allow the gambling and related industries to grow, while at the same time ensuring that regulation is proportionate and delivers public protection.
27. Since 2007 interventions by Government to amend gaming machine stake and prize limits have been targeted towards certain categories of gaming machine with a view to helping individual sectors:
- In 2009 the stake and prize limits for category C gaming machines were increased from 50p/£35 to £1/£70 in order to provide some economic assistance to the arcade and pub sectors. At the same time the stake and prize limits for crane grab machines and coin pusher machines were

increased to £1/£50 and 10p/£15 respectively in order to boost revenues in seaside arcades, which were struggling at the time.

- In July 2011 the Government increased the maximum stake limit for category B3 gaming machines from £1 to £2 in order to provide economic assistance to the AGC and bingo sectors and provide a boost to gaming machine manufacturers and suppliers in response to significant numbers of premises closing and jobs lost.
28. This approach provided some limited relief to the sectors in question, but it was piecemeal across different gaming machine categories. As a result the industry argue there are now tensions across the regulatory framework e.g. the casino sector questions whether it is right that gaming machines in casinos should be limited to the same maximum stake level as those in arcades.
 29. Since 2007 those sectors of the gambling industry reliant on revenue from gaming machines have argued that the Government should reintroduce the system of triennial reviews for stake and prize limits that was put in place by the Government and the then Gaming Board for Great Britain prior to the implementation of the Gambling Act.
 30. This was a regular and systematic review of stake and prize limits for all types of regulated gaming machine based on a three year planning cycle. The industry argue this system allowed businesses to respond to economic changes more pro-actively and was more effective in delivering benefits as it allowed a full calibration between different machine types and allowed both operators and manufacturers to better plan capital investment and respond to consumer demand. They contend that a piecemeal approach to stake and prize changes results in businesses have been unable to make the types of investments that are required to provide long term growth.
 31. The Government recognises that some sectors of the gambling industry are continuing to struggle in the current economic climate, in particular arcades and bingo clubs. It also recognises that there are some sectors where growth has either stalled or stagnated. These trends have in turn created difficult trading conditions elsewhere in the industry, most notably in the manufacturing and supply sector.
 32. At the same time it understands that the gambling industry as a whole, and gaming machines in particular, is a regulated market. Through the regulatory framework put in place by the Gambling Act the Government has influence over the product mix, quantity of product available and product pricing offered by gambling businesses. With this in mind, the Government is conscious that introducing changes into this regulated market, for example increasing or decreasing stake and prize limits for certain gaming machines, could affect the balance between individual sectors of the industry.
 33. In response to the industry's arguments in relation to gaming machine regulation, on 13 October 2011 John Penrose, the Minister for Tourism, announced that the Government would establish a more coherent and systematic approach to reviewing stake and prize limits on gaming machines through the reintroduction of a triennial review system.

Policy objectives

34. Through the reintroduction of a triennial review system the Government aims to implement an approach to stake and prize regulation that will:
 - Consider the relativities between different categories of gaming machine and ensure competition across the gambling industry remains balanced within the context of a regulated market;
 - Encourage the growth and development of the gaming machine market in order to support economic recovery and create jobs;
 - To do so only to the extent consistent with player protection and gambling related harm minimisation, and in a way that actively promotes social responsibility by ensuring the industry embed new processes to monitor and assess the impact of any changes.

Re-introduction of a triennial system for reviewing gaming machine stake and prize limits

Introduction

35. This section sets out the rationale for the re-introduction of a triennial review system, including an explanation of why previous reviews ceased. It also describes progress made in developing the

design and nature of future reviews to ensure a more rigorous and systematic approach to gaming machine stake and prize reviews is established.

History

36. Periodic reviews of gaming machine stake and prize limits for certain categories of gaming machine were undertaken on a broadly triennial basis under the previous licensing regime, overseen by the Gaming Board of Great Britain. The last review held under these arrangements took place in 2001. A summary of the changes implemented under these reviews, which tended to be linked broadly to inflation, is provided at annex B.
37. There was due to be a further triennial review in 2004. However, given the progress of the Gambling Act 2005 through Parliament, triennial reviews were suspended at that time. As a result of the passage of that Act, some categories of machines were re-categorised or superseded. It is therefore difficult to draw direct comparisons between changes made under the previous arrangements and changes proposed as part of the current review.
38. Following the implementation of the Act, there have been some piecemeal changes to stakes and prizes where the Government has agreed that a change has been justified. However, the lack of systematic data capture has hindered the industry's ability to analyse or monitor the effects of these changes, or of changes made by triennial reviews under the previous licensing system. The lack of evidence captured as a result of previous reviews presents analytical difficulties for Government in measuring their impact.
39. Our intention in designing a future system of periodic reviews is to establish a more rigorous system which allows for robust assessment of the impact of stake and prize changes. Future reviews on a more structured basis should provide greater certainty to the industry over when regulatory changes are likely to be considered in order that it can plan its research, development and investment activity accordingly. A diagram showing the intended future review design is at Annex C.

The reinstatement of a triennial review system

40. The Government wrote to gambling stakeholders on 22 November 2011 to set out proposals for the first post-Gambling Act review of stake and prize limits. It is intended that the current review will provide a baseline against which the impact of future changes may be measured.
41. Since the last full review in 2001 the industry and its associated technologies have changed a great deal. At consultation we therefore sought views on how often gaming machine stake and prize reviews should be held, and given the way technology and the industry has changed, we asked if a three year cycle remained the best approach.
42. Of those respondents who expressed a view on the frequency of future reviews, around 70% favoured the reintroduction of a review process on a triennial basis. However, there was a variation of views on what form such a review should take. The industry tended to argue that stake and prizes should be reviewed on a triennial basis to provide further incentives for business growth, while providing sufficient lead time for product development and implementation to take place between reviews. Faith and community groups argued that a triennial period was appropriate, and that reviews should take place shortly after the results of surveys into problem gambling are known.
43. Other respondents, including trade associations such as the National Casino Industry Forum (NCiF), argued that the current review process should be abandoned in favour of a process "where the regulator or an expert panel assesses the player protection measures applied within casino premises – against an agreed standard – and allows proportionate commercial freedoms subject to the regulator's discretionary parameters".
44. Some respondents, argued in favour of more frequent reviews, including the Gambling Reform and Society Perception group (GRASP), who argued that reviews "should be held on a biennial basis, so as to enable greater opportunity for intervention should evidence of a disproportionate impact upon problem gambling arise, as a result of previous increases in stakes/prizes". The Chinese Information and Advice Centre argued that reviews "should be held on a biennial basis, to identify problems and apply corrective actions at an early stage".

Design and nature of future reviews

45. We recognise that further work is required to better assess the impact of changes to stake and prize limits, which will in turn inform future reviews. For this reason, we asked the Gambling Commission ahead of consultation to work with the Responsible Gambling Strategy Board (RGSB) to put in place a process to consider the impact and any potential risks both in respect of this review and future reviews.
46. On 20 June 2013, we received the RGSB's formal advice which recommended that a suitable data framework be developed to support longer term assessment of the impact of stake and prize changes. Their advice made clear that the development of such a framework would be important in providing a robust foundation for future reviews and would allow stakeholders to:
- Benchmark the impact of current and new machine structural features on gaming machine play;
 - Explore the potential of machine player data to identify markers of problematic machine gambling behaviour;
 - Understand the feasibility and effectiveness of new dynamic player-led harm minimisation tools;
 - Understand the wider needs in terms of wider prevention and treatment activities to support any changes in the impact from gaming machines upon problem gambling levels and the corresponding need for treatment services.
47. The RGSB has further advised that such a data framework would be significantly enhanced if it included data from play sessions that could be "linked to other demographic information, allowing an assessment of the impact on those most likely to be at risk of harm" and could be "linked within the same operator and across operators".
48. We agree with advice from the RGSB that the successful development of a suitable data framework is critically important in allowing for robust analysis of the impact (social and economic) of changes proposed by this review and subsequent reviews. As such the development of this framework is key to the reinstatement of regular reviews of stake and prize limits.
49. Work to develop this framework is already underway. Consistent with the priorities identified in the RGSB's current strategy for responsible gambling, the Responsible Gambling Trust is currently undertaking research into category B gaming machines which aims to describe and understand patterns of gaming machine play in various locations; to explain the impact on player behaviour of various factors; and to identify where there is robust evidence that consumers may be experiencing problems.
50. As part of this research, scoping of industry held data for Category B gaming machines is currently being undertaken to investigate what data is captured, how it is currently used internally, what format, size and structure it is in, what data might be captured going forward and how this might be used for research purposes and how it could be used to answer key policy-related questions. Initial findings from these scoping studies will be available by November 2013, and will be used to inform a number of demonstrator projects. These projects, which are already being planned, will indicate how data derived from the scoping studies might be used to meet the research aims.
51. In the longer term the RGSB aim to develop proposals for a programme of research to gather and assess information, research and data on player behaviour, risk, and the impact of gambling-related harm, for example, costs to gamblers and their families, and the costs of treatment. This work will inform the design and nature of future triennial reviews.
52. The RGSB aims to develop such a structure by the end of 2013 and outputs from the Responsible Gambling Trust's scoping studies (which will be available in the autumn) will be used to begin to populate this framework.
53. As part of our engagement with the industry during this review, we have made clear our expectation that the industry uses robust mechanisms for systematic capture and sharing of data going forward in order to populate the RGSB evaluation framework. While data collection is varied across the different sectors of the industry, many businesses already have in place data processes that are used for commercial purposes. We view the sharing of this data with policy makers and regulators as an important step in facilitating development of future triennial reviews, and that a closer voluntary information sharing relationship can lead to greater understanding of the likely impacts of changes in stake and prizes. The industry is already beginning to implement plans for the collection

and analysis of data for any future review, which will allow for the data framework to be populated on a systematic basis.

Summary

54. We have carefully considered the views of stakeholders received at consultation, as well as formal advice from the Gambling Commission and Responsible Gambling Strategy Board, in designing the basis on which regular reviews of stake and prizes should be reintroduced.
55. On the basis that the data framework is developed as anticipated, we consider that the reintroduction of a triennial review system will be beneficial in assisting the development of new products as well as measuring the impact of any changes more effectively. We consider that a triennial review system provides sufficient certainty to the industry to plan product development, while allowing for systematic analysis of the impact of any changes on gambling behaviour. We consider it appropriate for Government to retain control over stake and prize limits, rather than a delegated panel or body.
56. We are clear that the development and population of a suitable data framework will allow for evidence of the impact, both socially and economically, of the changes recommended as part of this review to be properly assessed to inform future reviews. We are equally clear that it is incumbent on the industry to provide data to enable consideration of future proposals. Finally, we consider it to be of great importance to the development of such a framework that the industry realises its commitment to trial, and ultimately deliver, new social responsibility measures which will allow for a greater understanding of the impact of these changes to be assessed.
57. We would like to make clear that reviews of stake and prize limits are an opportunity to consider whether levels are appropriate across all categories. There is no presumption of routine increases in limits, and decreases in stake and prize levels may be considered. Further, the reintroduction of a triennial review process does not preclude the Government from adjusting stake or prize limits between reviews where there is a case for doing so.

Options

58. Following submissions from the industry the Government has considered four packages of measures:
 - Package 1: Do nothing i.e. retention of the status quo;
 - Package 2: An uplift to stake and prize limits to cover inflation from 2007
 - Package 3: Proposals by the gambling industry;
 - Package 4: Government's preferred options

Package 1: Do nothing

Category B1 (markets affected: casinos; manufacture and supply)

59. Package one proposed that no changes were made to stake and prize limits for any gaming machine category. Gaming machine stake and prize limits have not been comprehensively reviewed since before the implementation of the Gambling Act in 2007. In the intervening period, stake and prize limits have been adjusted for certain categories of machine largely on an individual basis, while limits for some machines have remained unchanged since 2006 or earlier. The evidence shows that particular sectors of the gaming machine market including the arcades, bingo and pub sectors have experienced decline in recent years which, coupled with a decline in the manufacture of some categories of machines, has led to associated drops in employee and machine numbers.
60. The Government proposed in the consultation document that package one be rejected as it is unlikely to meet a primary objective of the review; to create growth and development of the gaming machine market in order to support economic recovery and create jobs. 63% of respondents to the consultation agreed that the Government should reject package one, primarily on the grounds that it would continue to force the decline of these sectors, while a further 26% of respondents abstained or had mixed views on the relative benefit of package one. Only 11% of respondents thought that the Government should adopt package one, with these respondents tending to argue that Government should not seek to promote growth in gambling products. The Government

acknowledges concerns around the potential social impact of increased stake and prize limits and has made clear that harm minimisation is a key objective of the review. The Government considers that increases in stake and prize limits can be achieved in a way that is consistent with player protection and confirms the rejection of package one on that basis.

Package 2: An uplift to stake and prize limits to cover inflation from 2007

61. The Government considered what benefits might be passed onto the gambling industry by adjusting stake and prize levels to take into account increases in inflation. This approach was designed to test a general argument put forward by the industry that the stake and prize limits had declined in relative terms, thus forcing businesses to absorb increasing overhead costs that couldn't otherwise be passed onto customers.
62. The inflation has been calculated using deflators published by HM Treasury and is compounded. It was decided to track inflation back to 2007 when the Gambling Act came into force. This presented a suitable baseline as it reflected the categories of machine as decided upon by Parliament at the time of the Gambling Bill. In many cases these represented a fundamental shift away from the definition and categorisation of gaming machines under the old regulatory regime. To use a baseline prior to 2007 would have meant mapping increases over different categorisations which would not have produced a realistic result. More recent baselines have been used for categories B3, C and some D, reflecting changes to stake and prize limits and creation of new categories.
63. It was also decided to extend the modelling of an inflationary uplift to 2016 to take into account the triennial review cycle that has been introduced. It was felt to be important to ensure the value of the recalculated stake and prize limits took into account the period to the next scheduled review in 2016.

Table 13: Package 2 proposals across machine categories

Category	Current max stake	Current max prize	Max stake: Based on inflation uplift (2007 - 2016) (actual)	Max prize: Based on inflation uplift (2007 - 2016) (actual)
B1	£2	£4,000	£2.44	£4,872.17
B2	£100	£500	£121.80	£609.02
B3	£2	£500	£2.21	£551.91
B3A	£1	£500	£1.22	£609.02
B4	£1	£250	£1.22	£304.51
C	£1	£70	£1.22	£81.33
D non-money prize (other than crane grab)	30p	£8	37p	£9.74
D non-money prize (crane grab)	£1	£50	£1.16	£58.09
D money prize	10p	£5	12p	£6.09
D combined money & non-money prize (coin pusher/penny falls)	10p	£15 (of which no more than £8 may be a money prize)	12p	£17.43
D combined money & non-money prize (other than coin pusher or penny falls)	10p	£8 (of which no more than £5 may be a money prize)	11p	£9.74

64. Analysis of responses to the consultation shows that this package of measures was the least popular of all options put forward, with 74% of respondents agreeing that the Government should reject it. A further 17% of respondents abstained from expressing a view, while only 9% thought there was merit in these proposals. The Government considers that package two offers an overly simplistic approach which would most likely fail to stimulate the conditions for growth among categories of machine where that is desirable, while simultaneously raising limits in categories where the Government considers there is currently no justification for doing so.
65. More specifically, the Government considers that package two fails to provide the incentive for investment, and subsequent growth in revenue, in categories where the Government considers there is scope to raise stake and/or prize limits above inflationary rises. At the same time, package

two implies an increase in limits for category B2 and B3 machines where the current shortage of data makes it difficult to assess what the impact of such a change on problem gambling might be. More generally, an inflationary uplift could diminish the attractiveness of games to customers because stake and prize ratios would be adjusted in ways that limit game design. For these reasons, the Government confirms the rejection of package two.

Package 3: Proposals by the gambling industry;

66. Prior to the consultation, the then Minister for Tourism, John Penrose, wrote to gambling industry and other stakeholders inviting them to submit proposals for changes to the stake and prize structure. Responses were received from the following trade associations:

- Association of British Bookmakers (representing the betting sector);
- British Amusement Catering Trade Association (representing the arcade and gaming machine manufacturer and supply sector; also submitting proposals on behalf of the club sector);
- Bingo Association (bingo);
- British Beer and Pub Association (pub sector);
- National Casino Industry Forum (casinos)

67. These bodies submitted a joint response that covered all categories of gaming machine.

Table 14: Package 3 proposals across machine category

Category	Current max stake	Current max prize	Industry proposed max stake	Industry proposed max prize
B1	£2	£4,000	£5	£10,000
B2	£100	£500	£100	£500
B3	£2	£500	£2	£1,000
B3A	£1	£500	£2	£500
B4	£1	£250	£2	£400
C	£1	£70	£1	£100
D non-money prize (other than crane grab)	30p	£8	30p	£8
D non-money prize (crane grab)	£1	£50	£2	£100
D money prize	10p	£5	20p	£10
D combined money & non-money prize (coin pusher/penny falls)	10p	£15 (of which no more than £8 may be a money prize)	20p	£20 (of which no more than £10 may be a money prize)
D combined money & non-money prize (other than coin pusher or penny falls)	10p	£8 (of which no more than £5 may be a money prize)	10p	£8 (of which no more than £5 may be a money prize)

68. The consultation document made clear that there are aspects of package three which the Government thinks have merit. For example the Government acknowledges the likelihood that the proposed increases for B1 machines would offer a suitable inducement to manufacturers to develop new products. We also acknowledge the lack of evidence to support a causal link between B2 machines and an elevated risk of problem gambling and note the risk of introducing disproportionate and untargeted regulation in the absence of such evidence. We note the importance of category B3A and B4 machines to members’ and commercial clubs in terms of the revenues they generate. Finally, the Government recognises the serious concerns across the industry about the performance of category C gaming machines and its importance to the gaming machine market overall. Category C machines form the bulk of the machine estates in AGCs, bingo clubs and pubs, where they are offered with a range of stake and prize levels up to the maximum permitted in order to appeal to the widest range of players.

69. However, we also set out in the consultation document our concern at other aspects of package three. In particular, we found no credible justification for raising limits on B3 machines to the levels sought by the industry, particularly in the absence of data to allow a proper assessment of what the wider effect of such a move might be. Additionally, we expressed concern that the potential social impact of changes sought to category D stake and prize limits had not been adequately considered or addressed by the industry submission. The Government therefore proposed that package three be rejected overall on the grounds that it did not meet the stated objective of balanced competition within a regulated market while other measures were not accompanied by sufficient assurances on public protection in relation to the level of change being proposed.
70. Around 50% of consultation respondents agreed with the Government's assessment of package three, while 20% disagreed. In broad terms, respondents representing elements of the industry such as the casino sectors, bookmakers and pub sectors tended to agree with the Government's assessment of package three. Additionally, some respondents, including faith groups, tended to agree that this package of measures should not be taken forward as a whole. Those respondents who disagreed included some sectors of the industry such as Bingo who argued that all increases as proposed under package three should be adopted in full. Other groups who disagreed with the Government's assessment included a number of campaign groups who in many cases felt that the Government should resist any increases in stake and prize limits. Approximately 16% of respondents had mixed views on the Government's assessment of package three. For example, BACTA and BISL agreed with the Government's assessment of the need for uplifts in some categories, but challenged the Government's basis for rejecting increases in category D machines.
71. The Government remains of the view that package three offers some worthwhile proposals which is reflected in the inclusion of many of these in the Government's preferred approach. However, the Government considers that package three does not, overall, meet the stated objectives of the triennial review which is to encourage growth and development of the gaming machine market only to an extent that is consistent with the licensing objectives and harm minimisation. For this reason, the Government confirms the rejection of package three.

Package 4: Government's preferred options

72. Based on its consideration of the first three packages the government decided on a range of preferred options and offered this as the proposed package in the consultation:

Table 15: Package 4 - pre consultation preferred proposals across machine categories

Category	Current max stake	Current max prize	Max. stake: Preferred option	Max. prize: Preferred option
B1	£2	£4,000	£5	£7,000 / £10,000 / £15,000
B2	£100	£500	£100	£500
B3	£2	£500	£2	£500
B3A	£1	£500	£2	£500
B4	£1	£250	£2	£400
C	£1	£70	£1	£100
D non-money prize (other than crane grab)	30p	£8	30p	£8
D non-money prize (crane grab)	£1	£50	£2	£60
D money prize	10p	£5	20p	£6
D combined money & non-money prize (coin pusher/penny falls)	10p	£15 (of which no more than £8 may be a money prize)	20p	£20 (of which no more than £10 may be a money prize)
D combined money & non-money prize (other than coin pusher or penny falls)	10p	£8 (of which no more than £5 may be a money prize)	10p	£8 (of which no more than £5 may be a money prize)

Category B1

- 73.

The Government agrees that current stake and prize levels are over-cautious when compared to the level of gambling that is generally expected to take place in a casino, and do not compare favourably to limits for gaming machines offered by casinos in other jurisdictions overseas. The Government proposed a rise in the maximum stake from £2 to £5, and sought views on a range of limits from £4,000 (current limit) to £7,000, £10,000 and £15,000. This range was provided in order to test what level might offer the most practical and beneficial outcome to the casino sector and the manufacturing and supply sector in terms of reinvigorating the B1 machine offer. At consultation, we made it clear that the level of increase would ultimately depend on how far the industry is willing to commit to trialling new and enhanced forms of harm mitigation measures, and that any further increases under future stake and prize reviews would depend on the extent to which progress was made with this issue during the current review. Since consultation, the industry has voluntarily agreed to a new social responsibility code, backed by the Chief Executive Officers of casino operators. Known as *Playing Safe*, the code demonstrates the casino industry's long term commitment to the licensing objectives of the Gambling Act 2005 and to delivering gambling products responsibly. . On behalf of the casino industry, the National Casino Industry Forum confidentially collates information about play on gaming machines in order to better understand machine players and the impact of regulatory changes both socially and economically. Because the mechanisms for capturing this data are already established (often for commercial purposes including marketing and advertising to customers) there is no additional burden on business as a result of this commitment.

74. The Government recognises that access to higher stake and prize gaming machines can support growth in the casino sector. We welcome the industry's commitment to explore and ultimately deliver enhanced player protection measures which will help build public confidence in the casino sector and its commitment to minimising the harm caused by its products. The Government notes the progress already made by NCIF and its members in this regard through the development of the *Playing Safe* code. We would also reiterate the importance of the industry starting to gather proper data now to inform consideration of impacts at any future triennial review.
75. The Government also notes the advice of the RGSB and Gambling Commission which supports the Government's view that there is scope to increase stake and prize limits on B1 machines, provided additional risk is mitigated through the development, trialling and evaluation of improved harm mitigation measures. Subject to final confirmation from the industry over the mechanics of implementing the voluntary enhanced protection measures proposed in *Playing Safe*, and agreement on robust mechanisms for monitoring the effectiveness of those going forward, the Government is prepared to increase stake and prize levels for B1 machines to £5 and £10,000 respectively, with an option for casinos to offer a linked progressive jackpot prize up to a maximum of £20,000 within a premises basis.

Category B2

76. The consultation document acknowledged the importance of B2 machines to the economic viability of many betting shops, and associated economic investment and employment. However, it also made clear that Government could not ignore the persistent concerns from many stakeholders and local communities about these types of gaming machines and their potential impact on problem gambling. Despite these concerns, the consultation also acknowledged the lack of evidence on whether B2 gaming machines in themselves have had any significant effect on the level of problem gambling in Britain.
77. The Government sought quantifiable evidence on the extent of the impact that a reduction in B2 stake and/or prize might have (positive or negative) both socially and economically. However, much of what was received through the consultation refers to research which was available prior to the consultation period which is not sufficiently robust (for example due to sample size) or specific (for example not based on the UK) to base future action on. Following the receipt of formal advice from the Gambling Commission and the RGSB, the Government agrees that a reduction in stakes for B2 machines is currently unsupported by the available evidence. However, the Government considers that despite the lack of evidence, there remains a very serious case to answer in relation to potential harm caused by B2 machines and is exploring what precautionary measures might be needed, and when.

78. It is a priority for the Government that the knowledge gaps identified by the RGSB, including staking behaviour on B2 machines and its impact, are addressed. The Government is clear that the industry must lead in closing these knowledge gaps. The Government expects the industry to comply fully with data requests from the Gambling Commission in order that a better understanding of the data relating to B2 machines, in particular data on player behaviour, patterns of play, spend and stake distribution, is obtained. We do not understand, for example, whether growth in revenues attributed to B2 machines is in fact driven by B3 games (which are generally available on B2 terminals). Nor do we know how much revenue is driven by high staking customers - and whether, and to what extent that might provide insights into the relationship between staking behaviour and problem gambling. As a result, the industry must consider the future of the B2 machine in its current form as unresolved.
79. The Government has asked the Gambling Commission to provide further specific advice and information in relation to the relative importance of B2 and B3 games on B2 terminals and on staking patterns on B2 terminals. In the immediate term, the Government expects to see a demonstrable commitment from the industry to share data, as outlined, and strengthen player protection. The ABB has indicated its intention to develop and implement a social responsibility code of practice in relation to LBOs. The Government looks forward to receiving further detail of the content of the code particularly detail on strengthening existing player protection measures, and measures designed to bring about a step change in performance on social responsibility, demonstrating the industry's commitment to the licensing objectives.

Category B3

80. The Government proposes to maintain stake and prize limits at existing levels. To date, the industry has not provided any data that measures the impact of the 2011 uplift in stake, and it would not be appropriate to change existing limits without this information. Responses to the consultation also revealed a lack of consensus within the industry on both the need for an uplift in stake and prize levels for B3 machines, and on what the extent of any uplift might be.
81. The Government notes that whilst there has been a reduction in the number of B3 machines overall, income per machine has remained relatively stable, which suggests B3 is able to offer a compelling product at existing levels. Further work on exploring the relationship between B3 and B2 play on B2 terminals will also provide further evidence and greater understanding in this area. The Government also notes that the loss rate on a B3 machine can be higher than a B2 (depending on the amount staked on B2) given the much more rapid speed of play of B3 games. It will also be important that the industry is willing to share data on B3 play. The Government is also mindful of the on-going programme of Category B research. Given the above, the Government remains minded to maintain B3 stake and prize limits at the current levels, pending the emergence of the further evidence above.

Category B3A/B4

82. The Government's preferred option for B3A was to consider bringing forward an increase in the maximum stake level from £1 to £2 on the basis that such an increase could benefit clubs and was unlikely to be detrimental to other sectors.
83. The Government is persuaded that raising stake and prize levels on category B3A/B4 machines in line with package four of the consultation document will provide support to the club and manufacturing sectors while remaining consistent with the licensing objectives. We note the points raised through the consultation about underage play but note that members clubs operate codes of practice which preclude non-members from entering the premises and require children to be accompanied by adults. In particular, we note that all members clubs enforce social responsibility measures consistent with the Gambling Commission's "Gaming Machine Permits Code of Practice for Club Gaming Permits, Club Machine Permits and Alcohol Licensed Premises Permits and Permissions" guidance. We expect these clubs to continue to enforce these rules.

Category C

84. The consultation proposed an uplift in prize from the current £70 maximum limit to £100. Following the conclusion of the consultation, the Government continues to support an increase in prize limit to £100. The evidence suggests that while the 2009 increases provided some respite to the industry, the benefits of an additional increase would help support various sectors through continuing difficult economic conditions without risking the licensing objectives. The Government considers that the difference in prize limit of category B and C machines is still sufficiently wide after any rise to maintain a distinct appeal. Additionally, the injection rate for category C gaming machines is relatively high compared to other gaming machine categories, which suggests that the economic benefits of an uplift will be felt more widely across the manufacturing and retail sectors than might be the case with other machine categories as new investment takes place.
85. However, the Government notes the concerns of some respondents to the consultation regarding this machine category. In addition a very significant part of the category C market is found in pubs, which are not licensed by the Gambling Commission. For those reasons the Government looks in particular to the industry (including the pub trade) to ensure that there are robust social responsibility codes and measures in place, can demonstrate their impact, and that these are evaluated effectively with the results made available to DCMS and the Gambling Commission. The Government welcomes the pledge by the British Beer and Pub Association to overhaul its code of practice on preventing underage use of gaming machines, disseminating information about sources of help for gambling problems and ensuring staff are trained in the effective deployment and control of category C machines from a social responsibility point of view. The Government will look to the industry to evaluate the success of these measures to inform future reviews.

Category D

86. As outlined in the consultation document, the Government is keen to ensure that category D gaming machines remain commercially viable to operators while continuing to exercise caution. On this basis, package four proposed increases to certain types of category D products while maintaining existing levels for other machines. As part of these proposals, the Government was prepared to support 100% increases in staking limits for crane grab, money prize (reel based) and coin pusher/penny fall machines, alongside more modest increases in prize levels. However, the consultation responses revealed a prevailing view within the industry that most of the increases outlined in package four would provide no economic benefit to players or operators and that, in the case of reel based machines, new games at the proposed ratios would in fact be more expensive to develop and less appealing to the player than is currently the case. In addition, a number of respondents to the consultation were strongly opposed to any increase in stake and prize limits within this category – and were particularly opposed to any rises for reel based machines – arguing that the availability of gaming machines to people under 18 was harmful.
87. Given this, and following advice from the Gambling Commission which notes both an association between early gambling and problem gambling and the potential risk of harm that may follow from pursuing growth on the back of encouraging real money gambling by children, the Government considers that maintaining existing stake and prize limits for all types of category D gaming machines, with the exception of coin pusher/penny fall machines, is the most appropriate course of action. The Government considers that an increase in stake and prize limits for coin pusher/penny fall machines is justified on the basis that these machines are distinct from reel-based category D machines which might present a higher risk to the licensing objectives given that they often replicate (in terms of appearance and mechanical performance) adult gambling products.
88. Following the conclusion of the consultation, the Government's final proposals are summarised in the following table:

Table 16: Package 4 - post consultation final proposals across machine categories

Category	Current max stake	Current max prize	Max. stake: Preferred option	Max. prize: Preferred option
B1	£2	£4,000	£5	£10,000 (with the option of a maximum £20,000 linked progressive jackpot on a premises basis only)
B2	£100	£500	£100	£500
B3	£2	£500	£2	£500
B3A	£1	£500	£2	£500
B4	£1	£250	£2	£400
C	£1	£70	£1	£100
D non-money prize (other than crane grab)	30p	£8	30p	£8
D non-money prize (crane grab)	£1	£50	£1	£50
D money prize	10p	£5	10p	£5
D combined money & non-money prize (coin pusher/penny falls)	10p	£15 (of which no more than £8 may be a money prize)	20p	£20 (of which no more than £10 may be a money prize)
D combined money & non-money prize (other than coin pusher or penny falls)	10p	£8 (of which no more than £5 may be a money prize)	10p	£8 (of which no more than £5 may be a money prize)

Benefit / Cost Analysis

Methodology

89. This section of the impact assessment attempts to make an assessment of the likely benefits and costs that will accrue to different groups in society as a result of implementing the government's final policy proposal.
90. Before proceeding to present an analysis of the benefits and costs, it is important to be clear about the methodological basis for appraisal. This needs to take account of structure of analysis, proportionality, and technical parameters.

Key areas of impact and the structure of analysis

91. Increasing stake and prize limits allows businesses to refresh their product offer with new innovative games that are more appealing to consumers. There will therefore potentially be an impact on revenues as consumption rises, and an impact on the industry supply chain as new products are traded. This potential change in demand and innovation in product must also be considered from a social perspective as well as a business perspective, particularly the risk of changes in levels of gambling related harm and its associated individual and social impacts.

Proportionality

92. These impacts should be assessed to a level of analytical detail that is proportional to the intervention that is being made. There are several different dimensions to take into account when considering proportionality. The policy is not novel. The legislative framework for gaming machines already exists, and this secondary legislation seeks to review the level of stakes and prizes that are allowable within this legislative context. The policy is not irreversible. Under a triennial review system, stakes and prizes could be increased or decreased as necessary to achieve desirable policy outcomes.
93. Notwithstanding these points, there continues to be sensitivity around policy changes in this area. This is primarily the case because the distribution of impacts from an intervention needs to strike a balance between allowing the industry room to grow without causing harm to social objectives. The impact assessment uses existing evidence in combination with responses from industry and sector specialists gained from the consultation.

Presentation of “do nothing” and other technical issues

94. There are a number of presentational and technical points that apply across all of the policy options. The do nothing option represents the status quo, and therefore does not have any benefits or costs associated with it from an appraisal perspective. This does not preclude significant impacts on the industry under package one; only that these impacts are built into the appraisal of the other options packages that reference package one as a theoretical baseline. The baseline for industry revenues used in the analysis of the preferred option takes into account market trends illustrated in Gambling Commission statistics. The baseline is established in relation to modelled increases in industry revenues and is explained in the appraisal section below (see paragraph 113).
95. The appraisal period for assessment of benefits and costs is taken to be three years. Since it is anticipated that gaming machine stakes and prizes will be reconsidered on a triennial basis, with a discrete policy decision taken each time (even if it is to do nothing) it seems appropriate to use a short analysis period. It is also a reasonable reference period over which changes in stake and prize limit, which are eroded by inflation and consumer appetite for new games, might be expected to have a sustained impact on the market.
96. All monetised impacts are presented in present value terms unless otherwise stated, discounted at the Green Book determined rate of 3.50% per annum. All prices and monetised impacts are presented at 2009 prices unless otherwise stated.

Framework for analysis

97. To be able to appraise the policy proposals accurately there needs to be a mechanism for relating changes in stake and prize limits to changes in industry revenue. The relationship between stake and prize levels and consumer demand is complicated, and three potential mechanisms are discussed below, drawing on analysis from ACIL Tasman (2006).
98. **“Price” changes and the perception of value.** The price of a gambling product is the expected return to player from one play, and is an average function of the stake wagered, the distribution of prizes offered, and the associated probability of winning these prizes. Stake and prize limits therefore control two elements of the price relationship, and by increasing these variables more choice in the price level is afforded to the game designer. Average return to player rates are not set in legislation, but are fairly well established across machine categories at levels that are appealing for players. These rates are not likely to change dramatically as a result of increases to stake and prize limits, but consumer perceptions of price might change as a result of the ratio of stake to prize, which could have an effect on demand.
99. **Appeal of large prizes and perception of value.** The definition of price as set by stake, prize, and chance is complicated by other consumer behaviour that is common to gaming machines. Consumers are known to have an appetite not just for the average return to player, but also the “skewness” that is exhibited in the prize distribution. In other words consumers have a heightened appetite for large prizes, such that an increase in the maximum prize can lead to increased demand, even if the average return to player remains constant. The absolute size of the prize can therefore affect the consumer perception of value, and influence demand.
100. **Innovation in gameplay.** Consumers are also interested in the “non-price” aspects of the gaming machine product. Some consumers, for instance, prefer games that offer more complex gambling opportunities, which apparently engage the consumer in enjoyable heuristic behaviour patterns where they believe that particular strategies can “beat the system” to realise above average returns to player. One example of this is the recent popularity of “multi-line, multi-stake” machines that allow consumers to make multiple wagers within the confines of one game. Increased maximum stake and prize limits offer greater opportunity for game designers to build in this sort of functionality and increase demand by improving consumer perceptions of the quality of the game.

Assessing proposals against the framework

101. The framework for analysis gives a basis for assessing proposals, and attaching quantitative meaning to the impact of changes in stake and prize limits. There is, however, a lack of any quality evidence to make this step within the context of this review. Academic, industry, and government held sources of evidence are considered below:
102. Academic evidence across these three mechanisms is scant. Some economic studies such as Swan (1992), BERL (1997), and Thalheimer and Ali (2001) have attempted to estimate the price

elasticity of demand for gaming machines. These studies throw up a number of analytical issues: they are dated, relate to foreign markets, and give very different estimates of the sensitivity of markets to price changes. More fundamentally, however, they require a clear direction for price change to serve as a basis for estimates. Stake and prize limits can loosely be identified as “price controls”, but this belies a proper interpretation of consumer price in games of chance which relates to the probability of winning a prize, as well as stake and prize available. These three variables together constitute expected return per play. Given that changes in expected return per play are uncertain (and industry experts state that changes are unlikely) price elasticities are not especially helpful to this case because there is no obvious “price” change to which they can be applied. Rather than through price changes, benefits are expected to accrue under changes in perception of value and innovations in gameplay. There is no known academic evidence that provides quantitative information on large prize or gameplay effects.

103. Government evidence lacks primary data. The original “triennial review” system was not fully evaluated, and considerable time has passed since this process was last completed. There are no available supporting statistics from previous reviews. There have been some recent piecemeal changes to stake and prize in several machine categories, but many of these changes have been completed too recently to be fully and robustly assessed against Gambling Commission statistics. What limited inferences can be drawn are outlined below (see paragraph 106). It will be a feature of the new reinstated triennial review system that the impact of changes to stake and prize limits will be assessed as part of an agreement with industry that they undertake a more systematic approach to data collection. Indeed, the intention is to harness the industry data through the RGSB established Machines Expert Group (MEG), which will help the Responsible Gambling Trust determine how it should spend the budget of £500,000 it has allocated for its on-going programme of Category B gaming machines research. Some MEG members will be members of the group the Responsible Gambling Trust has set up to oversee the project (the Machines Research Oversight Panel), in line with the commitment in the Statement of Intent agreed in August 2012 between RGSB, the Trust and the Commission to share expert resources and provide transparency.
104. Representations from the gambling industry were received as part of the consultation process. Within these representations, and during subsequent discussions, the industry did not provide meaningful information on the mechanisms by which benefits are likely to be realised, aside from a limited study by consultancy Brand Driver (2008) that asked a sample of gaming machine players how they would respond to changes in stake and prize limit for three specific category changes. This is discussed in more detail below (see paragraph 105). The industry has provided information on the size of the benefits that they expect and, given the absence of any more robust evidence, this is used as the basis for appraisal in the impact assessment. The industry estimates are set out and scrutinised below.

Impact on industry revenues

105. The industry has made an assessment of the impact of their proposals:

Table 17: Industry assessment of their proposals

Machine Categories	Proposed Stakes	Proposed Prizes	Revenue Increases
B1	£5	£10,000	5%
B2	£100	£500	0%
B3	£2	£1,000	15%
B3A	£2	£500	10%
B4	£2	£400	10%
C	£1	£100	10%
D (all types)	Up to £1	Up to £50	10%

106. The industry estimates make logical sense in light of the drivers set out above. Indeed, during the consultation, these estimates were not quantitatively challenged. The industry estimates are also broadly supported by the Brand Driver (2008) study. This piece of research conducts a survey that asks a sample of 1,054 the following question relating to the stake and prize levels that are set out in the table below: “Thinking of fruit machines at each of the following prices to play jackpots, which would you play?” The level of demand is indicated in each case by the percentage of the individuals surveyed who responded that they would play a game is set out in *Table 18* below. This study has significant weaknesses: it only refers to Category C and Category D machines; and consumers

might potentially have a response bias that overestimates demand when there is no tangible cost associated with their response. Despite this, it is somewhat helpful in illustrating the potential range of effect under a prize change, especially in the absence of other evidence. The Brand Driver study shows that a change in revenues earned of 10% is not unrealistic for significant stake and prize limit changes.

Table 18: Results of Brand Driver study

Stake	Old		New		Change	
	Prize	Demand	Prize	Demand	Prize	Demand
0.10	5.00	38%	10.00	43%	100%	5%
0.20	10.00	34%	20.00	46%	100%	12%
1.00	70.00	20%	100.00	34%	43%	14%

107. There are only two recent (last five years) changes to stake and prize limits that can be used as indicators of policy impact. The first change was the 2009 Category C uplift from a stake of 50p to £1 and a prize of £35 to £70. Using un-adjusted Gambling Commission data (see paragraphs 109-112), we see an increase in GGY from £158m in 2009/10 to £164m in 2010/11 before a fall to £128m in 2011/12. The second change was the 2011 Category B3 uplift from a stake of £1 to £2, with prize held constant at £500. Again using un-adjusted Gambling Commission data, GGY was £154m in 2011/12 (the year of implementation), but no further data is yet available. The changes in Category C earnings suggest that changes in stake and prize limits can have a short run impact, but question the sustainability of changes. That said, any conclusions drawn from this data are necessarily weak and inconclusive. The difficulty in interpreting this data accurately is that any other changes in economic conditions or other structural market characteristics are not taken into account. Because of the lack of data points (degrees of freedom) available to develop a statistical analysis that adjusts for these influencing factors, and as such isolating the impact of stake and prize limit changes against a neutral baseline is problematic.

108. The industry estimate changes in revenue seem reasonable in light of the mechanisms identified and the only available piece of relevant empirical evidence. DCMS has had strong engagement with the industry throughout the consultation process, and has ensured that the industry has understood that the credibility of information on impacts provided in this triennial review will have a bearing on future triennial reviews. We therefore have no reason to believe that the industry estimate is unreliable. The industry assessment is therefore used as the main basis for assessment of changes in industry revenue, taking into account adjustments that reflect the final policy proposal as well as data uncertainties (see paragraphs 113-114).

Assessing the final government proposal

109. Converting the industry assessment to make it appropriate for the final policy option is done in a very simplistic way: The industry proposal is multiplied by a scaling factor consisting of the percentage difference in increase of maximum prize between the industry proposal and the final government proposal, relative to the status quo. An average change across the separate Category D machines is taken. The result of this scaling are presented below in *Table 19*. Given the uncertainties inherent in this process, wherever these assessments are used 20% sensitivity is applied in each direction to generate a range of possible impact.

Table 19: scaling industry estimate of the impact of final government proposal relative to the borderline.

Category	Final Government Proposal
B1	5%
B2	0%
B3	0%
B3A	10%
B4	10%
C	10%
D	5%

Establishing industry revenue from statistics

110. The Gambling Commission (2012) provides statistics on number of machines and industry revenues for venues where it has licensing responsibility. These statistics are used as the basis for calculation, but several adjustments have to be made to take account of data limitations. These adjustments are outlined below.
111. There is very limited granularity around the different classes of category D machine in the Gambling Commission's industry statistics. Additionally, some operators are currently unable to provide data returns split by category of machine. This results in a "Totals Only" category in the data. The response is to distribute this Totals Only category across the "real" categories based on a number of assumptions. The first step is to establish the number of machines and total GGY from machines from industry statistics provided by the Gambling Commission. This is used to calculate average return per machine by dividing Total GGY by Number of Machines in each Category. The average GGY per machine calculation combined with total machine numbers can be used to create an earning index for each machine Category, which can then be used to distribute Totals Only GGY information across the different machine Category classification. The B1 and B2 categories are exempt from this adjustment because the casino and betting shop businesses that provide the returns almost always avoid use of the Totals Only category.
112. The industry statistics collected by the Gambling Commission only relate to businesses where they have the regulatory competence to licence. Businesses that provide gaming machines, but are licenced by other bodies such as Local Authorities, are therefore not included in these statistics. This includes: public houses, clubs, unlicensed family entertainment centres and travelling fairs. These are substantial markets. BACTA and the BBPA are able to provide some intelligence on the number of machines that exist in venues that are outside the scope of the Gambling Commission regulatory authority. B3A are provided in members' clubs and miners' welfare institutes (3,000). B4 machines are provided in clubs (15,000). Category C machines are primarily provided in public houses (55,000), but are also provided in clubs (9,000). Category D machines are overwhelmingly provided in unlicensed family entertainment centres (43,000), but are also provided at travelling fairs (2,000). Applying average machine earnings to these numbers of machines gives an indication of the size of these markets. This analysis needs to be treated cautiously. There could be significant differences in the profitability of machines when located in venues that are not licenced by the Gambling Commission. This is likely to be particularly true for machines provided in public houses which represent a very different market. There is reasonable data available here from the BBPA who indicate that public house Category C revenue is currently around £600m. This figure is presented in the analysis, in addition to machine revenue data in Gambling Commission licensed premises.
113. The results of this data gathering exercise give a set of industry statistics that can be used as a basis for appraisal. These are set out in *Table 20* below. The uncertainty in these calculations is clear, but the results are expected to be reasonably accurate on the basis of good input data. Therefore 10% sensitivity is applied in each direction, with the exception of the B1 and B2 categories where the data is considered to be fully robust.

Table 20: Adjusted industry revenues in 2011/12 used as the basis for appraisal

Category	Central / £m	Low / £m	High / £m
B1	126	126	126
B2	1,431	1,431	1,431
B3	253	228	278
B3A	33	30	36
B4	87	78	95
C	838	754	921
D	83	62	104
Total	2,850	2,565	3,135

Calculating the impact on revenue

114. Combining the assumptions on current industry revenues and anticipated changes in revenues allows for the monetisation of the policy benefits. To do this accurately it is important to take into account a realistic baseline for changes in market conditions over the appraisal period. Where there is a structural tendency for machine category revenues to have improved or declined over the past three years, the compound annual growth rate (taking pre-adjusted industry statistics for which there

is time series available) is applied cumulatively to the adjusted industry estimates, this establishes a baseline over the three year appraisal period from which the industry uplift estimates can be applied. The statistics and calculated compound annual growth rates are set out in Table 21 below. Under these assumptions, for instance, the Category B1 revenue baseline for 2013 (the first year of the appraisal) would be adjusted up from £126m to £130m, while the Category C revenue baseline for 2013 would be adjusted down from £838m to £779m. Industry estimates are then applied to the calculated baseline in each year of the appraisal period.

Table 21: Unadjusted Industry revenues over past three years with compound annual growth rate

Category	2009/10	2010/11	2011/12	CAGR
B1	113	117	126	3.54%
B2	1,163	1,127	1,431	7.15%
B3	274	245	253	-2.57%
B4	89	87	87	-0.81%
C	899	872	838	-2.32%
D	215	205	207	-1.15%

115. Within this calculation an adjustment is also made to phase in benefits as machines are adapted or replaced to take advantage of more liberal stake and prize limits. This phasing is done on the basis of industry assessments of machine uptake that is presented in discussions on supply chain impacts (see paragraphs 92 - 98). While benefits are phased so that investment timescales are reflected, the sustainability of demand effects stemming from stake and prize limit changes is also modelled. Price inflation will tend to erode the significance of stake and prize positions, while consumer interest in new games available is likely to wane. To adjust for this, estimated industry revenues are revised down by the cumulative inflation rate (to take account of price changes) plus an additional consumer interest assumption of a 5% year on year reduction in the central estimate (this factor is increased to 10% per annum in the low estimate, and omitted in the high estimate). This reflects a cautious, but not unrealistic, approach to the estimates that the industry have provided.

116. The results of the appraisal are set out in constant prices and present values over the three year appraisal period in *Table 22* and *Table 23* respectively.

Table 22: Total 2009 prices change in industry revenues over three year appraisal period

Category	Final Government Proposal / £m		
	Central	Low	High
B1	11	7	14
B2	0	0	0
B3	0	0	0
B3A	5	3	8
B4	11	7	16
C	116	71	175
D	5	3	9
Total	147	91	223

Table 23: Present value change in industry revenues over three year appraisal period in 2009 prices

Category	Final Government Proposal / £m		
	Central	Low	High
B1	10	7	14
B2	0	0	0
B3	0	0	0
B3A	5	3	7
B4	10	6	16
C	110	68	167
D	5	3	9
Total	141	87	213

117. The analysis shows that there are significant revenues to be made under the final government proposal. The final government proposal following the conclusion of the consultation sits between the industry proposals and the uplift based purely upon inflation in terms of impact. However, it must be stated that the final government proposal has a calculated impact that is much closer to the industry proposals than the inflation uplift given the increases to the maximum prize limits of B1, B3A, B4 and C machines.

118. Very little quantitative evidence emerged from the public consultation but there was a useful amount of anecdotal evidence from operators and trade bodies which lend support to the positive projections presented above:

- **Category B1:** The National Casino Industry Forum (NCIF) argued that the new limits proposed by the government would allow operators to access a wider choice of games and attract new customers thereby increasing revenues. This view was also echoed by operators and trade bodies outside the sector such as the Bingo Association, British Amusement Catering Trade Association (BACTA) and Business in Sport and Leisure (BISL).
- **Category B3A and B4:** Those sectors which offer the B3A machines are supportive of the proposed change to the maximum stake limit. In particular, BACTA highlighted the importance of B3A and B4 machines to member clubs and their revenue stream. The Association of British Bookmakers (ABB) is also supportive of the government's proposal.
- **Category C:** There was a strong support across the industry to increase the prize limit for this category given the importance of the machines to bingo clubs, pubs and AGSs. The British Beer and Pub Association (BBPA) argued that the uplift would provide an important respite to licensees, especially pubs which they view to be suffering. This is supported by data from the Association of Licensed Multiple Retailers (ALMR) which shows the density of AWP (amusement with prizes) machines falling from 2.4 per pub in 2001 to only 1.36 in 2013. They argue that implementing the proposed uplift would raise revenues by 10% and reverse the 46% decline machine revenues for pubs since 2002. The ALMR also points to the 2009 uplift from 50p/£35 to £1/£70 which coincided with a 7% increase in AWP income.

119. Business benefits in terms of increased revenues can of course also be considered from another perspective: consumer costs. These consumer costs are, however, taken to be equal to the level of consumer benefit that is enjoyed by the player as they express their preference for gaming machine consumption above other possible alternative forms of consumption. These costs and benefits are not monetised in the impact assessment: they simply cancel each other out. Additional consumer surplus that is generated under the proposal is not quantified.

Industry costs and impacts on the machine games supply chain

120. Benefits from increased revenue earnings potential under the final government proposal are passed through into the supply chain of machine games producers through the purchase of new machine gaming equipment. Given the increased earnings potential, there is an incentive for additional investment in machine gaming technology. This is an additional cost that the machine gaming industry will face in realising potential benefits, but it is simultaneously a benefit for the machine games supply chain that produces machine gaming products.

121. There are two distinct aspects to the manufactures of gaming machines: the production of cabinets which physically house the game content; and the gameplay software or physical content design and production. Changes in stake and prize limit have the potential to encourage reconfiguration or replacement of gaming machines, so that businesses can take advantage of more liberal market regulation to make games that are more appealing for consumers and realise the retail revenue potential that is described above.
122. The industry has relatively high rates of machine game software turnover as providers regularly update or refresh their offer in order to maintain player interest, although this can vary substantially between sector and individual operator. This high turnover rate is particularly common amongst machines that are video based, and therefore software operated. Physical machines are also upgraded and replaced. There is no robust statistical information on the turnover rate experienced by different categories, and how this rate might interact with changes to stake and prize limits, so it is difficult to be precise about the relevance of this effect to the policy proposal. It is clear, however, that there will be an element of technological response to stake and prize limits that will occur naturally in line with planned investment.
123. Changes to stake and prize limits are, however, nevertheless likely to have an impact at the margin by encouraging additional investment over and above natural market churn rates. This will occur because increased potential profitability of machines under the changes provides an incentive for accelerated investment. The industry has provided an indication of the anticipated overall scale, phasing, and unit cost of this investment under their proposal. This is set out in *Table 24* below.

Table 24: Industry estimate of additional investment created by new machines

Category	Number of machines				Unit Cost (£)
	2013	2014	2015	Total	
B1	606	606	606	1,818	6,000
B2	0	0	0	0	0
B3	3,000	6,000	4,000	13,000	5,500
B3A	1,000	1,000	1,000	3,000	600
B4	500	1,000	1,500	3,000	1,500
C	2,000	5,000	3,000	10,000	2,500
D (complex)	300	750	450	1,500	2,000
D (non-complex)	150	300	150	600	11,500

124. There is no existing evidence to substantiate the industry projections of increased demand for gaming machine products, but they do seem reasonable in light of their projections for changes in revenue generated by increased consumer demand.
125. These estimates are used as the basis for assessment of the impact on the supply chain, taking the number of machines and the unit cost to monetise the size of the impact. In order for the industry estimates to be used to ascertain the impact of the final government proposal on the supply chain, they need to be scaled appropriately. This is done by applying adjustments that are proportionate to the revenue adjustments made previously, and discussed in paragraph 108. So, for instance, impacts on category B3 machine sales are removed since there is no change in stake and prize limit in the final policy proposal. The results of these calculations are presented in constant prices and present value terms below in *Table 25* and *Table 26* respectively.
126. These impacts can be seen from two perspectives. The impacts represent the costs incurred by licenced premises that supply gaming machine services as they drive out revenue benefits from the new regulatory environment. They can also be interpreted as revenue benefits to machine gaming manufacturers, although it is important to note that they will in turn incur increased costs of production which are not accounted for in this Impact Assessment due to a lack of evidence on average margin for suppliers. The benefits side of this calculation is therefore not included in the final net present value estimate and are supplied only for information, although the benefit felt by suppliers will be real.

Table 25: Industry costs (and supply chain revenues) in 2009 prices over three year appraisal period

Category	Final Government Proposal / £m		
	Central	Low	High
B1	10	9	11
B2	0	0	0
B3	0	0	0
B3A	2	2	2
B4	4	4	5
C	23	21	26
D (coin pusher only)	4	4	5
Total	44	39	48

Table 26: Present value industry costs and supply chain revenues in 2009 prices

Category	Final Government Proposal/ £m		
	Central	Low	High
B1	10	9	11
B2	0	0	0
B3	0	0	0
B3A	2	1	2
B4	4	4	4
C	22	20	25
D (coin pusher only)	4	4	5
Total	42	38	46

127. No other industry costs are expected. Government will not be making any legislative changes beyond the proposed adjustments to stake and prize limits outlined in the document. Government has strongly encouraged industry to engage with the RGSB on data collection and we have made clear that future reviews of stake and prize limits will be largely dependent on the industry's ability to capture and assess the impact of changes made under the current review. However, the collection of data is not a legally binding requirement, and in many cases the industry already collects this data for commercial purposes. Similarly, the casino industry compliance code *Playing Safe* has been developed independently, and ahead of, changes to stake and prize limits. The development of better responsible gambling strategies in the casino industry is not linked in legislation to changes in stake and prize limits proposed under this triennial review. Given these points, no wider new burdens on industry are expected as a result of the final preferred policy option.

Impact on the Exchequer

128. Changes in industry revenues will have an impact on Exchequer revenues. However, estimates of Exchequer revenues are a matter for HM Treasury and HM Revenue and Customs and are not estimated as part of this Impact Assessment.

Impact on reducing regulation: One-in, Two-Out:

129. Government can help to encourage business growth by providing an environment that is free from the burden of disproportionate regulation. The method of assessing whether new legislative proposals add to, or subtract from, the current stock of business regulation is known as "One-in-Two-out" (OITO). Proposals that impose direct costs are described as "IN", while proposals that lead directly to benefits are described as "OUT". Proposals that lead to indirect costs and benefits only are classified as "Zero net cost".

130. The "One-In-Two-Out" (OITO) status of these proposals is defined as "OUT". Increasing stake and prize limits, as set out in the policy proposals, liberalises the environment in which machine gaming businesses are allowed to operate. The proposals are therefore deregulatory. Whilst these increases are permissive rather than compulsory, it is highly likely that businesses will take advantage of this opportunity because it offers potential for increased profitability. As a result, these expected industry revenue impacts resulting from the policy proposal will be classified as direct

impacts and included within the OITO framework and scored accordingly as a net benefit to businesses.

131. It is expected that businesses will benefit through increased consumer demand, but in order for this additional demand to be realised, businesses will have to make capital investments in new gaming machines. These are classed as direct costs to business that are necessary to realise the projected revenue gains. These investment costs are passed down the supply chain, however, where they are recognised as illustrative indirect revenue benefits for other businesses. Indirect costs for supply chain businesses are not recognised in the analysis.

Table 27: Business impact in 2009 prices:

Business impact	Final Government Proposal / £m		
	Central	Low	High
NPV	99	49	166
EANCB	-34	-17	-57

Small- and Micro-businesses and the moratorium on new regulation:

132. Microbusinesses are included within the regulations. There is a lack of accurate information on how many microbusinesses are included within the sector. However, the number of microbusinesses affected by the policy proposals is thought to be low relative to total business numbers on the basis of intelligence provided by the Gambling Commission. Indeed, the consultation responses revealed support from many micro-business for the proposals particularly in the pub sector. In any case, because the legislation is permissive rather than compulsory, microbusinesses can effectively choose to “opt out” of the legislation and maintain their current portfolio of gaming machines. It is unlikely that these businesses would want to take this step, however, given the clear business benefits that can potentially be realised under increased stake and prize limits. Given these considerations, micro business will not be exempt from the proposed legislation.

Assessment of impact on competition

133. These changes in industry revenue need to be assessed in terms of their impact upon competition in both the machine gaming markets, and the supply chain. The different machine categories tend to relate to markets that are reasonably well segmented:
- **Category B1:** These machines can only be offered by casinos, which tend to compete with operators within the same sector. Players may play gaming machines in other venues. Betting shops also offer roulette and blackjack games on B2 terminals but there is no evidence as to the extent this might occur.
 - **Category B2:** While these machines can be located in casinos, they are almost exclusively situated in betting shops. B2 terminals are also designed to offer category B3 games as well. The arcade sector has argued that the Gambling Act has placed them at a competitive disadvantage to betting shops through the restrictions on the types of machine they’re able to offer and, as a result, AGCs (and bingo premises to a lesser extent) have lost customers to them. While the Government continues to explore the potential association between these machines and an elevated risk of problem gambling, we do not consider it appropriate to review the case for relaxing restrictions on the availability of these machines.
 - **Category B3:** These machines are primarily available in AGCs and bingo premises. These are quite different types of gambling environments, with players often attending them for different reasons. Bingo premises often fulfil a social role in communities and are popular with older, female players. B3s in bingo premises, for example, are also more of an ancillary activity to the main activity of bingo and are often only played during intervals between main stage bingo games.
 - **Category B3A:** These types of machines are only available in members clubs.
 - **Category B4:** The vast majority of these machines are located in clubs. There is a small number offered in AGCs, but most operators offer B3 machines instead as they are considered to offer better value to players.

- **Category C:** These machines are available in AGCs, FECs, bingo premises and pubs. With regards to the latter they are offered only as an ancillary activity. There is no evidence to suggest there is any serious competition between these types of premises, with players likely to play such machines in different venues.
 - **Category D:** These are available in both licensed and unlicensed FECs and form an integral part of the machine offer for seaside arcades. The market is too limited to raise any significant competition issues.
134. Given this market context, the final government proposal is discussed in terms of the effect on competition: Increases in revenue are likely to be broadly similar across all the categories in proportionate terms, with the exception of B2, B3 and some types of category D showing no increase at all as stake and prize levels would remain the same, and B1 being slightly lower than average. Whilst there is likely to be little effect in terms of competition across most sectors, arguments have arisen through the public consultation which suggests the following possible competition impacts:
- Whilst the uplift to B3A machines is consistently supported by those sectors operating the machine type (private member clubs), the Bingo Association argue that such an uplift could erode the differentiation from B3 machines which tend to be placed in Bingo Halls and therefore harm their revenues. However, no firm evidence is presented to substantiate the claims.
 - Competitive impacts might also be felt with regards to category B3 and the AGC, bingo and betting sectors. Whilst the decision to retain the £500 prize limit for this category should maintain the current competitive position between these sectors, it is acknowledged that it would not address what the arcade sector would view as an imbalance between B2 machines provided in betting shops and B3 machines provided in arcades.

Competition effects in the supply chain

135. Competition effects also need to be considered on the supply chain. It is not anticipated that there will be any effect on competition here. Firms tend to specialise their production and therefore tend to compete within categories rather than across categories. Where firms do compete across categories, any stake and prize limit effect on demand through the supply chain will be absorbed through open market competition between firms. There is no question, therefore, of government intervention prejudicing against certain firms in this market.

Impact on employment

136. Given that there are likely to be growth in industry revenues and the supply chain, there is the possibility for employment creation. The machine gaming business is clearly highly automated, and therefore not very labour intensive. Increases in machine gaming revenues are therefore unlikely to drive substantial increases in employment and any small effect is left not quantified, although it would certainly be true to say that changes to stake and prize limits would help to stabilise employment levels within the sector. The machine supply chain is, however, more labour intensive as employees are used to design machine content, and construct machine terminals. The proposals can therefore have a positive impact on employment. Gaming machine manufacturers and suppliers together employ 7,959 staff, according to 2010/11 Gambling Commission information. The increase in machine numbers discussed above is assumed conservatively to lead to a 5% increase in employment in these industries, indicatively equivalent to approximately 170 jobs under the final government proposal.

Macroeconomic impacts

137. The framework for analysis only looks at gambling markets; impacts on machine gaming markets (including industry revenues and consumers) and the machine manufacturing market that supports it (partial equilibrium in nature). It does not take into account wider economic effects in other gambling markets or the rest of the economy (general equilibrium). These potential effects are discussed briefly below.
138. Changes in revenue in machine gaming markets might displace consumption of other gambling activities if there is a substitution effect between the two. Substitution between machine gaming has already been discussed in the assessment of competition set out above. It is also possible, however, for there to be substitution between different types of gambling product. Changes to the stake and

prize limit might increase the desirability of machine gaming relative to, for example, online gaming. Indeed it is possible for increases in machine gambling to lead to additional consumption in other gambling markets. In casinos, for example, increased demand for gaming machines might be complementary to table gambling as consumers who go to play gaming machines become interested in other games. These effects are difficult to assess in a quantitatively meaningful way, with no information immediately available on the cross price elasticity of demand between different gambling markets. Obtaining this level of understanding would involve detailed primary research, which is considered to be disproportional to the policy intervention that is proposed.

139. Under the assumption that there are finite resources in the economy, and that households have a fixed level of income, an increase in consumption in one market must inevitably lead to displacement of some other economic activity be that consumption in other product markets or the savings markets. Whether this displacement is of net benefit to the UK depends on location of production of products that are being displaced. If increases in domestic consumption displace imports, there is a positive effect on national output. Where increases in one form of domestic consumption displace other forms of domestic consumption or exports, the effect on national output and economic welfare can be positive, neutral, or negative if the efficiency of market signals and the presence of any externalities. Having made these points, it is worth noting that where the economic resources are unemployed in an economy, the level of displacement is likely to be diminished. Increases in demand can take up slack resources and increase aggregate national output levels. This point is particularly important in the current economic climate, and suggests that the proposed policy intervention will make a contribution to economic growth and recovery. Furthermore, the expected level of impact from the final proposal is very small in comparison to the total size of the economy, and any effect here is likely to be small. The average annual impact to industry revenues of approximately £98m per annum under the final government proposal represents a change of less than 2% relative to the whole of the gambling industry, and a miniscule fraction of the total economy. Treating the issue of displacement as it relates to economy wide growth in a quantitatively meaningful way is not currently possible. To attempt this would require an advanced computable general equilibrium model that incorporates gambling markets. This is not available, and would require time consuming and expensive primary research. It is even not clear that even this technique would yield useful results given small policy changes.

Impacts on individuals and society

140. 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;
 - To protect children and other vulnerable persons from being harmed or exploited by gambling.
141. Advice from the Gambling Commission suggests that the proposed changes to stake and prize limits are unlikely to have any significant detrimental effect on the first two licensing objectives. Any changes to stake and prize will not affect the licencing and compliance approach that is currently taken by the Commission. The situation is less clear in terms of the third licensing objective. Problem gambling is defined and measured nationally within the British Gambling Prevalence Survey (BGPS) published by the Gambling Commission (2011a). Problem gambling is specified as “gambling to a degree that compromises, disrupts, or damages family, personal or recreational supports”. The BGPS measures gambling according to the Diagnostic and Statistical Manual of the American Psychiatric Association (DSM-IV), and the Problem Gambling Severity Index (PGSI) techniques, both of which are internationally recognised screens, which have been widely used in population prevalence surveys. The DSM-IV detects problem and non- problem gamblers, whereas the PGSI measures non-problem, at risk, and problem gamblers.
142. Both screens were used in the 2007 and 2010 BGPS. The results of these measures are set out in *Table 28* below which presents the most recent BGPS data point only from 2010, and converts the proportions that this report supplies into number estimates with 2010 midyear population data from ONS. This table shows the central estimate, alongside the high and low range that represents a confidence level in the accuracy of the results of 95%. The DSM-IV estimate of problem gambling rose from 0.6% to 0.9% between 2007 and 2010, an increase that is on the boundary of statistical significance, whereas the PGSI estimate of problem gamblers remained unchanged at 0.7%.

Table 28: Prevalence rate of problem gamblers in 2010 BGPS:

Estimate	DSM-IV	PGSI
Central	0.9%	0.7%
Low	0.7%	0.5%
High	1.2%	1.0%

143. If the industry’s projection of growth is realised, this would suggest an increase in the numbers of people gambling either through more new people gambling, or the same people gambling more. On a very basic level as consumption grows there is a risk that rates of problem gambling among vulnerable persons increases. In theory this risk should be able to be assessed through a general analysis of potential changes to the prevalence of problem gambling within society is made, with an attempt to monetise this impact.
144. However, there are significant problems with this approach. Although there is a considerable body of research available on the structural characteristics of gaming machines (for example the size of stake and prize) there is actually only a very limited consensus as to what extent these characteristics might drive problem gambling behaviour. The Gambling Commission advise that this lack of consensus makes it difficult to make any sort of definitive assessment of what changes in stake and prize limits might do to problem gambling rates.
145. This is further complicated by the fact that the British Gambling Prevalence Survey only measures the prevalence of gambling within Great Britain. It does not demonstrate causality. All that can be said is that problem gamblers appear to participate in a range of gambling activities but it is not possible to establish any link between a particular activity and problem gambling. As a result the BGPS cannot be used to extrapolate or predict what any change in stake and prize levels might mean in terms of numbers of problem gamblers.
146. The Government also sought advice from the Gambling Commission and the Responsible Gambling Strategy Board (RGSB) as to whether it might be possible to monetise the cost to society of increased problem gambling. However, the RGSB in its response made the following statement: ‘In the absence of a data framework there is currently insufficient evidence to assess conclusively whether the proposed changes to stake and prize limits would cause harm’. Indeed, the focus of the RGSB’s advice centred around two things; i) the need for a player centred approach to harm minimisation and ii) the need to undertake rigorous pre- and post-legislative assessment of the impact of the government’s proposals, in particular on player behaviour. Indeed, whilst the RGSB’s response did not provide any clarity with regards to the impact of the proposed legislation, it did reaffirm the need for collection of evidence and a need for a new and more effective player centred approach to harm prevention.
147. In light of this, the Government and the Gambling Commission continue to work closely with industry trade associations to secure the development of enhanced social responsibility and harm mitigation measures. Given that maintaining consistency with the licensing objectives remains a central objective of the review, the Government has made clear its expectation that the mechanisms for enforcing and evaluating these measures are formalised, often through the production of industry codes. This is particularly the case for B1 machines where significant increases in stake and prize limits are agreed on the basis of the industry’s commitment to developing, trialling and evaluating harm mitigation measures. Such data will allow for the impact of changes to be monitored and will inform any future reviews.
148. However, fully assessing the impact of the changes remains a difficult matter because there is no academic consensus on: the nature of the economic impacts of problem gambling, the valuation that can be accorded to those impacts, and the extent to which these impacts have already been internalised or taken into account by the individuals affected by them.
149. For example the Scottish Executive (2006) has previously published a literature review of the research on the social impacts of problem gambling which included a section reviewing the available evidence on the societal costs of problem gambling. The report concluded that a robust assessment of the societal costs associated with problem gambling was beyond currently available understanding and technical ability. Indeed, recently received advice (2013) from the RGSB confirms the continued lack of robust evidence; it states that ‘there is currently insufficient evidence to assess conclusively whether the proposed changes to stake and prize limits would cause harm’.

150. The lack of empirical evidence on likely changes to the rate of problem gambling the unit costs of problem gambling for the UK economy therefore precludes a monetised assessment of the potential problem gambling risk that is associated with a change in stake and prize. Given the uncertainty associated with this analysis the Government has undertaken a supplementary qualitative assessment of the relative risk across machine gaming categories, with reference to the threat of problem gambling both in the vulnerable adult population and amongst children:

Table 29: Assessment of relative risks of the final government proposal:

Machine Category	Final Government Proposal
B1	Medium
B2	Low
B3	Low
B3A	Low
B4	Medium
C	Medium
D	Low

151. Based on the currently available information the Government has assessed the risks as follows:

- B1: Whilst the government proposes an uplift to £5/£10 000, this is only agreeable on condition that the industry voluntarily commits to implementing enhanced protection measures and a robust mechanism for monitoring the effectiveness of those mechanisms going forward.
- B2 and B3: The government proposes to maintain these categories stake and prize limits at their current levels, which would represent no additional risk to player protection.
- B3A: In line with the industry’s request the Government proposes to increase the maximum stake only and retain the current prize limit which would represent little perceptible increase in risk to player protection.
- B4 and C: The government has not been confronted with rigorous evidence with regards to the impact of these proposed changes and is of the opinion that the licensing objectives will not be compromised. However, given the quantitative uncertainty surrounding the impacts and the size of the increase we categorise the risk as medium.
- D: The Government supports an increase in stake and prize limit to coin pusher/penny fall machines but proposes to maintain limits at existing levels for all other types of category D machines. This is on the basis that the industry sees no benefit in the increases proposed by the Government under package four. These changes represent little perceptible risk to player protection.

152. It should also be noted that any decisions regarding changes to stake and prize limits will not be taken in isolation but rather within the context 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.

153. For example, most gambling premises will continue to be non-accessible to people under the age of 18. Where under-18s are allowed (for example FECs or some bingo premises) stringent controls remain in operation via 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).

154. 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.

155. Given the lack of monetised data to assess the impact on problem gambling for this triennial review, DCMS, the Gambling Commission and the RGSB are acutely aware of the need to develop the evidence base. However, one of the most effective ways of achieving this is by altering the stake and prize limits for this review. In doing so, a much needed opportunity to capture the impact of this type of change to the regulatory environment on both industry revenues and problem gambling would be facilitated. This position is supported by the RGSB which states how important it is that future assessments are based on data from real gambling in the UK. Providing arrangements are made to undertake both pre- and post-legislative assessments of the impact of the regulatory changes, these proposed changes should facilitate much more informed assessments based on comprehensive quantitative evidence to take place for future reviews.

Conclusions: benefits, costs, and the desirability of the policy proposal

156. The impact assessment has taken account of a number of impacts including business revenues, supply chains, exchequer, employment, and society. These are summarised for the central estimate only in *Table 29* below (rounded to no decimal places).

Table 30: Summary of impacts of final government proposal (all 2009 prices):

Impact Area	Final Government Proposal
PV Industry revenues	£141m
PV Industry costs	£42m
EANCB	£-34m
NPV	£99m
Employment	Likely positive impact
Society	Possible negative impact

157. In the Government’s view the measures contained in its final proposal best meet the objectives for the triennial review set out in paragraph 34 of this IA. They are designed to provide stability through the protection of jobs and revenue to those sectors of the gambling industry facing serious economic challenges at present. This will act as a platform for growth in future years and will be monitored through future triennial reviews. These measures should also stimulate growth across the gaming machine manufacture and supply sectors through encouraging the development of new products, in turn encouraging operators to invest in new machines and software.

158. It is also the Government’s view that its final proposal will maintain the existing relativities between the gaming machine categories. This should help to ensure competition within what is a regulated industry remains balanced across the different sectors.

159. The Government accepts that, based on current available data, there is some theoretical risk to the Gambling Act’s licensing objective to protect young and vulnerable people from the harm that gambling might cause. However, in its view the overall level of player protection in place through the provisions of the Gambling Act is more than adequate to mitigate such risks. The Government is not proposing to take forward the industry’s potentially contentious request for a £1,000 prize limit for B3 machines; and where a large increase is being considered in relation the B1 prize limit this will be solely in the context of the heavily regulated casino sector and with the knowledge that the casino sector is already committed to introducing additional player protections. The other aspects of the final government proposal only apply to lower risk categories of gaming machine and, in the Government’s opinion, do not prejudice player protection.

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ANNEX A – Post Implementation Review (PIR) Plan

Basis of the review:

The PIR plan will form part of the triennial review process. The Government has made a commitment to implement a regular, systematic review of gaming machine stake and prize limits; the impact of any measures implemented as part of the 2012/13 review will therefore inform the next review scheduled for 2016.

Review objective:

The objectives of the review cycle will be to:

- Ascertain how far the measures have encouraged growth across the industry (for example have they generated the predicted increases in revenues; have jobs been protected or further jobs created);
- Assess the relativities between gaming machine categories and whether they have impacted on competition across the different sectors of the industry;
- Assess the impact of any measures against the licensing objectives of the Gambling Act 2005, with emphasis on the protection of young and vulnerable people from the harm that gambling might cause, and consider whether levels of player protection remain adequate;

Review approach and rationale:

The impact of any measures brought into force will be monitored and assessed by the Gambling Commission and DCMS. There will be three broad approaches to collecting data:

- Short term bespoke analysis commissioned by the Gambling Commission or DCMS, with input from industry bodies including trade associations;
- Over the longer term additional data will be collected more systematically through the regulatory return process administered by the Gambling Commission;
- The Responsible Gambling Strategy Board has provided advice on the type of data that would enhance a data framework and allow for the impact of any changes in stake and prize limits to be evaluated. Specifically, the RGSB advise that data from play sessions could be linked to other demographic information, allowing an assessment of the impact on those most likely to be at risk of harm and could be linked within the same operator and across operators. The population of this data framework by the industry will allow for the evaluation of the impact of any measures on player protection objectives and assessment of gambling harm minimisation strategies where necessary.

This approach has been chosen to inform the triennial review process and support the review objectives outlined above.

Baseline:

The 2012/13 review will be assessed against the theoretical baseline represented by options Package 1 (do nothing). Monitoring and assessment of any measures implemented in 2013 will then form the baseline for future reviews from 2016 onwards.

Success criteria:

Success of the review process will be considered against the following criteria:

- Whether the measures have led to any demonstrable growth across the gambling industry;
- Whether the measures have maintained the balance of competition across the industry;
- The extent to which any measures brought into force remain consistent with player protection and gambling related harm minimisation.

Monitoring information arrangements:

The Gambling Commission already collected a range of data from the industry through its regulatory return process. Businesses are required by the Gambling Act to provide the data requested, which is published in the Gambling Commission's Industry Statistics. There is lag between the period covered by the regulatory return and when the actual data is collected. To mitigate this additional data will be collected by DCMS and the Gambling Commission from industry bodies including trade associations. The review will also take into account work currently underway as part of a research programme recommended by the Responsible Gambling Strategy Board which is looking into gaming machines. The Strategy Board will also advise on whether any further research might be necessary as a result of any outcomes of the review process.