



department for
**culture, media
and sport**

Gambling Act 2005: Triennial Review of Gaming Machine Stake and Prize Limits

Proposals for Changes to Maximum Stake and Prize Limits for
Category B, C and D Gaming Machines

15 January 2013

Our aim is to improve the quality of life for all through cultural and sporting activities, support the pursuit of excellence, and champion the tourism, creative and leisure industries.

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Chapter 1: Introduction

Proposals and intended benefits

1.1 Prior to the Gambling Act 2005, a “triennial review” of the maximum stake and prize limits across different types of gaming machines became established, with the Gaming Board of Great Britain advising government on proposals from the gambling industry. The review mainly considered whether increases were required to keep stake and prize levels in line with inflation. It was based around a three year planning cycle, with the last one held in 2001, but there have been significant changes in the market since then in terms of regulatory approach and technological development.

1.2 The Gambling Act came into force in 2007, but no provision was made at the time to continue periodic reviews of stake and prize limits. Instead, any changes to maximum limits were targeted towards specific sectors in response to business needs. While this approach worked to some extent, the gambling industry argues that the lack of a periodic review across all gaming machine categories has left businesses unable to properly plan capital investment to develop new products in order to respond to consumer demand. It also means tensions have arisen across some of the categories of gaming machine, with some stake and prize limits falling out of kilter with each other and eroding the distinctions that regulations made under the Gambling Act originally put in place.

1.3 As part of its drive to create the conditions for growth in the gambling industry by stripping away unnecessary red tape and stimulating private sector investment, the government has decided to implement a more coherent approach to stake and prize regulation based on the previous triennial review system. It hopes the reintroduction of a more coherent approach to the review of maximum stake and prize limits will encourage machine manufacturers to develop new products and better help operators plan future investments. Such a system will also be better placed to consider the relativities between different categories of gaming machine and ensure competition across the industry remains balanced within the context of a regulated market.

1.4 As part of this new approach, the government asked industry organisations and other stakeholders to put forward proposals for changes to stake and prize limits for consideration in 2013. Chapter 3 of this document discusses those proposals and sets out the government’s preferred options for change across category B, C and D gaming machines with a view to providing financial assistance to sectors of the industry that are currently struggling, in particular the arcade, pubs and the gaming machine manufacturing and supply sectors, where businesses and jobs are under threat.

1.5 But growth across the industry must not be at the cost of public protection. Gambling regulation must remain robust and the government is therefore keen to consider research about the relationship between gaming machines and gambling-related harm as part of a periodic review process, including the adoption of technology-driven harm minimisation measures. The government hopes this will allow a move towards a more long term, strategic approach to stake and prize regulation that is better targeted and more proportionate in its scope. To ensure the success of this approach, there will necessarily be a greater level of scrutiny of proposals than under the previous system, to enable government to fully understand the social and economic impacts of any changes.

Legislative framework

1.8 Section 236 of the Gambling Act provides that regulations made by the Secretary of State to define the different categories of gaming machine can include monetary limits on stakes and prizes applying to the different types of machine. The Categories of Gaming Machine Regulations 2007 (SI

2007/2158) first used these powers to set stake and prize limits on gaming machines, and those powers were used subsequently to amend the 2007 Regulations with regard to the stake and prize limits for category C and D gaming machines (SI 2009/1502) and category B3 gaming machines (SI 2011/1711).

Consultation

1.9 The government is bringing forward proposals for revisions to the maximum stake and prize limits for category B, C and D gaming machines. An Impact Assessment containing a cost/benefit analysis of the proposals has been published alongside this document. The Government would also like to gather views about whether a review based on a three year cycle is the best approach and whether utilising new technology (such as player tracking) could offer an alternative basis for customer protection.

1.10 This is a public consultation. We particularly seek views from businesses who offer gaming machines as part of their consumer offer, those who manufacture and supply gaming machines, charities and other organisations with an interest in problem gambling as well as faith and community groups. We would also welcome views from any other interested parties or individuals, and all responses will be carefully considered.

1.11 The consultation period will run from 15 January 2013 to 9 April 2013.

1.12 Please respond before the closing date. There is a summary of the questions in Chapter 4. Responses should be sent to gambling.consultations@culture.gsi.gov.uk. If you do not have access to email, please respond to:

Caity Marsh
Gambling (Triennial Review)
Department for Culture, Media and Sport
2-4 Cockspur Street
London SW1Y 5DH

1.13 This consultation is intended to be an entirely written exercise. Please contact Caity Marsh on 020 7211 6000 if you require any other format e.g. Braille, Large Font or Audio.

1.14 For enquiries about the handling of this consultation please contact the DCMS Correspondence Team at the above address or e-mail using the form at www.culture.gov.uk/contact_us, heading your communication "Gambling Act 2005: Triennial Review of Gaming Machine Stake and Prize Limits".

1.15 Copies of responses will be published after the consultation closing date on the Department's website: www.dcms.gov.uk

1.16 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 ("FOIA"), the Data Protection Act 1998 ("DPA") and the Environmental Information Regulations 2004).

1.17 If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

1.18 The Department will process your personal data in accordance with the DPA, and in the majority of circumstances, this will mean that your personal data will not be disclosed to third parties.

Chapter 2: Background and rationale for intervention

Background

2.1 According to the British Gambling Prevalence Survey 2010¹, 73% (35.5 million) of the adult population in Great Britain had participated in some sort of gambling in the past year. Excluding those who have only gambled on the National Lottery, 56% of adults had gambled in some other way. The survey showed that 13% of adults had played on slot machines whilst 4% had played fixed odds betting terminals. The gambling industry is a significant contributor to the UK economy: the Office for National Statistics estimated that in 2009 it was directly worth £4.9bn in Gross Value Added terms, while the industry itself directly employs over 111,000 people.

2.2 The industry is broken down into sectors, each offering a different mix of gambling products across a range of premises:

- 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.

2.3 Gambling is also permitted in certain premises holding a licence authorising the sale of alcohol for consumption on the premises (most commonly pubs) and members' clubs (for example, working men's clubs, political clubs and commercial clubs).

2.4 All commercial gambling in Great Britain (with the exception of spread betting and the National Lottery) is regulated through the Gambling Act 2005, 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:

Machine category	Maximum stake	Maximum prize	Age restriction
A	Unlimited	Unlimited	Over 18s only
B1	£2	£4,000	Over 18s only
B2	£100	£500	Over 18s only
B3	£2	£500	Over 18s only
B3A	£1	£500	Over 18s only

¹ British Gambling Prevalence Survey 2010, National Centre for Social Research 2011 (published by the Gambling Commission at http://www.gamblingcommission.gov.uk/research__consultations/research/bgps/bgps_2010.aspx)

B4	£1	£250	Over 18s only
C	£1	£70	Over 18s only
D non-money prize (other than crane grab machine)	30p	£8	No age restriction
D non-money prize (crane grab machine)	£1	£50	No age restriction
D money prize	10p	£5	No age restriction
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)	No age restriction
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)	No age restriction

Rationale for intervention

2.5 The government is committed to creating the conditions for growth across all leisure institutions, including the gambling industry, through stripping away unnecessary red tape and stimulating private sector investment. At the same time, in the case of activities such as gambling, growth cannot be at any cost. Although the present level of problem gambling (as measured by the British Gambling Prevalence Survey 2010) is relatively low in international terms at 0.9%, the government does not want to see any increase in this figure. It will therefore only support proposals where it believes there is little risk to the licensing objectives of keeping crime out of gambling, ensuring gambling is fair and protecting children and vulnerable adults.

2.6 The gambling industry argues that sustaining existing business and achieving growth can be done through increases to the maximum stake and prize limits for gaming machines. In their view this creates opportunities for manufacturers to develop new products in order to meet changes in customer preferences and expectations, which in turn allows operators to refresh their gaming machine offer, thus creating benefits across the industry in terms of increases to machine revenues and order books. This approach, however, does carry a theoretical risk of increasing levels of gambling-related harm in the general population.

2.7 Controls for gaming machines, including limits to stakes and prizes, have traditionally been set by central government, reflecting wider held concerns in society about problem gambling and the harm machine gaming might cause to some individuals. Since 2007 interventions by government to amend stake and prize limits have been targeted towards certain categories of gaming machine in response to lobbying from individual sectors seeking more flexibility in order to prevent closures of premises and job losses:

- 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 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.
- In July 2011 the government increased the maximum stake limit for category B3 gaming machines from £1 to £2 in order to provide assistance to AGCs and bingo premises and provide a boost to gaming machine manufacturers and suppliers.

2.8 This approach provided some relief to the sectors in question, but the arcade, pub, manufacturing and supply sectors continue to struggle. Analysis suggests that the likely trend across these areas is for capital expenditure on gaming machines to mirror overall sector performance, which will in turn influence the annual sales value for different machine categories. Based on current figures, it appears that if this trend continues the sales value for most categories of gaming machine,

with the notable exception of B2s, is likely to continue on a negative path, which will in turn reduce investment by the manufacturers in new products and thus perpetuate the cycle.

2.9 The gambling industry argues that a key factor in this decline was the failure at the time of the implementation of the Gambling Act to continue a periodic review of stake and prize limits. They claim that as a result of the subsequent piecemeal approach to the reviewing of stake and prize limits gambling businesses have been unable to make the type of investments required to provide for longer term growth. In addition, it is claimed that this approach has led to tensions across the regulatory framework. For example, the casino industry has questioned, understandably, whether it is right that gaming machines in casinos should be limited to the same maximum stake level as those in arcades. Since 2007 the industry has called for the government to reintroduce the system of triennial reviews for stake and prize limits.

2.10 Analysis of the British gaming machine market shows a mixed picture across the industry, with some sectors doing better than others. An overview of the market and its constituent elements is set out in full at Appendix A. In summary, while the arcade and pub sectors are continuing to struggle, the betting sector appears to be in a strong position. The gaming machine manufacturing and supply sectors are experiencing difficult trading conditions but this can only partly be attributed to trends elsewhere in the industry. The development in technology over the last decade and in particular the increasing use of server based technology has also had an impact on many traditional businesses in these areas. There are also some sectors where the relative stability suggests that further growth and the benefits this would bring in terms of revenues and jobs could be achieved with relatively minimal risk to public protection objectives, such as in the bingo and casino sectors.

2.11 The government has taken account of the arguments put forward by the industry, and on 13 October 2011, the then Minister for Tourism, John Penrose, announced that the government would reintroduce a triennial review system, to provide the more coherent and systematic approach to reviewing stake and prize limits that the industry had requested. The government thinks that a periodic review of stake and prize limits could offer gambling businesses some operational flexibility and freedom, providing a platform for a moderate level of growth while at the same time putting in place a process that can properly assess and balance such flexibility against the risks to the public protection objectives of the Gambling Act.

2.12 It should be noted though that previous interventions to increase stake and prize limits have provided only temporary relief to the sectors concerned. There are other factors that could have equally influenced the fortunes of those businesses; for example, changing consumer preferences, the development of wider leisure and media offerings in recent years and the increased competition across the gambling industry as a whole. The government is therefore seeking to avoid merely replicating the previous triennial review system. It will aim to ensure the right level of regulation is in place to allow businesses to grow while at the same time maintaining public protection, but it will also assess over the longer term whether there are more efficient and effective ways of regulating stake and prize limits to achieve the same aims.

2.13 The government's objectives for the first post-Gambling Act review are to:

- 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;
- To establish a baseline against which proposals for future reviews can be assessed;
- 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;

2.14 To inform the government's assessment of proposals this first review will, unlike the old process, take into account emerging learning from harm prevention and treatment programmes and explore the scope for more effective targeting of regulation by using new technologies and consumer information. This is on the basis that the more effective harm prevention and treatment is, and the

more opportunities there are to tailor interventions to individual circumstances, the more scope there might be for lessening blanket controls like centrally imposed limits to stake and prize levels.

2.15 A timetable for the 2012/13 review is included at Appendix B. Once it has been completed and the government has a clearer idea from stakeholders about the feasibility of alternative approaches to stake and prize regulation it will consider any implications for the process and assess what flexibility there might be to shorten the timetable or revisit some aspects with a view to streamlining it.

Chapter 3: Options

Approach

3.1 The government wrote to gambling stakeholders on 22 November 2011 to set out proposals for the first post-Gambling Act triennial review, including the timetable. The process is scheduled to take around 18 months and is designed to accommodate the legislative scrutiny requirements that will be necessary should any changes be brought forward.

3.2 The overall process has been based on the review system that became established under the old licensing regime, which adopted a three year planning cycle favoured by operators and manufacturers. It was argued that this was the right amount of time to enable businesses to plan capital investment effectively and for manufacturers to develop and test new formats.

3.3 In reintroducing systematic stake and prize reviews, the government has used this three year planning cycle as its default position. Since the last full review in 2001, however, the industry and its associated technologies have changed a great deal. **The government is keen to hear views on how often it should be holding these reviews. At the moment the next one is scheduled for 2016/17, but given the way technology and the industry has changed since the last full review, the government wants to know if a three year cycle remains the best approach.**

Question 1: How often should government schedule these reviews? Please explain the reasons for any timeframes put forward for consideration.

3.4 As discussed in Chapter 2, the government will explore what options there might be in the long term for more effective targeting of stake and prize regulation. As gaming machine technology progresses, so the scope for developing new approaches to consumer protection measures increases. The increasing use of downloadable server and/or terminal-based technology raises the possibility of making better use of customer information and tracking technology to monitor patterns of play (for example, the length of time a player might spend on a device, whether they appear to be chasing jackpots or losses, the speed of play and so on), thus allowing consumer protection responses to be triggered including a directed reminder to consider length of play and wagering limits. The more scope there might be to tailor interventions more effectively to individual circumstances, the more scope there might be for lessening blanket controls like centrally set limits to stake and prize levels.

3.5 Such an approach might not work for all businesses though. While the move to downloadable content from central servers is becoming more common across the betting and bingo sectors, it might not necessarily work in other areas such as the arcade sector, where many businesses are small, traditional family-run operations. **The government would like to begin gathering views from stakeholders about the possibility of using tracking technology as a basis for customer protection.**

Question 2: The government would like to hear about any types of consumer protection measures that have been trialled internationally, which have been found to be most effective and whether there is any consensus in international research as to the most effective forms of machine-based interventions. The government would also like to hear views about any potential issues around data protection and how these might be addressed.

Question 3: The government would like to hear from gambling businesses, including operators, manufacturers and suppliers, as to whether they would be prepared to in the future develop tracking technology in order to better utilise customer information for player

protection purposes in exchange for potentially greater freedoms around stake and prize limits.

3.6 Following the letter to stakeholders in November 2011 and an open meeting on 19 December 2011, the government encouraged all stakeholders, including industry bodies, problem gambling charities and faith and community groups to put forward proposals for changes to stake and prize limits. In March 2012, responses were received from the Association of British Bookmakers (representing the betting sector); the British Amusement Catering Trade Association (representing the arcade and gaming machine manufacturer and supply sector; also submitting proposals on behalf of the club sector); the Bingo Association (bingo); the British Beer and Pub Association (pub sector) and the National Casino Industry Forum (casinos). No responses were received from problem gambling charities or faith or community groups.

3.7 Discussions around the proposals were undertaken with the industry during April and May. At the same time, the government also considered an alternative approach, examining what benefits might be passed onto the gambling industry by adjusting stake and prize levels to take into account increases in inflation. This was to ascertain how much, if at all, stake and prize limits had declined in relative terms.

3.8 Inflationary uplifts were calculated using deflators published by HM Treasury² and compounded. It was decided to use 2007 as the baseline (when the Gambling Act came into force), 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.

3.9 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 2016/17.

Through this process, the government has put together four packages of measures for consideration:

- **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.**

3.10 The following paragraphs summarise the government's considerations around these packages and the rationale underpinning its preferred options for each gaming machine category. More detail of the considerations and a comprehensive cost/benefit analysis is set out in the Impact Assessment published alongside this document.

² http://www.hm-treasury.gov.uk/data_gdp_index.htm

Package 1: Do nothing

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

3.11 The casino sector has seen a relative period of stability since 2008/09, with the numbers of premises, employees and machines offered to the public remaining largely settled. Revenue from B1 machines (measured as gross gaming yield) has increased over this period. This stability however has not necessarily translated into growth across the sector. There are indications that capital investment from operators has declined in response to economic conditions.

Category B2 (markets affected: betting shops, manufacture and supply)

3.12 The betting sector has seen a period of sustained growth over past three years; in particular, revenue from B2 machines has increased by 22% from 2008/09 across the betting sector. There is no evidence to suggest this current trend will not continue.

3.13 During this period, persistent concerns have been raised by a range of stakeholders about the proliferation or 'clustering' of betting shops within certain local areas. The main source of local concern is often around the B2 machines they offer and their impact on local communities in terms of problem gambling. Many feel the clustering of these premises might be being driven by operators looking to capitalise on the apparent demand for these types of machines. These issues are addressed further on in the consultation document.

Category B3 (markets affected: arcades, betting, bingo, manufacture and supply)

3.14 Performance of these machines over the last three years in revenue terms has been mixed. The government increased the maximum stake limit for B3 machines in July 2011 from £1 to £2. In addition the maximum number of B3s permitted in AGCs and bingo premises were recalibrated to 20% of the total number of gaming machines made available for use within each venue.

3.15 The government estimated that the changes would boost revenues for businesses in those sectors by some £8.6 million per annum. However, no data has yet been made available from the industry to assess the impact of those changes.

Category B3A/B4 (markets affected: clubs, manufacture and supply)

3.16 The maximum stake and prize limits for these machines have remained unchanged since their introduction in 2007. There is no data currently available to allow DCMS to properly assess performance within this sector.

Category C (markets affected: arcades, bingo, pubs, manufacture and supply)

3.17 The stake and prize limits for category C machines were increased from 50p/£35 to £1/£70 in 2009. These changes were part of a package of measures designed to provide some level of economic assistance for seaside arcades and pubs. However, data suggests income across the arcade, bingo and pub sectors has continued to decline, coupled with a decline in the manufacture of category C machines. This appears to have led to an associated drop in employee and machine numbers.

Category D (markets affected: arcades; manufacture and supply)

3.18 The stake and prize limits for category D gaming machines were last increased in 2009 as part of a package of measures brought forward to assist seaside arcades. The most significant change was a new sub-category for crane grab machines with a £1/£50 stake/prize ratio; such machines previously operated at 30p/£8 ratio. The change was intended to enable seaside arcades to offer higher value and thus more attractive prizes in order to try and halt a decline in sales.

3.19 Despite these changes, according to the Gambling Commission's data revenue has continued to decline across the arcade sector, with associated drops in employee and machine numbers, presumably as premises close.

Summary

3.20 Gaming machine revenue in the betting sector has increased over the last three years, but elsewhere the picture is mixed, with cause for concern across arcade, bingo and pub sectors. **The government has therefore rejected this package of measures as it is unlikely to create growth and development of the gaming machine market in order to support economic recovery and create jobs.**

Question 4: Do you agree that the government is right to reject Package 1? If not, why not?

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

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

*If adopted, limits would be rounded in consultation with the gambling industry

Category B1

3.21 Adjusting stake and prize limits to take into account the effects of inflation since 2007 show that current limits still compare favourably. This would offer little benefit to operators or manufactures/suppliers. While a £2/£5,000 stake to prize ratio might offer some initial attraction to players, it is unlikely to encourage the development of new gaming machine products.

Category B2

3.22 An increase to stake and prize limits based on inflation increases since 2007 would be unlikely to have a negative effect on current growth in B2 revenues. However, there is a shortage of data that makes it difficult to assess what the impact of such a change on problem gambling might be and what effect it might have on the supply chain.

Category B3

3.23 While the current maximum stake limit remains roughly in line with inflation, the maximum prize limit does appear to have fallen slightly behind. It is unlikely that any increase along these lines would affect the viability of the B3 product in revenue terms.

Category B3A/B4

3.24 It is difficult for the government to assess the viability of these options packages or the impact they might have on the sector as no data has been made available to support the proposals.

Category C

3.25 Adjusting the maximum stake and prize limits to take into account inflation since 2007 suggests that the current maximum stake limit of £1 is still viable. However, increasing the maximum prize limit to take into account inflation would offer no significant change to the stake/prize ratio and would be unlikely to offer any real benefit to operators or manufacturers. Discussions with the industry and the Gambling Commission suggest this would not be enough to see investment in the design, development and testing of new games and products.

Category D

3.26 Current stake and prize limits appear to remain broadly in line with inflation, but as the industry has not been able to present any further data in addition to what is available from the Gambling Commission, the government is unable to assess how likely it is that any current trends might continue.

Summary

3.27 Increasing the limits to take into account inflation would essentially maintain the status quo and would be unlikely to offer significant benefits to operators, manufacturers or suppliers. **The government has therefore rejected this package as overall it would not create sufficient conditions to encourage growth and development of the gaming machine market.**

Question 5: Do you agree that the government is right to reject Package 2? If not, why not?
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Package 3: Proposals by the gambling industry

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)

Category B1

3.28 The casino sector argues that there is a need to recalibrate stake and prize limits for casino gaming machines to properly reflect the position of casinos in the Gambling Act's regulatory framework. These are the most heavily regulated of gambling premises in line with the level of gambling that is expected to take place on them.

3.29 In their view, the current maximum limits do not provide enough of an incentive for manufacturers to invest in research and development of new products and this has consequently hampered innovation in product development. They argue this could have longer term consequences in relation to customers' perception of value, for example that it might compare unfavourably to table gaming where there are no restrictions to how much a customer may stake or win.

3.30 The sector also argues that the current limits compare poorly with casino gaming machines in other international jurisdictions, which are often unrestricted or operate at much higher levels. They have therefore put forward a proposal designed to bring the UK's overall casino machine offer more in line with international comparisons. In their view, the proposed increase would:

- Increase machine revenue in casinos by 5%;
- Develop new products that will appeal to customers and be competitive against similar online products;
- Stimulate the category B1 market by encouraging manufacturers to develop new products;
- Encourage casinos to reinvest in and refresh their gaming machine offer, thereby also increasing order books for manufacturers and suppliers.

Category B2

3.31 The betting sector is not seeking an increase in stake or prize limits but has argued for the need to maintain the *status quo*. The Association of British Bookmakers (ABB) argues that income from B2 machines has become increasingly important to maintaining the viability of many high street betting shops. In the pre-consultation review it cited that turnover in such shops has declined from £10,063bn in 2008 to £8,787.3bn in 2010 – a drop of 12.7%. Over the same period, the total net revenues (stakes less winnings paid out) also varied between £2.86bn in 2008, £2.71bn in 2009, £2.78bn in 2010 to an estimated £2.88bn in 2011. However, at the same time the percentage contribution of machine income to average shop profits was 39.9% in 2008; this increased to 43.6% in 2009; 46.6% in 2010; and 49.4% in 2011. The ABB feels it is important that the products on offer are allowed to evolve and develop to meet a growing customer demand.

Category B3

3.32 The arcade and bingo sectors have proposed an increase in the prize limit to £1,000. They argue this would:

- Increase machine revenues in AGCs and bingo premises by 10%;
- Boost order books for manufacturers and suppliers by encouraging operators to upgrade existing machines to take advantage of new prize limit.

3.33 In their view, whilst the 2011 changes were beneficial, a significantly enhanced prize offering is now required to make this category of gaming machine good value for players and reinvigorate the machine offering in venues permitted to offer B3s. They argue that the new ratio of stake to prize is now not regarded as good value by customers, and this is supported by the fact that many machines in this category do not currently use the maximum permitted stake and player expectation is that it will generate a larger prize than is permitted by law (although no evidence was put forward to support this statement).

Category B3A

3.34 The industry argues that the current stake/prize ratio is no longer attractive to players: where previously such machines had operated under the Lotteries and Amusements Act 1976 (that is prior to the Gambling Act), they offered prizes of up to £2,000 with stakes of up to £2. The Gambling Act brought them within the definition of “gaming machine” and designated them within a separate machine category with a prize limit of £500. In the industry’s view, this has made lottery machines less attractive to players, resulting in a reduction in revenue to clubs. They argue the club sector should be permitted to reinvigorate this offering to players through an enhanced stake level, restoring the previous stake limit of £2, which they say would translate into an increase in income by approximately 10% (although no evidence was put forward to support this figure).

Category B4

3.35 The vast majority of B4 machines are found in the club sector. The industry argues that because there has not been an increase in the maximum prize limit for these types of machines since 1995 and no increase in stake since 1998, their value has been systematically eroded in comparison to other categories of machine. They claim this has had the effect of stifling investment in the B4 genre and there are now only three manufacturers left that produce B4 machines, which are increasingly built to order.

3.36 The industry argues their proposal would provide software writers with the ability to create a variety of new products which, through encouraging operators to refresh their machine offer, would translate into a proposed increase in revenue of approximately 10% (although no evidence was put forward to support this figure).

Category C

3.37 The industry argues that the 2009 increase to £1/£70 was enough to increase revenues across the arcade, pub and manufacturing sectors in the short term, but it was not enough to offer more long term sustainable growth. It sees an increase in the maximum prize limit to £100 as

necessary to reinvigorate this machine category and make category C products more competitive in the machine and wider gambling marketplace.

3.38 The principal argument therefore relates to product development and the relationship between stake and prize. The British Amusement Catering Trades Association (BACTA) expressed support from manufacturers who indicated that a £100 prize would allow them to develop games offering a greater variety of gaming/entertainment experiences for a customer in an increasingly competitive leisure market. They believe that £100 would encourage innovation and introduce flexibility of game design, thus increasing consumer choice. BACTA, the Bingo Association and the British Beer and Pub Association (BBPA) predict that an increase to a £100 maximum prize limit would see an uplift of 10% on category C revenues across the arcade, bingo, pub and manufacturing/supply sectors (although no evidence was put forward to support this prediction).

Category D

3.39 The arcade sector is seeking changes across three of the sub-categories:

- *Complex (reel-based)*: The sector argues that the maximum limits for reel based machines have remained static since the 1980s and therefore the perception of value to the customer has been eroded dramatically. It is seeking an increase in stake and prize in order to retain the commercial viability of these machines, which it is stated forms a significant part of the machine offer for many amusement businesses.
- *Crane grabs and coin pushers*: The industry argues these types of machines are suffering from the erosion of prize values, and argue that for crane grabs there needs to be more accurate benchmarking against the type of prizes now regarded by the consumer as representing good value, for example iPod nano or X-box games, which have an average value of £50 to £100. In the case of coin pushers, the industry is seeking to be able to offer slightly higher value prizes in order to refresh the offer.

3.40 The sector predicts that changes to these three sub-categories would see revenues in arcades increase by 10% annually (although no evidence was put forward to support this figure).

Summary

3.41 There are aspects of Package 3 that the government thinks have merit:

- *Category B1*: Given the nature of the games offered on B1 terminals, it is likely the proposed increases would offer a suitable inducement to manufacturers to develop new products. A £5/£10,000 ratio could also allow products to be developed that would make better use of the linked progressive jackpot provisions contained in the Gambling Act. Concerns remain, however, about the potential social impact of such a level of increase and government would need to seek additional assurances from the sector about consumer protection.
- *Category B2*: The government acknowledges the ABB's arguments about the importance of B2 machines to the economic viability of betting shops. It also acknowledges the widespread concerns from other stakeholders about these machines. However, the causal link between B2s and problem gambling remains poorly understood (although the association between gaming machines, particularly high stake, high prize machines and gambling-related harm is widely accepted); without such evidence there is a risk of introducing disproportionate and untargeted regulation that could cost jobs.
- *Category B3A/B4*: Despite the lack of contextual data, it is acknowledged that these types of machines are important to members' and commercial clubs in terms of the revenues they generate. It is also noted that these machines are almost exclusively limited to the club sector, thereby limiting the potential impact of any changes.
- *Category C*: There are clearly serious concerns across the industry about the performance of this machine category 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.

3.42 The government is therefore minded to take forward the industry's proposals in these categories, as set out under **Package 4**. However, there are aspects of Package 3 around which the government has concerns:

Category B3

3.43 The rationale to justify the level of increase being sought is not credible at this time. No convincing evidence has been presented to justify why the maximum prize limit for B3s should be higher than the maximum prize limit for B2s. In the government's view such a change would not be consistent with the regulatory framework and would risk changing the nature of the B3 product. In addition, there is not enough data in the industry's case to allow a proper assessment of what the wider effect of such a move might have across industry as a whole.

3.44 The stake increase implemented in 2011 was made in response to specific proposals from the AGC and bingo sectors. At no stage was there any suggestion that a 100% increase in the prize level would follow. In the government's view, this undermines arguments with regard to players' perception of value, especially as no analysis of the impact of the changes so far was submitted with the business case. It was also estimated at the time that the recalibration of AGC and bingo premises' B3 entitlements introduced in 2011 would see an additional 3,000 B3 machines injected into the market. The government would want to monitor the impact of this change first in relation to the licensing objectives before considering further changes.

Category D

3.45 The government's primary concern in this area is the potential social impact of any changes, which have not been adequately considered or addressed by the industry submission. It is mindful that many of these types of machines are popular with children and, while they may be regarded primarily as amusements, they are gambling nonetheless. In particular:

- *Crane grabs*: The government accepts the argument that consumer tastes change with regard to the perception of value of the types of prizes offered by these machines. It is keen to ensure that they remain commercially viable to operators, but it does not think it is right that the maximum prize level of a machine which is designed to be played by children should match that of a category C gaming machine which is restricted to adults only. There must be a distinction between the two categories.
- *Category D complex (reel based)*: This is perhaps the most sensitive area as these machines remain essentially gaming machines that can be played by children, as opposed to primarily amusement machines for prizes such as crane grabs or coin pushers. In the case of the Gambling Act, it was Parliament's intention that the value of cash prizes for these types of machines should be lower than for other types of category D machines. There is a clear distinction between machines played for amusement and more straightforward gambling. This distinction should be retained.

3.46 The government therefore rejects the industry's proposal for category B3 at this time on the grounds that it does not meet the stated objective of balanced competition within a regulated market.

3.47 The government also rejects the industry's proposals around category D as they stand on the grounds that they do not sufficient assurances on public protection in relation to the level of change being proposed. However, the government would be willing to consider some increase in stake and prize levels to ensure the commercial viability of these products. Its preferred options are outlined in **Package 4**.

Question 6: Do you agree with the government's assessment of the proposals put forward by the industry (Package 3)? If not, please provide evidence to support your view.

Package 4: Government's preferred options

3.48 Based on its consideration of the first three packages, the government proposes the following range of preferred options:

Category	Current max stake	Current max prize	Max. stake: Preferred option	Max. prize: Preferred option
B1	£2	£4,000	£5	£4,000/£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

3.49 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. For example, it is incongruous that gaming machines offering games based on roulette or blackjack are limited to a £2/£4,000 stake/prize ratio when sited next to automated table games where the same product is offered with no restriction on how much might be staked or won.

3.50 The government also agrees that the current limits do not compare favourably with gaming machines offered by casinos in other jurisdictions overseas, where it is common to offer machine gaming without statutory restrictions to stake and prize. But that in itself does not fully justify an increase in the maximum prize limit from £4,000 to £10,000, particularly given the lack of clarity at present as to how the industry expects to achieve an increase in revenues.

3.51 The industry, however, has signalled to government its willingness to consider trialling further the types of consumer protection measures discussed earlier at paragraph 3.4, such as the better use of tracking technology to monitor patterns of problem play (for example the length of time a player might spend on a device, whether they appear to be chasing jackpots or losses, the speed of play and so on), thus allowing consumer protection responses to be triggered including a directed

reminder to consider length of play and wagering limits. Such measures could go a long way to giving reassurance about potential risks to public protection.

3.52 The government is therefore willing to support an increase in the maximum stake level from £2 to £5.

3.53 It is also willing to take views on a range of maximum prize limits: £4,000 (i.e. no change), £7,000, £10,000 and £15,000 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. The level of increase will ultimately depend on how far the industry is willing to commit to trialling other sorts of harm mitigation measures.

Question 7: Do you agree with the government's proposal for adjusting the maximum stake limit to £5 on category B1 gaming machines? If not, why not?

Question 8: Do you consider that this increase will provide sufficient benefit to the casino and manufacturing and supply sectors, whilst also remaining consistent with the licensing objectives of the Gambling Act?

Question 9: Do you agree with the government's proposal for adjusting the maximum prize limit on B1 gaming machines?

Question 10: If so, which limit would provide the most practical benefit to casino and machine manufacturers without negatively impacting on the licensing objectives of the Gambling Act?

Question 11: Are there any other options that should be considered?

Question 12: The government would also like to hear from the casino industry and other interested parties about what types of consumer protection measures have been trialled internationally, which have been found to be most effective and whether there is any consensus in international research as to the most effective forms of machine-based interventions?

Category B2

3.54 The Government acknowledges that B2 machines (sometimes referred to as fixed odds betting terminals, or FOBTs) are important to the economic viability of many betting shops, and associated economic investment and employment. However, it cannot ignore the persistent concerns from many stakeholders and local communities about these types of gaming machines and their potential impact on problem gambling.

3.55 If there is a problem with these machines then government should act. The difficulty at the moment is that there is no clear evidence to indicate whether B2 gaming machines have had any significant effect on the level of problem gambling in Britain. The government has a duty to ensure that any policy or regulatory changes it considers are based on firm evidence and factual foundation. However, there is strong consensus that although there may be a lack of evidence of a causal link between gaming machines (of whatever type) and problem gambling, it is a statement of fact that some players are harmed by gambling on machines.

3.56 While there is wide consensus that there is some link between problem gambling and machine gambling, and it is indisputable that some people are at risk of spending far too much time and money on them (which is why there are controls on numbers and stakes and prize), there is no consensus as to the nature of that link, how great the risks are or what actions would mitigate the risks without having disproportionate impact on those not at risk. The difficulty for the government in deciding whether to act in response to public concern about B2 machines is the lack of evidence on whether B2 gaming machines in themselves have had any significant effect on the level of problem gambling in Britain. The government has a duty to ensure that any policy or regulatory changes it considers are based not on concern and anecdote alone, but are supported by firm evidence and factual foundation.

3.57 The government's primary concern, therefore, is to address this lack of evidence. The Responsible Gambling Strategy Board (RGSB), the Gambling Commission's advisory body on research into, education about and treatment of problem gambling, has set out its strategic priorities

for research needed to understand problem gambling in its current Strategy (2013-2016) published in December 2012. Within this strategic framework, research into the risk factors associated with gambling and the most effective harm prevention and treatment measures for problem gambling will be commissioned by the Responsible Gambling Trust. This will include a project specifically looking at all types of category B gaming machines, including B2 machines, and the relationship between gaming machine features and consumer behaviour. The work will take about 18 months and will seek to provide a steer for policy judgements as to the concerns that have been expressed. If there is evidence to prove that they are causing harm, then the government will take appropriate action.

3.58 However, this research is a long term project. Given on-going concerns that have been raised about B2 machines, the government wishes to consider whether there is sufficient evidence currently to support a precautionary reduction in the stake and/or prize level for B2s. If so, what would be an appropriate level of reduction, and what is the evidence to support this (such as a link between stake and prize levels and player behaviour)? The government seeks quantifiable evidence that a reduction in B2 stake and/or prize would have an effect (positive or negative) socially, in terms of increased or decreased risk of gambling related harm, or economically, in terms of the impact on high street betting shops, investment and employment. It would also welcome views on whether there might be other harm mitigation measures which would provide a better targeted response than changes in stake and prize levels. If there is no clear evidence at this time, then the government will retain the current stake and prize limits for B2 machines as part of this review, and await the conclusion of the longer term research. **It should be noted that consideration of the analysis of the evidence on B2 machines might take longer than indicated in the timetable at Annex B. If that is the case, the Government will not delay other changes while it considers this evidence.**

Question 13: The government is calling for evidence on the following points:

- a) Does the overall stake and prize limit for B2 machines, in particular the very wide range of staking behaviour that a £100 stake allows, give rise to or encourage a particular risk of harm to people who cannot manage their gambling behaviour effectively?**
- b) If so, in what way?**
- c) Who stakes where, what are the proportions, what is the average stake?**
- d) What characteristics or behaviours might distinguish between high spending players and those who are really at risk?**
- e) If there is evidence to support a reduction in the stake and/or prize limits for B2 machines, what would an appropriate level to achieve the most proportionate balance between risk of harm and responsible enjoyment of this form of gambling?**
- f) What impact would this have in terms of risks to problem gambling?**
- g) What impact (positive and negative) would there be in terms of high street betting shops?**

Question 14: a) Are there other harm mitigation measures that might offer a better targeted and more effective response to evidence of harm than reductions in stake and/or prize for B2 machines?

- b) If so, what is the evidence for this and how would it be implemented?**
- c) Are there any other options that should be considered?**

Category B3

3.59 As discussed under Package 3, the government does not think there is sufficient evidence to support an increase in the prize limit to £1,000, especially so soon after changes to the maximum stake limit and premises entitlements were introduced in 2011 (the effects of which are still to be assessed).

3.60 The government therefore proposes to retain the £500 maximum prize limit.

Question 15: Do you agree with the government's proposal to retain the current maximum stake and prize limits on category B3 gaming machines? If not, why not?

Question 16: Are there any other options that should be considered?

Category B3A/B4

3.61 The government is mindful that no supporting data has been submitted in support of the industry's proposals. However, it also understands the importance of machine gaming revenue to the viability of clubs. With that in mind, it proposes the following:

- *Category B3A*: An increase in the maximum stake limit could benefit clubs and is unlikely to be detrimental to other sectors. **The government is therefore minded to consider bringing forward an increase in the maximum stake level;**
- *Category B4*: The maximum prize limit for B4s should remain lower than that B3s; the issue is the relative size of jackpots between the two categories. It accepts the industry's argument that an increase in the maximum stake and prize levels would benefit clubs, and would unlikely to be detrimental to other sectors of the industry. **It is therefore minded to consider bringing forward an increase in the maximum stake and prize levels.**

Question 17: Do you agree with the government's proposal for adjusting the maximum stake limit to £2 on category B3A gaming machines? If not, why not?

Question 18: Do you consider that this increase will provide sufficient benefit to members' and commercial clubs, whilst also remaining consistent with the licensing objectives of the Gambling Act?

Question 19: Are there any other options that should be considered?

Question 20: Do you agree with the government's proposal for adjusting the maximum stake to £2 and maximum prize to £400 for category B4 machines? If not, why not?

Question 21: Do you consider that this increase will provide sufficient benefit to members' and commercial clubs and other relevant sectors, whilst also remaining consistent with the licensing objectives of the Gambling Act?

Question 22: Are there any other options that should be considered?

Category C

3.62 The government recognises the concerns that exist across the industry about the performance of this machine category and its importance to the gaming machine market overall. Category C machines form the bulk of the machine estate 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.

3.63 The previous increase in 2009 did give some short term benefit to the arcade and pub sectors, but it is mindful that the industry put forward a strong case then for a £1/£100 stake/prize ratio. This has remained the preferred option. An increase in the maximum prize limit to £100 would deliver significant benefits to the arcade, bingo and pub sectors. In terms of volume sales, category C machines also remain an important element to the manufacture/supply sector, which would also benefit greatly from such a change.

3.64 The government is therefore persuaded about the benefits an increase in the maximum prize limit to £100 would bring to the industry.

Question 23: Do you agree with the government's proposal to increase the maximum prize to £100 for category C machines?

Question 24: Do you consider that this increase will provide sufficient benefit to industry sectors, whilst also remaining consistent with the licensing objectives of the Gambling Act?

Category D

3.65 The government's concerns around the industry's proposals for category D machines were outlined under Package 3. As previously stated, it is keen to ensure they remain commercially viable to operators while continuing to exercise caution. It therefore proposes the following measures:

- **Crane grabs: The Government is willing to consider an increase in the maximum stake limit to £2, but will support only an increase to the maximum prize level in line with inflation to ensure the prizes offered retain their value.**
- **Category D coin pushers:** The Government accepts these machines form an important part of the offer for many seaside arcades. In terms of public protection objectives, they are low risk as they are played primarily for amusement. **The Government is therefore willing to support the industry's proposal for a small increase to the maximum prize limit in order to permit slightly higher value prizes, primarily to enhance player enjoyment.**
- **Category D complex (reel based):** The Government accepts the industry's argument that an increase in the maximum stake level might be of benefit to game design and product innovation, but it is not willing to accept an increase to the maximum prize level as proposed by the industry. At the same time, it wants to ensure that the prize limits for these types of machine retain their value, so is willing to consider an increase that is broadly in line with inflation.

Question 25: Do you agree with the government's proposal to increase the maximum stake to £2 and the maximum prize to £60 for category D crane grab machines? If not, why not?

Question 26: Do you agree with the government's proposal to increase the maximum stake to 20p and the maximum prize to £6 for category D complex (reel based) machines? If not, why not?

Question 27: Do you agree with the government's proposal to increase the maximum stake to 20p and the maximum prize to £20 (of which no more than £10 may be a money prize) for category D coin pusher machines? If not, why not?

Question 28: Do you consider that the increases will provide sufficient benefit to the arcade sector, whilst also remaining consistent with the licensing objectives of the Gambling Act?

Question 29: Are there any other options that should be considered?

Evidence base

3.66 The government recognises that this is the first wholesale review of stake and prize limits since 2001. It is also the first review since the new regulatory regime was introduced with the implementation of the Gambling Act 2005 and as such places a greater level of scrutiny on proposals than might have been the case in the past. It is, in this first instance, performing a dual role:

- To consider the overall value and relativities of stake and prize limits within the context of changes to the gaming machine market since 2007;
- To establish a baseline against which proposals for future reviews can be assessed.

3.67 While the government has tried to be as clear as possible about the data it requires to undertake this first review, it nonetheless understands that some gambling businesses might not yet be in a position to provide a full range of evidence to support a business case. It might be that the mechanisms for collecting, analysing and presenting data in a way consistent with the review process are not yet in place. The government has therefore drawn much of its data from the Gambling Commission's Industry Statistics in order to provide the initial cost/benefit analysis set out in the impact assessment published alongside this document.

3.68 It has already identified gaps in the existing evidence base that it will require industry to fill. These have been outlined already in the pages above:

- Analysis and assessment of the changes to category C and D gaming machines implemented in 2009 in order to understand their impact on the arcade and pub sectors;
- Analysis and assessment of the changes to the category B3 stake limit and premises entitlements implemented in 2011 in order to understand their impact on AGCs and bingo premises;
- Further detail about the current state of members' and commercial clubs in Britain, including the number of clubs, the numbers of gaming machines being made available and an idea of current revenues and the proportion of which might be attributable to gaming machines.

3.69 In addition to these points, the government will also need to better understand how businesses across the gambling industry would expect to achieve the levels of growth projected in their submission. On a basic level, if the stated objective of growth is to be realised then this would suggest there needs to be an increase in the numbers of people gambling either through more new people gambling, or the same people gambling more.

3.70 The government would therefore like more detail about the mechanisms through which the industry expects to achieve the predicted increases in machine revenue; whether the proposed increases have been designed to expand the player base for different types of machines through encouraging more customers to play, or whether the industry is simply seeking to maintain current player bases but increase the average amount that might be staked. As one of the purposes of the 2012/13 review is to establish a baseline for future reviews, this information will be needed going forward to enable the government to:

- Undertake a thorough assessment of the potential social impacts of any changes in relation to the licensing objectives of Gambling Act, especially in relation to the third objective to protect children and other vulnerable people from being harmed or exploited by gambling;
- Better understand the potential effects of changes on different sectors of the industry and what those changes might mean in terms of balanced competition;
- Assess in the longer term whether changes to maximum stake and prize limits are actually the most effective mechanism to encourage growth, or whether there are better approaches that could be adopted.

Costs and benefits

3.71 An analysis of the costs and benefits to businesses of the different options, based on the data currently available, is contained in the impact assessment published alongside this document. The methodology used is based on the assumption that the main benefit of increasing stake and prize limits is the opportunity for businesses to refresh their product offer with new innovative games that are more appealing to consumers. The cost/benefit analysis considers impact on revenues as consumption rises, and impact on manufacturing and supply sectors as new products are developed and traded. The impact assessment also considers potential change in demand and innovation from a social perspective, with an assessment of the level of risk in relation to changes in levels of gambling-related harm and its associated individual and social impacts.

3.72 The net benefit to gambling businesses of the government's preferred options (Package 4) is currently estimated at £853 million over 10 years. This assumes that there will be no direct costs to businesses; the proposed legislation is permissive rather than compulsory. However, the gambling industry will seek to take advantage of more liberal market conditions and investment will be needed to realise potential demand. This is recognised as an indirect cost that accrues to businesses, and is currently estimated at some £56m. In terms of benefits, the government estimates that operators will realise increased revenues of £853m. The manufacturing and supply sectors will also benefit from increased revenues as investment levels rise and this benefit is currently assessed to be worth around £56m. Estimates are based on industry and Gambling Commission data.

3.73 Reintroducing a periodic review means the government is better able to monitor the impact of any proposed measures and respond to and adapt policy accordingly over time. To achieve this, 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 2016/17 onwards. This will be carried out by the Gambling Commission and DCMS. Three broad approaches to collecting data are proposed:

- 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 will advise the Gambling Commission on a framework to evaluate the impact of any measures on player protection objectives and assess gambling harm minimisation strategies where necessary.

3.74 There remain, however, some sectors where it is difficult to collect data to inform monitoring and assessment: there is currently very little data available regarding gaming machines in pubs, members' clubs and commercial clubs. The government would therefore like to gather views on how it might bridge these gaps.

Question 30: Do you agree with the methodology used in the impact assessment to assess the costs and benefits of the proposed measures? If not, why not? (Please provide evidence to support your answer)

Question 31: Do you agree with the government's approach to monitoring and evaluating the impact of changes to inform future reviews? If not, why not? (Please provide evidence to support your answer)

Question 32: What other evidence would stakeholders be able to provide to help monitoring and evaluation?

Prize gaming

Industry Proposals

3.75 As part of the pre-consultation exercise, the industry also submitted proposals covering prize gaming. Apart from gaming machines, this is the only other form of gambling under the Gambling Act to have centrally set maximum stake and prize limits.

Premises	Current				Proposed			
	Max stake	Max prize	Maximum aggregate amount or value of prizes	Maximum aggregate total staked in any one game	Max stake	Max prize	Maximum aggregate amount or value of prizes	Maximum aggregate total staked in any one game
AGCs/FECs:	£1	£70	£500	£500	£1	£100	£2,000	£2,000
Licensed bingo premises (where under 18s present):	£1	£70	£500	£500	£1	£100	£2,000	£2,000
Licensed bingo premises (over 18s only):	£1	£100	£500	£500	£2	£500	£2,000	£2,000

3.76 The limits were changed in 2010 as part of a series of measures brought into force to provide some level of economic assistance to arcades and other premises. Bingo operators now argue that the current stake and prize limits are stifling their ability to offer prize gaming in a way which is appealing to customers: it is argued that, without a sufficiently high total aggregate stake, any game, however innovative, will not appeal to players because their ability to take part becomes so limited.

3.77 The bingo sector argues that, following the last changes, the connection between individual stake levels and maximum aggregate stake essential to making prize gaming viable was lost. This severely limits the benefit of any change, resulting in the products offered by operators being perceived by players as poor value.

3.78 The sector argues that for the £1 stake to be effective, a corresponding increase to at least £1,000 in the maximum aggregate stake was needed. This didn't happen and as a result, the impact of increasing the individual stake without a proportionate increase in the maximum aggregate stake was to halve the number of players who were able to take part.

3.79 In their view, the individual stake limit now needs to increase to £2 in order to reinvigorate the market. A £2 stake limit would enable games to be offered at a level lower than the maximum to increase the number of participants. In conjunction with this, it is argued that there should be an increase in maximum aggregate stake (and maximum aggregate prize) to £2,000 in order to bring levels to where they would be, had the increase to £1,000 been implemented in 2010.

3.80 The sector calculates that the likely benefit of increased stake and prize levels will be an increase in the number of games offered, leading to an increase in turnover. It projects that an uplift of at least 10% would be realistic. It also anticipates that there will be a wider benefit derived from the introduction of a greater variety of games that are not bingo, encouraging increased player participation in interval activity.

Government's view

3.81 The government is willing to consider these proposals, but unfortunately not enough data has been provided by the industry to allow a proper assessment to be undertaken at this stage.

3.82 The current proposal only covers the bingo sector: the government recognises that bingo operators are likely to be main beneficiaries of any such proposals, but there also needs to be a clearer picture about the application of prize gaming rules elsewhere in industry. To give two examples, the government is aware that some commercial clubs are currently offering poker under prize gaming rules and it would want to consider what implications any changes might have for such activity. It is also not clear from the industry's proposals what the effect might be for AGCs that have converted to a bingo premises licence.

3.83 There is a wide range products currently offered under prize gaming rules and it is not clear yet how the industry's proposals might affect the types of product offered and whether they would lead to new products being developed, both in bingo clubs and elsewhere across the industry.

3.84 It is also not clear from the proposals how the bingo sector and other potential beneficiaries might expect to achieve any predicted increases in revenue, for example whether they are intended to expand the player base through encouraging more customers to play or whether they seek to maintain the current player base but increase the average amount that might be staked.

3.85 The government will therefore consider these proposals further during the consultation period. It is also looking to the industry to provide more data to support its proposals.

Question 33: Are there other sectors in addition to bingo that currently provide gaming under prize gaming rules?

Question 34: Were the Government to change the stake and prize limits (including aggregate limits), would this encourage more operators to offer prize gaming?

Question 35: What type of products would the industry look to offer as a result of the proposals?

Chapter 4: Social impacts and problem gambling

4.1 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.

4.2 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 licensing and compliance approach that is currently taken by the Commission.

4.3 The situation remains less clear at present in terms of the third licensing objective. Paragraphs 168 to 184 of the Impact Assessment consider the social impacts of the proposals.

4.4 Problem gambling is currently measured nationally through the British Gambling Prevalence Survey. The 2010 survey showed an increase in the number of problem gamblers in Britain, although it was not possible to say whether this represented an upward trend or a temporary fluctuation. The proportions increased from 0.5% of the adult population in 2007 to 0.7% in 2010 (which is not statistically significant) on one measure and from 0.6% in 2007 to 0.9% in 2010 (which is at the margins of statistical significance) on the other measure used. These rates are similar to those in other European countries (Germany, Norway and Switzerland) where this has been measured and are lower than countries like the USA, Australia and South Africa.

4.5 The key risk in the context of this review remains that if growth in the industry is to be realised, resulting in benefits in terms of increased investment and job protection, then it would suggest either an increase in the number 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 increase. The government is therefore required to balance potential benefits against risks to public protection.

4.6 A qualitative assessment of the *relative* risk across the different machine categories has been undertaken by government with reference to the threat of problem gambling both in the vulnerable adult population and amongst children. This will be refined through the responses to the questions in this consultation and data supplied by the Responsible Gambling Strategy Board. At this time, based on the currently available information the risk is assessed as follows:

- *Package 2: Inflationary uplift:* These measures are intended to maintain the value of stake and prize limits against inflationary increases since the implementation of the Gambling Act. The uplift does not affect the stake to prize ratio or the relativities between the different categories. As a result, the package reflects maintenance of the *status quo* and therefore does not represent any increase in the level of risk to public protection objectives.
- *Package 3: Industry proposals:* At present there is very little data from the industry as to how the mechanism through which any uplifts in revenue are expected to be achieved (e.g. are the proposals designed to encourage new players, or are they intended to increase average

spend across existing player bases?) As a result, it is difficult to undertake a thorough assessment in terms of risks to problem gambling. At the same time, there is no evidence to suggest that increasing stake and prize levels will definitely negatively impact on public protection. Any changes would be taking place within a robust regulatory framework designed to mitigate risk to the Gambling Act's licensing objectives (see below). The risk is therefore assessed as medium, with two exceptions: category B2, where the industry is not seeking any change to stake and prize levels and category B3A, where it is only seeking an increase in the maximum stake limit.

- *Package 4: Government's preferred options:* Where the government supports the industry's proposals for category B4 and C gaming machines, the risk is still considered as medium in line with the assessment outlined for Package 3. With regard to the remaining categories:
 - B1: As well as no change, the government will ask for views on the suitability of different increases in maximum prize (up to £15,000) for B1 machines in casinos and accepts that at this stage, such an increase could represent a higher risk to player protection. The government would only consider increases if accompanied by appropriate measures to trail new approaches to public protection;
 - The government proposes to maintain B2 and B3 stake and prize limits at their current levels, which would represent no increase in 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 no increase in risk to player protection;
 - D: The government supports the industry's proposals regarding increases to maximum stake limits, but will only consider increases to maximum prize limits in line with inflation. This might represent a small increase in the potential risk to player protection.

4.7 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.

4.8 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, to which all operators in receipt of an operating licence from the Commission must adhere (see http://www.gamblingcommission.gov.uk/publications_guidance_advic/lccp.aspx).

4.9 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).

Next steps

4.10 The government is conscious that further work is required to better assess the risk posed by the options discussed in this paper. It has therefore engaged the Gambling Commission to work with the Responsible Gambling Strategy Board to put in place a process to consider further the risks. This is expected to be taken forward during the public consultation and will supplement the additional data

the government is asking the industry to provide. The Gambling Commission and the RGSB advise that this will broadly consist of two types of input:

- 1) Providing a view based on analysis of available evidence and, where possible, economic modelling to support the impact assessment in relation to the third licensing objective. RGSB will be asked in the short-term to advise whether the broad assessment framework in place is comprehensive and how it could be further developed. In the medium term, the RGSB will be asked to review the framework and consider what further questions should be addressed and identify the current knowledge gaps;
- 2) Developing a set of proposals for a longer term programme to gather and assess information, research and data which will help 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.

4.11 In considering the potential impact of stake and prize changes, the RGSB will take into account a broad set of considerations:

- Existing players spending more money and the risks and issues around greater unplanned spend either in one instance or over a longer period of time, and the risks around players spending the same amount of money more quickly and therefore having a shorter play session and less enjoyment;
- Migration of existing machine gamblers from one machine product to another;
- Migration of non-machine gamblers to machine products and the potential intake of non-gamblers to gaming machine activity.

Chapter 5: Summary of questions

Process:

Question 1: How often should government schedule these reviews? Please explain the reasons for any timeframes put forward for consideration.

Question 2: The government would like to hear about any types of consumer protection measures that have been trialled internationally, which have been found to be most effective and whether there is any consensus in international research as to the most effective forms of machine-based interventions. The government would also like to hear views about any potential issues around data protection and how these might be addressed.

Question 3: The government would like to hear from gambling businesses, including operators, manufacturers and suppliers as to whether they would be prepared to in the future develop tracking technology in order to better utilise customer information for player protection purposes in exchange for potentially greater freedoms around stake and prize limits.

Package 1:

Question 4: Do you agree that the government is right to reject Package 1? If not, why not?

Package 2:

Question 5: Do you agree that the government is right to reject Package 2? If not, why not?

Package 3:

Question 6: Do you agree with the government's assessment of the proposals put forward by the industry (Package 3)? If not, please provide evidence to support your view.

Package 4: Category B1

Question 7: Do you agree with the government's proposal for adjusting the maximum stake limit to £5 on category B1 gaming machines? If not, why not?

Question 8: Do you consider that this increase will provide sufficient benefit to the casino and manufacturing and supply sectors, whilst also remaining consistent with the licensing objectives of the Gambling Act?

Question 9: Do you agree with the government's proposal for adjusting the maximum prize limit on B1 gaming machines?

Question 10: If so, which limit would provide the most practical benefit to casino and machine manufacturers without negatively impacting on the licensing objectives of the Gambling Act?

Question 11: Are there any other options that should be considered?

Question 12: The government would also like to hear from the casino industry and other interested parties about what types of consumer protection measures have been trialled internationally, which have been found to be most effective and whether there is any consensus in international research as to the most effective forms of machine-based interventions.

Package 4: Category B2

Question 13: The government is calling for evidence on the following points:

- a) Does the overall stake and prize limit for B2 machines, in particular the very wide range of staking behaviour that a £100 stake allows, give rise to or encourage a particular risk of harm to people who cannot manage their gambling behaviour effectively?
- b) If so, in what way?
- c) Who stakes where, what are the proportions, what is the average stake?
- d) What characteristics or behaviours might distinguish between high spending players and those who are really at risk?
- e) If there is evidence to support a reduction in the stake and/or prize limits for B2 machines, what would an appropriate level to achieve the most proportionate balance between risk of harm and responsible enjoyment of this form of gambling?
- f) What impact would this have in terms of risks to problem gambling?
- g) What impact (positive and negative) would there be in terms of high street betting shops?

Question 14: a) Are there other harm mitigation measures that might offer a better targeted and more effective response to evidence of harm than reductions in stake and/or prize for B2 machines?

- b) If so, what is the evidence for this and how would it be implemented?
- c) Are there any other options that should be considered?

Package 4: Category B3

Question 15: Do you agree with the government's proposal to retain the current maximum stake and prize limits on category B3 gaming machines? If not, why not?

Question 16: Are there any other options that should be considered?

Package 4: Category B3A

Question 17: Do you agree with the government's proposal for adjusting the maximum stake limit to £2 on category B3A gaming machines? If not, why not?

Question 18: Do you consider that this increase will provide sufficient benefit to members' and commercial clubs, whilst also remaining consistent with the licensing objectives of the Gambling Act?

Question 19: Are there any other options that should be considered?

Package 4: Category B4

Question 20: Do you agree with the government's proposal for adjusting the maximum stake to £2 and maximum prize to £400 for category B4 machines? If not, why not?

Question 21: Do you consider that this increase will provide sufficient benefit to members' and commercial clubs and other relevant sectors, whilst also remaining consistent with the licensing objectives of the Gambling Act?

Question 22: Are there any other options that should be considered?

Package 4: Category C

Question 23: Do you agree with the government's proposal to increase the maximum prize to £100 for category C machines?

Question 24: Do you consider that this increase will provide sufficient benefit to industry sectors, whilst also remaining consistent with the licensing objectives of the Gambling Act?

Package 4: Category D

Question 25: Do you agree with the government's proposal to increase the maximum stake to £2 and the maximum prize to £60 for category D crane grab machines? If not, why not?

Question 26: Do you agree with the government's proposal to increase the maximum stake to 20p and the maximum prize to £6 for category D complex (reel based) machines? If not, why not?

Question 27: Do you agree with the government's proposal to increase the maximum stake to 20p and the maximum prize to £20 (of which no more than £10 may be a money prize) for category D coin pusher machines? If not, why not?

Question 28: Do you consider that the increases will provide sufficient benefit to the arcade sector, whilst also remaining consistent with the licensing objectives of the Gambling Act?

Question 29: Are there any other options that should be considered?

Costs and benefits:

Question 30: Do you agree with the methodology used in the impact assessment to assess the costs and benefits of the proposed measures? If not, why not? (Please provide evidence to support your answer)

Question 31: Do you agree with the government's approach to monitoring and evaluating the impact of changes to inform future reviews? If not, why not? (Please provide evidence to support your answer)

Question 32: What other evidence would stakeholders be able to provide to help monitoring and evaluation?

Prize gaming:

Question 33: Are there other sectors in addition to bingo that currently provide gaming under prize gaming rules?

Question 34: Were the Government to change the stake and prize limits (including aggregate limits), would this encourage more operators to offer prize gaming?

Question 35: What type of products would the industry look to offer as a result of the proposals?

Appendix A: Overview of British gaming machine market

A.1 Gaming machines are an important source of revenue for businesses in the arcade, betting, bingo, casino and pub sectors. The following paragraphs describe the different sectors and the types of premises that make gaming machines available to the public. Appendix A sets out in more detail the legal position regarding the types and numbers of machines that may be offered, while Appendix C describes the types of products offered across the different categories of machine. All figures quoted are taken from the Gambling Commission's *Industry Statistics April 2008 – March 2011* unless stated otherwise.

Arcades

A.2 The arcade sector comprises of two main types of premises; Adult Gaming Centres (AGCs) and Family Entertainment Centres (FECs):

- *Adult Gaming Centres:* The Gambling Commission's premises database indicates there are approximately 2,100 AGC premises in Great Britain; some 400 fewer than December 2010. They are located in towns, city centres and coastal areas. The latter are almost exclusively seaside locations and frequently co-located with FEC operations. Some AGCs are also located within holiday parks and in motorway service areas.
- *Family Entertainment Centres:* The Commission's premises database indicates that there are approximately 293 licensed FEC premises, a reduction of roughly 80 from December 2010. A small number of premises are located inland where operators use the FEC in combination with an AGC operation. FECs are also located in coastal areas where they are predominantly family operated seasonal businesses in seaside towns.

A.3 It should be noted that the Gambling Commission does not licence FECs, with permits issued by the local authorities. These are often referred to as unlicensed FECs and are mostly found in coastal areas where they tend to be singleton seaside operations, sometimes co-located with an AGC. These are predominantly children's rides or amusement games (driving/shooting) coupled with crane grab and pusher machines. BACTA estimates there are around 41,000 category D machines made available in total.

A.4 Industry data from the Gambling Commission suggests a market that has been in decline for a number of years:

	Apr 2008 - Mar 2009	Apr 2009 - Mar 2010	Apr 2010 - Mar 2011
AGC average number of employees	12,693	13,032	11,198
FEC average number of employees	3,806	3,222	2,638
AGC Gross Gambling Yield Total	£397.87m	£377.63m	£313.28m
FEC Gross Gambling Yield Total	£82.48m	£78.57m	£73.72m

AGC average number of gaming machines and terminals (total)	72,293	65,112	55,649
FEC average number of gaming machines and terminals (total)	31,012	28,777	26,300

A.5 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 and more than 290 arcades have closed since 2009/10 with a loss of more than 900 jobs.

Betting

A.6 According to the Gambling Commission's Industry Statistics, as at 31 March 2011 there were over 9,000 betting shops operating in Great Britain, with 83% concentrated amongst five operators: William Hill, Ladbrokes, Gala Coral, Betfred and the Tote (Betfred subsequently purchased the Tote in July 2011).

A.7 Industry data from the Gambling Commission suggests the sector has recently experienced some small growth:

	Apr 2008 - Mar 2009	Apr 2009 - Mar 2010	Apr 2010 - Mar 2011
Average number of employees	60,247	55,496	54,311
Gross Gambling Yield Total (gaming machines only)	£2,902.61m (£1,070.36m)	£2,807.84m (£1,181.94m)	£2,944.83m (£1,201.66m)
Average number of gaming machines and terminals (total)	32,022	32,353	32,340

A.8 The main trade body in this sector, the Association of British Bookmakers (ABB), acknowledges the importance of gaming machines to the economic viability of betting shops, which across the sector employ over 11,000 people. According to the ABB, the percentage contribution of machine income to average betting shop profits was 39.9% in 2008 and rose to 49.4% in 2011.

A.9 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

A.10 According to Gambling Commission figures, as at 31 March 2011 there were 245 operators holding non-remote bingo licences. Although only a single licence type, the bingo industry is made up of various types of businesses including large bingo clubs, holiday parks, working men's clubs and smaller high street venues. Of 695 premises licensed as at 31 March 2011, over 50% were operated by two companies – Gala Coral and Rank Group (Mecca Bingo). The Commission only collects data where a premises licence is held and so no data is available for bingo operated in working men's clubs or holiday parks.

A.11 Available data suggests this sector has faced some difficult trading conditions in recent years which have sent it into decline:

	Apr 2008 - Mar 2009	Apr 2009 - Mar 2010	Apr 2010 - Mar 2011
Average number of employees	15,917	15,443	14,952
Gross Gambling Yield total	£703.12m	£634.16m	£583.12m

(gaming machines only)	(£231.54m)	(£209.43m)	(£197.46m)
Average number of gaming machines and terminals (total)	19,212	17,996	18,043

A.12 This general pattern is confirmed by the Bingo Association, which argues that the problems have also been exacerbated by the adverse effect on bingo attendance that followed the introduction of the ban on smoking in public places in 2007. 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, over 4,000 jobs were lost.

Casinos

A.13 According to Gambling Commission figures, there were 149 casinos operating at 31 March 2011 with the majority owned by three companies: Genting UK (Genting Casinos), the Rank Group (Grosvenor Casinos and 'G' Casinos) and the Gala Coral Group (Gala Casinos). As at 31 March 2011, seven of the sixteen new casino operating licences created by the Gambling Act were held by operators and four of the sixteen local authorities permitted to issue 2005 Act casino premises licences had begun their competition processes. A number of other local authorities are expected to follow suit in the coming months.

	Apr 2008 - Mar 2009	Apr 2009 - Mar 2010	Apr 2010 - Mar 2011
Average number of employees	13,321	13,619	13,598
Gross Gambling Yield total (gaming machines only)	£793.22m (£114.60m)	£758.02m (£117.35m)	£803.15m (£118.61m)
Average number of gaming machines and terminals (total)	2,527	2,478	2,510

A.14 This stability does not appear to have translated into growth. The National Casino Industry Forum (NCIF), the largest trade body in the sector, argues that the regulatory changes introduced through the Gambling Act have limited the capacity of casinos to develop some of their products and absorb cost increases. It argues that the combination of the need to control costs in the face of the current economic climate and restrictions placed on the casino industry by the Gambling Act (such as the limit on the number of B1 machines that can be situated in casino premises and low stake and prize levels in comparison to casino gaming machines in other jurisdictions) has meant capital investment has declined 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

A.15 Under the Gambling Act, premises holding an on-premises alcohol licence receive certain gambling entitlements as well as being able to make two or more category C or D gaming machines available to the public. As the Gambling Commission does not licence pubs (this falls to local authorities), it does not collect data on these businesses, although data from the British Beer and Pub Association (BBPA) shows that there are an estimated 52,000 pubs in the UK, of which approximately 43,800 offer gaming machines.

A.16 They estimate there are around 55,000 category C machines available in pubs. These are not core to their offer in same way as with the types of gambling premises outlined above; rather machine gaming is an ancillary activity, albeit one that represents a significant revenue stream for many publicans: the BBPA suggests that gaming machines can provide up to 25% of a publican's income.

A.17 Data provided by the BBPA shows that income from gaming machines has declined dramatically across the sector since 2002, where it fell from £1.1bn in 2002 to £600m in 2011. This decline to some extent reflects the steady decline in pub numbers over the same period, from 60,100 in 2002 to 52,000 in 2011.

Members' clubs and commercial clubs

A.18 The Gambling Act also permits members' clubs (for example working men's clubs and political clubs) and commercial clubs (for example snooker clubs) to offer machine gaming via local authority permits.

A.19 There is very little data held centrally about this sector. According to the DCMS Statistical Bulletin 2010 there were 16,700 club premises certificates in operation in 2010, with BACTA estimating approximately 18,000 category B3A and B4 machines (3,000 category B3A and 15,000 category B4) and 9,000 category C machines being made available to members.

Manufacturing and supply

A.20 The manufacturers' core business has traditionally been the development, production, distribution and supply of new or refurbished (to new standard) gaming machines. The supply sector is responsible for supplying gaming machines to retailers using a number of different business models including direct sale, rental and profit share. According to the Gambling Commission, there were 69 licensed manufacturers and 543 licensed suppliers as at 31 March 2011.

A.21 Gambling Commission data shows that the challenges faced by individual sectors have had a marked effect on manufacturing and supply businesses. The total number of machines in the regulated industry has reduced by 10% between 2009/10 to 2010/11: AGCs count 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.

	Apr 2008 - Mar 2009	Apr 2009 - Mar 2010	Apr 2010 - Mar 2011
Manufacturers: average number of employees	1,662	2,005	1,800
Suppliers: average number of employees	8,205	6,673	6,159

Appendix B: Timetable for Triennial Review 2012/13

Public consultation

- **15 January 2013:** Publish consultation
- **9 April 2013:** Consultation closes

Post-consultation

- **April - May 2013:** Subject to outcome of the consultation, DCMS to develop and agree final proposals to take forward with Gambling Commission and develop Final Stage impact assessment
- **May 2013:** Submit impact assessment to Regulation Policy Committee (RPC) for approval (up to 30 working days)
- **April - May 2013:** Draft regulations
- **June 2013:** Subject to RPC approval, Minister to seek cabinet committee approval to lay draft regulations in Parliament
- **July 2013:** Announce final proposals; DCMS to hold general meeting with stakeholders to discuss
- **July 2013:** Lay draft regulations in Parliament
- **July - October 2013:** Notify European Commission of draft regulations under technical standards directive (12 week standstill period)
- **October 2013:** Parliamentary debates
- **November 2013:** Subject to Parliamentary approval, implement new regulations

NB: This timetable does not necessarily include the analysis of the evidence on B2 machines. This might take longer than indicated. If this is the case, the Government will not delay other changes while it considers the evidence.

Appendix C: Gambling Act 2005: Gaming machine entitlements by premises type

Premises	Machine category (x = category of machine not permitted on this type of premises)						
	A	B1	B2	B3	B4	C	D
Large Casino	x	150	Any combination of other categories of machines, B2 to D, within the total limit of 150 (subject to table ratio)				
Small Casino	x	80	Any combination of other categories of machines, B2 to D, within the total limit of 80 (subject to table ratio)				
Converted Casino Premises Licence	x	20 in total, any combination of category B				Any number of C or D <i>instead</i> of 20 B	
Premises licensed for betting and licensed tracks occupied by pool betting operating licensee	x	x	4 in total, any combination of B2 to D				
Licensed Bingo Premises	x	x	x	Not exceeding 20% of the total number of gaming machines which are available for use on the premises.		Any number of C and D	
Licensed Adult Gaming Centres	x	x	x	Not exceeding 20% of the total number of gaming machines which are available for use on the premises.		Any number of C and D	
Members' Clubs (e.g.	x	x	x	3 in total, maximum 1 B3A, and any combination of B4, C or D			

Conservative club, working men's club, sports clubs) or Miners' welfare institutes with permits							
Premises with a bar licensed for sale of alcohol for consumption on the premises (but not restaurants)	x	x	x	x	x	With notification, 2 automatically allowed, plus as many as allowed by permit.	
Licensed Family Entertainment Centre (FEC) e.g. seaside arcades	x	x	x	x	x	Any number of C and D	
Unlicensed FEC e.g. holiday parks	x	x	x	x	x	x	Any number
Travelling fair	x	x	x	x	x	x	Any number

Appendix D: Gaming Machines: Product Description

All gaming machines sited on premises must comply with the Gambling Commission’s Gaming Machine Technical Standards and Gaming Machine Testing Strategy.

Video display gaming machines: These often utilise touch screen technology and are generally designed to offer players more than one game title, with the game selected via an icon on the screen. It is also becoming more common to utilise hand held tablet devices in place of traditional stand-alone machines, particularly within the bingo sector. New games are normally added via a software update. This type of machine is common across the B1, B2 and B3 categories and is also used for category C and D machines, but to a much lesser extent.

Analogue (physical reel band) display gaming machines: These use a physical reel band type configuration to display the game outcome to players and are common to older machines or lower categories: B4, C and D. These offer cheaper alternatives to video display machines but generally offer only one game title. Upgrading existing games can be carried out via software upgrade but modifying games titles often involves rebuilding the cabinet (artwork and game software).

Multi-line, multi-stake games: The player can change the value of their stake at the start of each game, usually in fixed increments e.g. 10p per line. As the stake is increased, the number of winning line combinations is increased proportionally. The total prize award for all lines cannot exceed the statutory maximum for the category of machine.

Feature games: Some machines offer feature games as well as “base” games. The base game refers to the reel bands housed in the lower half of the machine which generally award the player smaller more frequent prizes. The feature game is housed in the upper half of the machine. These offer higher prize awards that can be won usually as a result of some form of gamble or trail feature game. This type of configuration is known within the industry as amusement with prize machine (AWP) and is mostly adopted for lower categories of gaming machine (B4, C and D).

Stake and prize levels: At its simplest, the stake determines the maximum price of playing a machine and the prize is the maximum jackpot that is made available to win. Higher prize machines tend to be more popular with players as a result of the larger jackpots on offer, but this is only one aspect that can determine a game’s popularity. The ratio between the stake and maximum prize is just as important: for example, if it is too wide (such as a £1 stake with a maximum prize of £10,000), then players would be likely to think there is little hope of ever winning the jackpot. If the ratio is too close (for example a £1 stake and a maximum prize of £10) then players may see it as poor value and decline to play.

Products common to machine categories:

B1	<p>These are mostly video based games which offer the player a number of games via touch screen menu. The games tend to be simple reel band games or have very simply feature games such as double up (50/50 gamble for wins up to maximum permitted prize) or free spins (additional reel spins won within the same game, prize limited to maximum permitted for the single game).</p> <p>The format of the games is not stipulated and can be simple reel spin games (often computer generated graphical images of reels) or themed on casino table games</p>
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	<p>such as blackjack or poker.</p> <p>Players are normally offered the option to vary their stake in each game (multi-line, multi-stake games).</p>
B2	<p>These are predominately video/terminal-based gaming machines operated within betting shops. They offer multi-game options based on both reel based and casino style games such as roulette, blackjack and poker.</p> <p>The format of the games is not stipulated and can be simple reel spin games (often computer generated graphical images of reels) or themed on a casino table games such as blackjack or poker</p> <p>Players are normally offered the option to vary their stake in each game (multi-line, multi-stake games). Some casino style games such as blackjack also allow additional staking within the game, provided it complies with the Gambling Commission's technical standards.</p>
B3	<p>These are mostly video based games which offer the player a number of games via touch screen menu. The games tend to be simple reel band games or have very simply feature games such as double up (50/50 gamble for wins up to maximum permitted prize) or free spins (additional reel spins won within the same game, prize limited to maximum permitted for the single game).</p> <p>The format of the games is not stipulated and can be simple reel spin games (often computer generated graphical images of reels) or themed on casino table games such as blackjack or poker.</p> <p>Players are normally offered the option to vary their stake in each game (multi-line, multi-stake games).</p>
B3A	<p>This category is distinct in that, unlike gaming machines which must offer games of chance, these devices provide lottery style games only.</p> <p>A lottery style game is a game involving the outcome of a pre-determined lottery which is pre-loaded onto the machine. The machine itself cannot influence the outcome of this lottery but may display the result since it is considered a gaming machine as opposed to a lottery ticket dispenser.</p> <p>More than one lottery may be offered via the same machine and each may offer different stake and prizes, but all must operate with the statutory maximums.</p>
B4	<p>These are mostly analogue machines, although variants are appearing as either stand-alone or part of the offering on multi-game terminals (often including B2 and B3 games).</p> <p>The games offered are games of chance, but often also involve skill to win a prize as opposed to being a pure gambling product, and for this reason are described as AWP (amusement with prize) by the industry. Lower value wins are normally won as a result of the base game and then subsequently gambled via the feature game in order to attain a higher value award.</p> <p>The format of the games is not stipulated but they may be compensated, although there are controls as to how this may be used in order to prevent 'enriched periods' (a series of wins across more than one game to circumvent the maximum permissible prize) and 'raking periods' (a series of losing games, the result of which is used to pay prize for enriched period).</p> <p>Players are normally offered limited options to vary their stake in each game (10p, 50p or £1 per game, with prize ratio proportional to stake).</p>
C	<p>These are mostly analogue machines, although variants are appearing as either stand-alone or part of the offering on multi-game terminals (often including B2 and B3</p>

	<p>games).</p> <p>The games offered are games of chance, but often also involve skill to win a prize as opposed to being a pure gambling product, and for this reason are described as AWP (amusement with prize) by the industry. Lower value wins are normally won as a result of the base game and then subsequently gambled via the feature game in order to attain a higher value award.</p> <p>The format of the games is not stipulated but they may be compensated, although there are controls as to how this may be used in order to prevent ‘enriched periods’ (a series of wins across more than one game to circumvent the maximum permissible prize) and ‘raking periods’ (a series of losing games, the result of which is used to pay prize for enriched period).</p> <p>Players are normally offered limited options to vary their stake in each game (10p, 50p or £1 per game with prize ratio proportional to stake).</p>
D	<p>Complex D gaming machines are mostly analogue, although variants are appearing as either stand-alone or part of the offering on multi-game terminals (often including B2 and B3 games). ‘Complex D’ refers to gaming machines which utilise some form of random or compensated control to determine the game outcome and was introduced to exclude devices such as cranes and pushers (non-complex) from being caught by technical standards predominately designed to capture traditional gambling designs.</p> <p>The games offered are games of chance, but often also involve skill to win a prize as opposed to being a pure gambling product, and for this reason are described as AWP (amusement with prize) by the industry. Lower value wins are normally won as a result of the base game and then subsequently gambled via the feature game in order to attain a higher value award.</p> <p>The format of the games is not stipulated but they may be compensated, although there are controls as to how this may be used in order to prevent ‘enriched periods’ (a series of wins across more than one game to circumvent the maximum permissible prize) and ‘raking periods’ (a series of losing games, the result of which is used to pay prize for enriched period).</p>
D	<p>In general, non-complex D machines capture devices not normally associated with gambling by the general public, but do operate with a significant element of chance and would therefore be caught as a gaming machine under the Gambling Act 2005. Examples of such games include penny falls (coin pushers) and cranes.</p> <p>Non-complex machines are generally simple mechanical devices with some form of chance element designed primarily for entertainment as opposed to gambling. Some crane devices do however utilise some form of compensation to control pay out percentages and would be considered a game of chance and skill.</p>